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*This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. The Company has not registered or intends to register, any of the securities in the United States. This announcement is not for distribution, directly or indirectly, in or into the United States.*

*The Company does not intend to make any public offering of securities in the United States.*

ENN 新奧

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

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2688)**

## OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Reference is made to the announcement of ENN Energy Holdings Limited (the "**Company**") dated 30 January 2013 in relation to the issue of the Bonds (the "**Announcement**"). All terms used herein have the same meaning as defined in the Announcement, unless otherwise defined.

Please refer to the attached offering memorandum dated 21 February 2013 in relation to the Bonds (the "**Offering Memorandum**"), which was published on the website of Singapore Exchange Securities Trading Limited on 27 February 2013.

The posting of the Offering Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.10B of the Listing Rules, and not for any other purposes.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Memorandum.

By order of the Board
**ENN Energy Holdings Limited**
**Ms. Wong Chui Lai**
*Company Secretary*

Hong Kong, 27 February 2013

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

*Executive Directors:*
Mr. Wang Yusuo *(Chairman)*
Mr. Cheung Yip Sang *(Chief Executive Officer)*
Mr. Zhao Jinfeng
Mr. Yu Jianchao
Mr. Zhao Shengli
Mr. Wang Dongzhi *(Chief Financial Officer)*

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

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

**OFFERING CIRCULAR** **CONFIDENTIAL**

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

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2688)**

## US$500,000,000 Zero Coupon Convertible Bonds due 2018
## Issue Price: 100 per cent.

The US$500,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2018 (the "**Bonds**") will be issued by ENN Energy Holdings Limited (the "**Company**", the "**Issuer**" or "**we**").

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to the negative pledge described in the terms and conditions of the Bonds (the "**Terms and Conditions**"), at all times rank at least equally with all of the Issuer's other present and future unsecured and unsubordinated obligations.

Each Bond will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 8 April 2013 up to the tenth day prior to the Maturity Date (as defined below) into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Issuer (the "**Shares**") at an initial conversion price of HK$48.62 per Share (the "**Conversion Price**") with a fixed exchange rate of US$1.00 to HK$7.7577. The Conversion Price is subject to adjustment in the circumstances described under "*Terms and Conditions of the Bonds – Conversion*". The closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 29 January 2013 was HK$37.40 per Share.

Notwithstanding the Conversion Right (as defined in the Terms and Conditions) in respect of each Bond, at any time when the delivery of Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a Conversion Notice (as defined in the Terms and Conditions), the Issuer shall have the option to pay to the relevant Bondholder an amount of cash in United States dollars equal to the Cash Settlement Amount (as defined in the Terms and Conditions) (translated into US dollars at the Prevailing Rate (as defined in the Terms and Conditions)) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares).

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed on 26 February 2018 (the "**Maturity Date**") at 102.53 per cent. of their principal amount. At any time after 26 February 2016 and prior to the Maturity Date, the Issuer may redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount (as defined in the Terms and Conditions), provided that (i) the closing price of the Shares (as defined in the Terms and Conditions) translated into US dollars at the Prevailing Rate (as defined in the Terms and Conditions) for each of any 20 out of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is published, was at least 130 per cent. of the Early Redemption Amount divided by the then prevailing Conversion Ratio (each as defined in the Terms and Conditions) and (ii) the applicable redemption date does not fall within a Closed Period (as defined in the Terms and Conditions). The Issuer may redeem the Bonds in whole, but not in part, at the Early Redemption Amount, if at any time at least 90 per cent. in principal amount of the Bonds originally issued (including any further Bonds issued in accordance with Condition 16) has already been converted, redeemed or purchased and cancelled. The Bonds may also be redeemed at the option of the holders at a redemption price equal to the Early Redemption Amount, upon the Shares ceasing to be listed on or admitted to trading or suspended for a period equal to or exceeding 30 consecutive Trading Days on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange (each as defined in the Terms and Conditions) or upon the occurrence of a Change of Control (as defined in the Terms and Conditions). The Bonds may be redeemed in whole, but not in part, at any time at the option of the Issuer at a redemption price equal to the Early Redemption Amount, in the event of certain changes to the laws and regulations of a Relevant Tax Jurisdiction (as defined in the Terms and Conditions), subject to the non-redemption option of each Bondholder after the exercise by the Issuer of its tax redemption option as described herein. All or some only of the Bonds may be redeemed at the option of the holders of the Bonds at a redemption price equal to 101.51 per cent. of their principal amount, on 26 February 2016. See "*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation*".

Approval in-principle has been received for the listing and quotation of the Bonds on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Approval in principle granted by the SGX-ST for the listing and quotation of the Bonds is not to be taken as an indication of the merits of the Bonds, the Shares, the Issuer, and/or its subsidiaries (as defined herein). Application has been made for the listing of the Shares issuable on conversion on the Hong Kong Stock Exchange.

**Investing in the Bonds and the Shares involves certain risks. See "*Risk Factors*" beginning on page 11 for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

**The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States.**

**For a description of these and certain further restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*".**

The Bonds will be represented by beneficial interests in a global certificate (the "**Global Bond Certificate**") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about 26 February 2013 (the "**Issue Date**"), with a common depositary for, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Bond Certificate.

***Sole Global Coordinator and Lead Joint Bookrunner***

**J.P. Morgan**

***Joint Bookrunners and Joint Lead Managers***

**J.P. Morgan** **UBS**

The date of this Offering Circular is 21 February 2013

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**This Offering Circular 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 Circular 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 Circular or that the information contained in this Offering Circular is correct as of any time after that date.**

The SGX-ST assumes no responsibility for the contents of this Offering Circular, 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 Circular.

We, having made all reasonable inquiries, confirm that: (i) this Offering Circular contains all information with respect to us, our subsidiaries and affiliates referred to in this Offering Circular, the Bonds and the Shares that is material in the context of the issue and offering of the Bonds; (ii) the statements contained in this Offering Circular 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 Circular 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, the Bonds and the Shares, the omission of which would, in the context of the issue and offering of the Bonds, make this Offering Circular, 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 Circular is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Bonds. You should read this Offering Circular before making a decision whether to purchase the Bonds. You must not use this Offering Circular for any other purpose, or disclose any information in this Offering Circular to any other person.

We have prepared this Offering Circular, 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 Bonds. By purchasing the Bonds, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled "Subscription and Sale" below.

No representation or warranty, express or implied, is made by J.P. Morgan Securities plc and UBS AG, Hong Kong Branch (the "Joint Lead Managers"), the Trustee, the Paying Agent or Registrar, or any of their holding companies, affiliates, subsidiaries or advisors as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Company, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or on any of their behalf in connection with the Company, the Group, the Bonds or the Shares. Each of the Joint Lead Managers, the Trustee and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

In making an investment decision, investors must rely on their own examination of the Company and the Group and the terms of the offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular 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 Joint Lead Managers, the Trustee or the Agents 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 authorised to give any information or to make any representation concerning us, our subsidiaries and affiliates or the Bonds (other than as contained herein and information given by our duly authorised officers and employees in connection with investors' examination of our company and the terms of the offering of the Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorised by us, the Joint Lead Managers, the Trustee or the Agents.

We are not, and the Joint Lead Managers are not, making an offer to sell the Bonds, in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Circular and the offering of the Bonds may in certain jurisdictions be restricted by law. Persons into whose possession this Offering Circular comes are required by us and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale" below.

This Offering Circular summarises certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this Offering Circular. 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 Bonds by you under any legal, investment or similar laws or regulations. You should not consider any information in this Offering Circular 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 Bonds.

This Offering Circular is not a prospectus for the purpose of the European Union's Directive 2003/71/EC (and amendments thereto) as implemented in member states of the European Economic Area.

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

## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Offering Circular 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 Circular to "US 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 Circular, all translations from Renminbi amounts to US dollars were made at the rate of RMB6.3530 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 29 June 2012, and all translations from HK dollars into US dollars were made at the rate of HK$7.7572 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 29 June 2012. All such translations in this Offering Circular 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 US 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 Circular to accounting periods are based on our Company's fiscal year, which ends on 31 December.

"EIT Law" means the Enterprise Income Tax Law of the PRC, which came into effect on 1 January 2008.

References to the "PRC" and "China" are to the People's Republic of China and for the purposes of this Offering Circular, 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.

"2011 Notes" means the US$750 million principal amount of 6.00% senior notes due 2021 issued by our Company under an indenture dated 13 May 2011.

In this Offering Circular, 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 Circular includes "forward-looking statements". All statements other than statements of historical fact contained in this Offering Circular, 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", "target" 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 Circular.

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.

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## 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. Unless the context otherwise requires, financial information in this Offering Circular is presented on a consolidated basis.

During the year ended 31 December 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 31 December 2010 beginning on page F-145 of this Offering Circular 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 31 December 2010, and we present our financial information on this restated basis throughout this Offering Circular. 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 31 December 2010. Such restated financial information has not been audited by our independent auditors and you should not place undue reliance on it.

## SUMMARY

*This summary does not contain all the information that may be important to you in deciding to invest in the Bonds. You should read the entire Offering Circular, 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 refuelling stations in China. We are also involved in the sale of gas appliances and equipment, the production of stored value card gas metres, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist our customers in optimising their 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 30 June 2012, we had a total of 110 operational locations with a total connectable population of 53,389,000. 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 refuelling 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 110 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 2010 and 2011 and the six months ended 30 June 2012, we secured eleven, fifteen and seven new projects, respectively, in China, which added an urban connectible population of approximately 2.7 million, 6.3 million and 0.4 million, respectively, to our total connectable urban population as of 30 June 2012. 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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, our revenue was approximately RMB11,215 million, RMB15,068 million and RMB8,774 million, respectively, and our net profit was approximately RMB1,401 million, RMB1,667 million and RMB988 million, respectively.

Our shares were listed in the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, or GEM, on 10 May 2001 and were transferred to the Main Board of The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, (stock code: 2688) on 3 June 2002.

**Recent Developments**

On 12 December 2011, we, jointly with China Petroleum & Chemical Corporation ("Sinopec"), announced a pre-conditional voluntary general offer to (i) acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") other than these shares already held by us and Sinopec and parties acting in concert with us and Sinopec and (ii) to cancel all of the outstanding share options of China Gas (together, the "Offers"). The Offers were subject to several pre-conditions, and on 15 October 2012, we and Sinopec jointly announced that the outstanding pre-conditions for the Offers remained unfulfiled and the long stop date would not be further extend and, accordingly, we and Sinopec would not proceed with the Offers.

**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 refuelling 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 refuelling 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 utilisation of energy sources.

**General Information**

We were incorporated in the Cayman Islands on 20 July 2000, as an exempted company with limited liability. On 13 August 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 Circular.

## THE OFFERING

*The following contains summary information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" and "Provisions relating to the Bonds in Global Form" shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see "Terms and Conditions of the Bonds" in this Offering Circular.*

| | |
|---|---|
| **Issuer** | ENN Energy Holdings Limited |
| **Issue** | US$ denominated Zero Coupon Convertible Bonds due 2018 in an aggregate principal amount of US$500 million, convertible into fully-paid ordinary shares of par value HK$0.10 each of the Issuer. |
| **Interest** | The Bonds do not bear any interest. |
| **Issue Price** | 100% of the principal amount of the Bonds. |
| **Issue Date** | 26 February 2013. |
| **Maturity Date** | 26 February 2018. |
| **Form and Denomination** | The Bonds will be issued in registered form in the denomination of USD250,000 each and higher integral multiples thereof. |
| **Negative Pledge** | So long as any Bond remains outstanding, the Issuer will not, and the Issuer will procure that none of its Subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined in the Terms and Conditions) or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Bonds are secured equally and rateably by the same Encumbrance (as defined in the Terms and Conditions) or, at the option of the Issuer, by such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Terms and Conditions) of the Bondholders. See "*Terms and Conditions – Negative Pledge*". |
| **Conversion Period** | On or after 8 April 2013 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the tenth day prior to the Maturity Date (both days inclusive) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than 15 days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by such Bondholder pursuant to "*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption for Delisting, Suspension of Trading or Change of Control*" or "*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption at the option of the Bondholders*" then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice. |

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|---|---|
| **Conversion Price** | HK$48.62 per Share, subject to adjustment as provided in, and otherwise on the terms of, the Trust Deed for, among other things, subdivision, reclassification or consolidation of Shares, bonus issues, rights issues, capital distributions, distributions, declaration of excess cash dividends and other dilutive events as described in "*Terms and Conditions of the Bonds*". |
| **Redemption for Taxation Reasons** | The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at the Early Redemption Amount if (A) the Issuer has or will become obliged to pay Additional Tax Amounts as a result of any change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction (as defined in the Terms and Conditions), or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 29 January 2013, and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided that* no Tax Redemption Notice (as defined in the Terms and Conditions) shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts (as defined in the Terms and Conditions) were a payment in respect of the Bonds then due. |
| **Redemption at the Option of the Issuer** | On giving not less than 30 nor more than 60 days' notice to the Bondholders and the Trustee (which notice will be irrevocable), the Issuer:<br><br>(a) may at any time after 26 February 2016 and prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount, provided that (a) the Closing Price of the Shares (translated into US dollars at the Prevailing Rate) for each of any 20 Trading Days within a period of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is published was at least 130 per cent. of the Early Redemption Amount divided by the then prevailing Conversion Ratio (as defined in the Terms and Conditions) and (b) the applicable redemption date does not fall within a Closed Period; or<br><br>(b) may at any time prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount provided that prior to the date of such notice at least 90 per cent. in principal amount of the Bonds originally issued (including any further bonds issued pursuant to the "*Terms and Conditions of the Bonds*" and consolidated and forming a single series with the Bonds) has already been converted, redeemed or purchased and cancelled. |

**Redemption at the Option of the Bondholders**.................................. On 26 February 2016, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all or some only of the Bonds of such holder on the Put Option Date at 101.51 per cent. of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent together with the Certificate evidencing the Bonds to be redeemed not earlier than 75 days and not later than 45 days prior to the Put Option Date.

**Redemption for Delisting, Suspension of Trading or Change of Control**............ If at any time:

(a) the Shares cease to be listed or admitted to trading or suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange; or

(b) there is a Change of Control,

the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only (subject to the principal amount of such holder's Bonds redeemed and the principal amount of the balance of such holder's Bonds not redeemed being an Authorised Denomination) of such holder's Bonds on the Relevant Event Redemption Date (as defined in the Terms and Conditions) at the Early Redemption Amount.

**Cash Settlement Option**......................... Notwithstanding the Conversion Right of each Bondholder in respect of each Bond, at any time when the delivery of Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a Conversion Notice, the Issuer shall have the option to pay to the relevant Bondholder an amount of cash in United States dollars equal to the Cash Settlement Amount (as defined below) (translated into United States dollars at the Prevailing Rate) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares).

Where:

"**Cash Settlement Amount**" means the product of (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s) to which the Conversion Notice applies, and in respect of which the Issuer has elected the Cash Settlement Option and (ii) the average of the Closing Price of the Shares for each day during the 10 Trading Days (as defined below) immediately following and excluding the Cash Settlement Notice Date (as defined in the Terms and Conditions).

| | |
|---|---|
| **Events of Default** | For a description of certain events of default that will permit the Bonds to become immediately due and payable at their principal amount, see "*Terms and Conditions of the Bonds – Events of Default*". |
| **Clearing Systems** | The Bonds will be represented by beneficial interests in the Global Bond Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Bond Certificate. |
| **Governing Law** | English law. |
| **Trustee** | The Bank of New York Mellon, London Branch |
| **Agent** | The Bank of New York Mellon, London Branch |
| **Registrar** | The Bank of New York Mellon (Luxembourg) S.A. |
| **Listing** | Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Approval in-principle granted by the SGX-ST for the listing and quotation of the Bonds is not to be taken as an indication of the merits of the Bonds, the Shares, the Issuer and/or its Subsidiaries. The Bonds will be traded on the Official List of SGX-ST in a minimum trading board lot size of US$250,000 or its equivalent in foreign currencies, for so long as the Bonds are listed on the Official List of SGX-ST. The Shares are currently, and those Shares to be issued upon conversion of the Bonds will be, listed on the Hong Kong Stock Exchange. |
| **Selling Restrictions** | There are certain restrictions on the offer, sale and transfer of the Bonds and the Shares to be issued upon conversion of the Bonds in certain jurisdictions including the United States, the United Kingdom, Netherlands, Hong Kong, the People's Republic of China, Singapore, Japan and the Cayman Islands. For a description of the restrictions on the distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds and the Shares to be issued upon conversion of the Bonds, see "*Subscription and Sale*". |
| **ISIN** | XS0884410019 |
| **Common Code** | 088441001 |

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following table presents our summary consolidated financial and other data. The summary consolidated financial information as of and for the years ended 31 December 2010 and 2011 has been derived from our consolidated financial statements as of and for the years ended 31 December 2010 and 2011, as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this Offering Circular. The summary consolidated financial information as of and for the six months ended 30 June 2012 has been derived from our unaudited condensed consolidated financial statements for the six months ended 30 June 2012, reviewed by Deloitte Touche Tohmatsu in accordance with HKSRE 2410 issued by HKICPA, and is included elsewhere in this Offering Circular.

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. The summary financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this Offering Circular.

During the year ended 31 December 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 31 December 2010 beginning on page F-145 of this Offering Circular 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 31 December 2010, and we present our financial information on this restated basis throughout this Offering Circular. 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 31 December 2010. Such restated financial information has not been audited by our independent auditors and you should not place undue reliance on it.

**Summary Consolidated Statement of Comprehensive Income Data**

| | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|
| | 2010 | 2011 | 2011 | 2012 |
| | RMB million | RMB million | RMB million | RMB million |
| **Revenue** | 11,215 | 15,068 | 7,202 | 8,774 |
| Cost of sales | (8,203) | (11,166) | (5,311) | (6,363) |
| **Gross profit** | 3,012 | 3,902 | 1,891 | 2,411 |
| Other income | 189[1] | 167 | 84 | 94 |
| Other gains and losses | 21[1] | 14 | (20) | 3 |
| Distribution and selling expenses | (213) | (283) | (126) | (169) |
| Administrative expenses | (1,169) | (1,380) | (607) | (785) |
| Share of results of associates | 5 | 51 | 12 | 22 |
| Share of results of jointly controlled entities | 277 | 316 | 172 | 135 |
| Finance costs | (311) | (460) | (238) | (309) |
| **Profit before tax** | 1,811 | 2,327 | 1,168 | 1,402 |
| Income tax expense | (410) | (660) | (327) | (414) |
| **Profit and total comprehensive income for the year/period** | 1,401 | 1,667 | 841 | 988 |
| **Profit and total comprehensive income for the year/period attributable to:** | | | | |
| Owners of our Company | 1,013 | 1,253 | 629 | 730 |
| Non-controlling interests | 388 | 414 | 212 | 258 |
| **Profit and total comprehensive income for the year/period** | 1,401 | 1,667 | 841 | 988 |
| **Earnings per share** | | | | |
| Basic | 96.5 cents | 119.0 cents | 59.9 cents | 68.8 cents |
| Diluted | 95.4 cents | 118.0 cents | 59.3 cents | 68.5 cents |

Note:

[1] "Other income" included gain on foreign exchange, net of RMB75 million which has been reclassified to "other gains or losses" in our audited consolidated financial statements as of and for the year ended 31 December 2011 for comparison purpose.

**Summary Consolidated Statement of Financial Position Data**

| | As of 31 December | | As of 30 June |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | RMB million | RMB million | RMB million |
| **Non-current assets** | | | |
| Property, plant and equipment | 10,800 | 13,073 | 13,904 |
| Prepaid lease payments | 658 | 695 | 723 |
| Investment properties | 54 | 57 | 57 |
| Goodwill | 192 | 196 | 196 |
| Intangible assets | 702 | 1,051 | 1,239 |
| Interests in associates | 488 | 694 | 766 |
| Interests in jointly controlled entities | 1,361 | 1,733 | 1,814 |
| Available-for-sale financial assets | 14 | 14 | 14 |
| Loan receivable | 6 | 3 | 2 |
| Other receivable | 72 | 5 | 7 |
| Amounts due from associates | 21 | 39 | 42 |
| Amounts due from jointly controlled entities | – | 66 | 98 |
| Amounts due from related companies | 21 | 26 | 24 |
| Deferred tax assets | 131 | 176 | 216 |
| Deposits paid for investments | 30 | 41 | 137 |
| Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights | 6 | 68 | 65 |
| Restricted bank deposits | 5 | 7 | 10 |
| **Total non-current assets** | 14,561 | 17,944 | 19,314 |
| **Current assets** | | | |
| Inventories | 249 | 272 | 297 |
| Trade and other receivables | 1,356 | 1,837 | 1,956 |
| Prepaid lease payments | 13 | 17 | 15 |
| Amounts due from customers for contract work | 307 | 201 | 183 |
| Amounts due from associates | 12 | 31 | 129 |
| Amounts due from jointly controlled entities | 213 | 404 | 656 |
| Amounts due from related companies | 13 | 31 | 60 |
| Restricted bank deposits | 65 | 2,675 | 2,752 |
| Cash and cash equivalents | 2,851 | 3,349 | 3,618 |
| | 5,079 | 8,817 | 9,666 |
| Assets classified as held for sale | – | 127 | 74 |
| **Total current assets** | 5,079 | 8,944 | 9,740 |

| | As of 31 December | | As of 30 June |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | RMB million | RMB million | RMB million |
| **Current liabilities** | | | |
| Trade and other payables | 3,574 | 4,172 | 4,172 |
| Amounts due to customers for contract work | 665 | 989 | 964 |
| Amounts due to associates | 69 | 119 | 112 |
| Amounts due to jointly controlled entities | 554 | 627 | 705 |
| Amounts due to related companies | 41 | 37 | 31 |
| Taxation payable | 172 | 234 | 247 |
| Bank and other loans – due within one year | 1,569 | 1,913 | 3,636 |
| Short-term debentures | 810 | 1,300 | 1,340 |
| Financial guarantee liability | 6 | 9 | 4 |
| Dividend payable | – | – | 315 |
| Deferred income | 29 | 44 | 53 |
| | 7,489 | 9,444 | 11,579 |
| Liability associated with assets classified as held for sale | – | 76 | 63 |
| **Total current liabilities** | 7,489 | 9,520 | 11,642 |
| **Net current liabilities** | (2,410) | (576) | (1,902) |
| **Total assets less current liabilities** | 12,151 | 17,368 | 17,412 |
| **Capital and reserves** | | | |
| Share capital | 110 | 110 | 111 |
| Reserves | 5,922 | 6,936 | 7,577 |
| Equity attributable to owners of the Company | 6,032 | 7,046 | 7,688 |
| Non-controlling interests | 1,508 | 1,794 | 1,851 |
| **Total equity** | 7,540 | 8,840 | 9,539 |
| **Non-current liabilities** | | | |
| Bank and other loans – due after one year | 2,568 | 2,327 | 1,531 |
| Corporate Bond | – | 496 | 496 |
| Senior notes | – | 4,636 | 4,654 |
| Guaranteed Notes | 1,316 | – | – |
| Deferred tax liabilities | 225 | 337 | 343 |
| Deferred income | 502 | 732 | 849 |
| **Total non-current liabilities** | 4,611 | 8,528 | 7,873 |
| **Total equity and non-current liabilities** | 12,151 | 17,368 | 17,412 |

## RISK FACTORS

*You should carefully consider the risks and uncertainties described below and other information contained in this Offering Circular before investing in the Bonds. 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 Bonds, and you could lose all or part of your investment.*

### Risks Relating to Our Business

***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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012 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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012 represented 23.5%, 22.7% and 19.3%, respectively, of our total revenue for the year/period. 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 years ended 31 December 2010, 2011 and the six months ended 30 June 2012, we achieved a gross margin of 26.9%, 25.9% and 27.5%, respectively, and a net profit margin of 12.5%, 11.1% and 11.3%, 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; average gas purchasing costs; 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 may vary up to 10.0% above the benchmark price set by China's National Development and Reform Commission, or the NDRC. Wellhead prices were adjusted in December 2005, November 2007 and June 2010 and adjusted in Guangxi and Guangdong provinces on 26 December 2011. The NDRC announced an onshore wellhead gas price hike of RMB0.23/$m^3$ effective from 1 June 2010, a 24.9% increase on average. The NDRC also announced in June 2010 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 fertiliser users. However, the June 2010 price increase is applicable to both industrial, as well as, residential and fertiliser 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 unfavourable 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 72.4%, 75.7% and 78.8% of our total costs of sales for each of the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, 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. 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. Pursuant to the 12th Five-Year Development Plan for the Natural Gas Sector, the proportion of natural gas imports will continue to increase with Central Asia Gas Pipeline and operation of LNG terminals. 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 Pipelines, the Shan-Jing Pipelines and other pipelines. In order to fully utilise 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 also “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 refuelling 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 refuelling stations also involves laying underground gas pipelines, constructing the refuelling 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 adequate financing from the abovementioned sources to fund the capital expenditure required for developing new natural gas pipeline networks, new natural gas refuelling 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 31 December 2010 and 2011 and 30 June 2012, we had substantial net current liabilities of RMB2,410 million, RMB576 million and RMB1,902 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. If we cannot maintain sufficient revenue or are not able to raise necessary funding to pay off our current liabilities and meet our capital commitments our business, financial condition and results of operations may be materially and adversely affected.

***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. In addition, in 2010, we announced a joint venture with the Vietnam Oil and Gas Group to develop our piped gas and vehicle gas refuelling 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 cities 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 cities 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 State Owned Enterprises, or 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 labour 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 31,2011, the total net book value of the land without land use right certificates and/or plants without building ownership certificates was approximately RMB285 million, representing approximately 16.2% of the net book value of our land and buildings and prepaid lease payments of approximately RMB1,759 million. Our rights as owner of such properties may be adversely affected as a result of the absence of formal title certificate, 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 refuelling 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 organisations. 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 the date of this Offering Circular, 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 30.11% 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 Bonds.

***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, and are unable or unwilling to fulfil 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 refuelling 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 fulfil 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**

***Our gas distribution business is dependent on our ability to maintain our gas operation licences, other certificates, approvals and permits.***

We conduct our piped city-gas businesses in the PRC pursuant to gas operation licences, other certificates, approvals and permits from the PRC government which authorises us, in some instances, to provide exclusive gas delivery services in various PRC locations. Some of our PRC projects and joint ventures are still in the process of obtaining valid gas operation licences. For the joint ventures that have obtained valid gas operation licenses, the PRC government may revoke the gas operation licences in certain circumstances based on the recommendation of the governmental bodies charged with the regulation of the transportation, distribution, marketing and storage of gas. The reasons for which our gas operation licences in the PRC may be revoked include:

- repeated failure to comply with the obligations under the licences and failure to remedy a significant breach of an obligation in accordance with specified procedures;
- total or partial interruption of service for reasons attributable to us that affects transportation capacity during the periods stipulated in its licences;
- sale, assignment or transfer of its essential assets or the placing of encumbrances thereon without prior authorisation, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system;

- our bankruptcy, dissolution or liquidation;
- the gas supplied failing to meet the national standards, which persists after the warnings of relevant regulatory agencies;
- ceasing and abandoning the provision of the licenced service, attempting to assign or unilaterally transfer our licences in full or in part without prior authorisation, or giving up our licences, other than in the cases permitted therein; and
- delegation of the functions granted in such licences without the prior authorisation of or the termination of such licences without regulatory approval of new licences.

In addition, some of our PRC project companies have not obtained or are still in the process of obtaining necessary environmental or construction related approvals from PRC authorities, if any of our gas operation licences, other certificates, approvals or permits are revoked, not renewed or not obtained, we would be required to cease providing gas supply and transportation services in the relevant PRC locations. The impact of loss of some or all of our gas operation licences, other certificates, approvals or permits on our business, financial condition and results of operations may be material and adverse.

***Our piped natural gas distribution projects rely on concessions rights granted by local governments, which will expire, or may be early terminated or not be renewed upon expiration, and may contain restrictions on our transfer of interests in the project.***

We operate our piped natural gas distribution projects on an exclusive basis for periods ranging from 20 to 30 years pursuant to the relevant concession rights we have obtained or are in the process of obtaining from local governments. Some concession rights agreements of our projects contain restrictions on our ability to transfer our interests to third parties without prior consent from the relevant local government. Furthermore, concession rights are subject to regulatory controls.

Cancellation or early termination of any such concessions or imposition of restrictive regulatory controls or failure to renew any concession upon its expiration or failure to obtain any concession right, if at all, may interrupt the operations of such projects which may have a material adverse effect on the financial condition and results of operations of such projects.

***We are exposed to the credit risk of our C&I customers, and any increase in the level of non-payment by our customers may adversely affect our business and financial condition***.

C&I customers generally consume high volumes of piped gas and their non-payment could materially and adversely affect our business. We charge our C&I customers gas usage charges in arrears. Gas metres that record actual gas consumption are installed at the customers' premises and metre readings are taken physically by us every month. Monthly bills based on prior month's actual usage are then sent to the customer. In general, we receive the settlement about one week from the date of billing. In the event a customer defaults on the payment of gas usage charges, the customer's gas supply will be suspended within one month of billing. In addition, we collect connection fees from our C&I customers in advance in instalments based on the percentage-of-completion of the pipeline construction work. In general, a C&I customer is required to provide the full amount of the connection fee as deposit upon signing of supply contract. In the event a customer defaults on the payment of connection fees, we do not start the supply of gas to the customer until the connection fees are fully paid. Although we have the ability to terminate or suspend service to customers who do not pay, any material increase in non-payment by our customers would increase our accounts receivables considerably without the corresponding financing to fund our working capital, which may materially and adversely affect our financial condition and results of operation.

***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 or 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 centres, 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 programmes 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 programmes 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 2012, the proportion of natural gas in China's total energy consumption was 4.5% in 2011. 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 programmes encouraging the use of natural gas. Any delay in implementation of these regulations or programmes 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 refuelling station industries. For the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, vehicle refuelling stations represented 10.8%, 10.8% and 12.1%, respectively, 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 obtain some land for the construction of vehicle refuelling 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 refuelling stations at an ideal location. Due to the competitive nature of the process, we may not be able to build our vehicle refuelling stations at an ideal location, which can reduce vehicle traffic and adversely impact our vehicle refuelling 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 refuelling 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 refuelling station business or expand our CNG vehicle refuelling 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 refuelling 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 refuelling 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 in regions where the price of gas is relatively low and one-step adjustment to 75% is difficult. The floor price will be gradually adjusted to 75% of the price of gasoline over a two-year period in such regions. 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 realise 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 global economic slowdown and turmoil in the global financial markets beginning in the second half of 2008 have had a negative impact on the PRC economy, which in turn has affected the energy industry. More recently, global market and economic conditions have continued to be adversely affected by the ongoing credit crisis in Europe, the credit rating downgrade of the United States and heightened market volatility in major stock markets. These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, natural gas consumers, which may lead a decline in the general demand for our natural gas products and services. In addition, any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. If the global economic slowdown and financial crisis continue or become more severe than currently anticipated, our business, prospects, financial condition and results of operations could be materially and adversely affected.

***No financial statements of us after 30 June 2012 have been included in this Offering Circular.***

Issuers do not typically prepare audited or reviewed consolidated financial statements for the six month period ended 31 December. Accordingly, no financial statements of us after 30 June 2012 have been included in this Offering Circular. We expect to publish audited consolidated financial statements for the year ended 31 December 2012 on or before 26 March 2013. There can be no assurance that the consolidated financial statements of us included in this Offering Circular are indicative of the results of operations and financial position of us for the 12 months ended 31 December 2012.

**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 Labour 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 Administration measures for concession operation of Municipal Public Utilities, 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 maximise 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 extent of government involvement, level of development, growth rate, uniformity in the implementation and enforcement of laws control of foreign exchange content and control over capital investment 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 utilise 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 and foreign exchange 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 Bonds are denominated in US 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 21 July 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 US dollar. Further, from 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate, effective on 21 May 2007. This allows the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the US dollar by approximately 30.3% from 21 July 2005 to 29 June 2012. 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 US dollar, our financial condition and results of operations could be adversely affected because of our significant US dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into US dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Bonds.

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.

***Under the EIT Law we may be classified as a "resident enterprise" of the PRC, which could result in unfavorable tax consequences to us and our non-PRC holders of the Bonds.***

Under the EIT Law, an enterprise established outside of China with "de facto management organization" located within China will be considered a "resident enterprise" in the PRC and consequently will be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises. However, no definition of "management body" has been provided for enterprises established offshore by individuals or foreign enterprises such as our Company. Therefore, it is uncertain whether we will be deemed as a PRC "resident enterprise" for the purposes of the EIT Law. If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income from sources outside the PRC, such as income from any investment outside the PRC of any portion of the offering proceeds, would be subject to PRC enterprise income tax at a rate of 25%, whereas no direct tax is imposed on enterprises under the laws of the Cayman Islands.

**Interest (if any) payable by us to our foreign investors and gain on the sale of our Bonds may become subject to taxation under PRC tax laws.**

Under the EIT Law, if we are deemed as a "resident enterprise" in the PRC, PRC withholding tax at the rate of 10% (or lower treaty rate, if any) might be applicable to interest (if any) payable by us to investors that are "non-resident enterprises" if 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 Bonds by "non-resident enterprise" investors would be subject to a 10% PRC tax if we were treated as a PRC "resident enterprise" and such gain is regarded as income derived from sources within China. If we were a PRC "resident enterprise" and were required under the EIT Law to withhold PRC income tax on interest payable to our Bondholders that are "non-resident enterprises," we would be required to pay such additional amounts as would result in receipt by a holder of a Bond of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Bonds, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Bonds, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Bonds, the value of your investment in our Bonds may be materially and adversely affected. It is unclear whether, if we are considered a PRC "resident enterprise," holders of our Bonds might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

***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 15 January 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. In 2005, the Ministry of Finance and the Statement Administration of Taxation of the PRC issued the "Notice regarding Value-added Tax and Certain Policies Issues", according to which VAT would not be levied on connection fees of our project companies. We cannot assure you, however, that VAT will not be levied on our pipeline construction business in the future.

***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 1 November 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.

The beneficial owners of our Company, Mr. Wang Yusuo (王玉鎖) and Ms. Zhao Baoju (趙寶菊), who are PRC residents, have made their individual overseas investment registrations required under the Notice with Hebei State Administration of Foreign Exchange Branch on June 4, 2012. However, if Mr. Wang Yusuo (王玉鎖) or Ms. Zhao Baoju (趙寶菊) fails to update such individual overseas investment registration as required by the Notice, or if the SAFE promulgates clarifications or regulations in the future deem our any other ultimate shareholders are PRC residents and thus shall comply with the registration procedures and update requirements described above and if such beneficial owners and/or shareholders 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 Bonds and our 2011 Notes.

***We may be subject to fines and legal sanctions if we or our employees who are PRC citizens fail to comply with PRC regulations relating to employee shares incentives granted by overseas listed companies to PRC citizens.***

Under the *Administration Measures on Individual Foreign Exchange Control* issued by the People's Bank of China and the related implementation rules issued by the SAFE, all foreign exchange transactions involving an employee share incentive plan, share option plan or similar plan participated in by PRC citizens may be conducted only with the approval of the SAFE, and under the *Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company*, or the Offshore Share Incentives Rule, which was issued by the SAFE in February 2012, PRC residents who are granted incentive shares or share options under a share plan by an overseas publicly listed company must register with the SAFE and comply with a series of other procedural requirements. The Offshore Share Incentives Rule also provides procedures for registration of incentive plans, the opening and use of special accounts for the purpose of participation in incentive plans, and the remittance of funds for exercising share options and gains realized from such exercises and sales of such options or the underlying shares, both outside and inside the PRC. As it is unclear whether the grant of option under an option scheme adopted prior to the issuance of above measures and rules of SAFE, we, and any of our PRC employees or members of our board of directors who have been granted share options under our share option scheme of 2002, may be subject to the Administration Measures on Individual Foreign Exchange Control, the related implementation rules issued by the SAFE, and the Offshore Share Incentives Rule. If we, or any of our PRC employees or members of or board of directors, who receive or hold share options, fail to comply with these registration and other procedural requirements, we may be subject to fines and other legal or administrative sanctions.

***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 organisation 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 favourable 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 Circular.***

Facts, forecasts and other statistics in this Offering Circular 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 Joint Lead Managers 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 Circular 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 Circular.

***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 generally accepted accounting principles in other jurisdictions.

**Risks Relating to the Bonds**

***Holders will have no rights as holders of the Shares prior to conversion of the Bonds.***

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, they will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Upon conversion of the Bonds, these holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of conversion.

***Potential dilution of the ownership interest of existing Shareholders.***

The conversion of some or all of the Bonds will dilute the ownership interests of existing shareholders of the Issuer. Any sales in the public market of the Shares issuable upon such conversion could adversely affect prevailing market prices for the Shares. In addition, the existence of the Bonds may facilitate short selling of the Shares by market participants.

***We may not have the ability to redeem the Bonds.***

Bondholders may require us, subject to certain conditions, to redeem for cash all or some of their Bonds on 26 February 2016 or upon a transaction or event constituting a change of control or delisting as described under the headings "*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption at the Option of the Bondholders*" and "*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption for Delisting or Change of Control*". We may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms, or at all. Our ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by us would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness held by us.

***Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.***

As a holding company, we 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 pay dividends to our shareholders and to satisfy our obligations, including our obligations under the Bonds. 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 or agreements 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 equity securities would not be available to us to make payments on the Bonds or pay dividends to our shareholders. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Bonds.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In practice, our PRC project companies may pay dividends only after they have completed not only the project development, at least the development of a phase or a stand-alone tower or building, and the revenue recognition but also the required government tax clearance and foreign exchange procedures. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5% subject to approval by relevant PRC tax authorities, although there is uncertainty under a recent circular regarding whether intermediate Hong Kong holding companies will remain eligible for benefits under this arrangement. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Bonds, and there could be restrictions on payments required to redeem the Bonds at maturity or as required for any early redemption.

Furthermore, we may use offshore shareholder loans, rather than equity contribution, to our PRC subsidiaries to finance their operations. In such events, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Bonds.

***Under PRC regulations, we may not be able to transfer to our PRC subsidiaries proceeds from this offering in the form of a loan, which could impair our ability to make timely payments of principal, under the Bonds.***

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. Therefore, the proceeds of this offering, may only be transferred to our PRC subsidiaries as equity investments and not as loans. We would therefore have to rely on dividend payments from our PRC subsidiaries, and we cannot assure you that dividend payments will be available, on the maturity date to pay the principal of the outstanding bonds or at the time of the occurrence of any change of control to make purchases of outstanding bonds.

In addition, equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and registration with the Ministry of Commerce, or MOFCOM, which may take considerable time and delay the actual contribution to the PRC subsidiaries. This may adversely affect the financial condition of the PRC subsidiaries and may cause delays to the development undertaken by such PRC subsidiaries. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or registration for all our operating subsidiaries in the PRC to comply with this regulation.

Furthermore, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy, or that prevent us from deploying, in China the funds raised outside of China. Therefore, we may not be able to use all or any of the capital that we may raise outside China to finance our projects in a timely manner or at all.

***The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of any other jurisdiction with which holders of the Bonds are familiar.***

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in other jurisdictions, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions. We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Bonds are familiar. You should analyse the risks and uncertainties carefully before you invest in the Bonds.

***We may be unable to obtain and remit foreign exchange.***

Our ability to satisfy our obligations under the Bonds depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our debt obligations including the Bonds.

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

If we are unable to comply with the restrictions and covenants 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 outstanding amounts due and payable or terminate the agreements, as the case may be. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under our other debt agreements. 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 favourable or acceptable to us.

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

The Bonds are a new issue of securities for which there is currently no trading market. Although we have received approval-in-principle for the listing and quotation of the Bonds 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. In addition, the Bonds are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Bonds in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. We cannot predict whether an active trading market for the Bonds will develop or be sustained.

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

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenues, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. We cannot assure you that these developments will not occur in the future. We will classify the Bonds as financial liabilities at fair value through profit or loss (“FVTPL”) in accordance with HKFRS. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. Any increase in the fair value of the Bonds will have negative impact on our profits.

***Holders will bear the risk of fluctuations in the price of the Shares.***

The market price of the Bonds at any time will be affected by fluctuations in the price of the Shares. The Shares are currently listed on the Hong Kong Stock Exchange. There can be no certainty as to the effect, if any, that future issues or sales of the Shares, or the availability of such Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the price of the Bonds.

Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds. The results of operations, financial condition, future prospects and business strategy of the Company could affect the value of the Shares. The trading price of the Shares will be influenced by our operational results (which in turn are subject to the various risks to which its businesses and operations are subject, which are not described herein) and by other factors such as changes in the regulatory environment that may affect the markets in which we operate and capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the value of the Shares. Any decline in the price of the Shares would adversely affect the market price of the Bonds.

***Holders have limited anti-dilution protection.***

The Conversion Price will be adjusted in the event that there is a sub-division, consolidation or re-denomination, rights issues, bonus issue, reorganisation, capital distribution or other adjustment including an offer or scheme which affects Shares, but only in the circumstances and only to the extent provided in "*Terms and Conditions of the Bonds – Conversion*". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

## USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the Joint Lead Managers' discount and commissions and other estimated expenses payable in connection with this offering, will be approximately US$489 million. We intend to use the net proceeds to refinance our existing indebtedness 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 20 July 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and US 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 US 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 21 July 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 US dollar. On 18 May 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate, effective on 21 May 2007. This allows the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on 16 April 2012. From 21 July 2005 to 29 June 2012, the value of the Renminbi appreciated by approximately 30.3% against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorised the China Foreign Exchange Trading Centre, effective since 4 January 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 US 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) | | | |
| 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 |
| 2011 | 6.2939 | 6.4475 | 6.6364 | 6.2939 |
| 2012 | 6.2301 | 6.2990 | 6.3879 | 6.2221 |
| August | 6.3484 | 6.3593 | 6.3738 | 6.3484 |
| September | 6.2848 | 6.3200 | 6.3489 | 6.2848 |
| October | 6.2372 | 6.2627 | 6.2877 | 6.2372 |
| November | 6.2265 | 6.2338 | 6.2454 | 6.2221 |
| December | 6.2301 | 6.2328 | 6.2502 | 6.2251 |
| 2013 | | | | |
| January | 6.2186 | 6.2215 | 6.2303 | 6.2134 |
| February (through 8 February 2013) | 6.2323 | 6.2307 | 6.2326 | 6.2265 |

(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 2012 and 2013, which are determined by averaging the daily rates during the respective periods.

On 8 February 2013, the noon buying rate for US dollars in New York City for cable transfers in Renminbi was US$1.00 = RMB6.2323 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 US dollar. Since 17 October 1983, the Hong Kong dollar has been linked to the US 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 1 July 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 US 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 US dollar to a rate range of HK$7.75 to HK$7.85 per US 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 US 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) | | | |
| 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 | 7.7692 | 7.8040 | 7.7501 |
| 2011 | 7.7663 | 7.7793 | 7.8087 | 7.7634 |
| 2012 | 7.7507 | 7.7556 | 7.7699 | 7.7493 |
| August | 7.7560 | 7.7562 | 7.7574 | 7.7543 |
| September | 7.7540 | 7.7540 | 7.7569 | 7.7510 |
| October | 7.7494 | 7.7515 | 7.7549 | 7.7494 |
| November | 7.7501 | 7.7505 | 7.7518 | 7.7493 |
| December | 7.7507 | 7.7501 | 7.7518 | 7.7493 |
| 2013 | | | | |
| January | 7.7560 | 7.7530 | 7.7585 | 7.7503 |
| February (through 8 February 2013) | 7.7550 | 7.7548 | 7.7562 | 7.7531 |

(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 2012 and 2013, which are determined by averaging the daily rates during the respective periods.

On 8 February 2013, the noon buying rate for US dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 = HK$7.7550 as certified for customs purposes by the Federal Reserve Bank of New York.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth on an actual basis our borrowings and capitalisation as of 30 June 2012 and as adjusted to give effect to the issuance of the Bonds in this offering after deducting the Joint Lead Managers' 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 capitalisation since 30 June 2012.

| | As of 30 June 2012 | | | |
|---|---|---|---|---|
| | Actual | | As Adjusted | |
| | RMB million | US$ million | RMB million | US$ million |
| **Cash and cash equivalents**[1] | 3,618 | 569 | 6,725 | 1,058 |
| **Short-term borrowings**[2][3][4] | | | | |
| Bank and other loans | 3,636 | 573 | 3,636 | 573 |
| Short-term debentures | 1,340 | 211 | 1,340 | 211 |
| Total short-term borrowings | 4,976 | 784 | 4,976 | 784 |
| **Long-term borrowings**[3][4][5] | | | | |
| Bank and other loans | 1,531 | 241 | 1,531 | 241 |
| 2011 Corporate Bonds[6] | 496 | 78 | 496 | 78 |
| 2011 Notes | 4,654 | 733 | 4,654 | 733 |
| Bonds to be issued | – | – | 3,177 | 500 |
| Total long-term borrowings | 6,681 | 1,052 | 9,858 | 1,552 |
| **Equity attributable to owners of our Company** | | | | |
| Share capital | 111 | 17 | 111 | 17 |
| Reserves | 7,577 | 1,193 | 7,507 | 1,182 |
| Total equity attributable to owners of our Company | 7,688 | 1,210 | 7,618 | 1,199 |
| **Total capitalisation**[7] | 14,369 | 2,262 | 17,476 | 2,751 |

(1) Cash and cash equivalents exclude non-current restricted cash of RMB10 million (US$2 million) and current restricted cash of RMB2,752 million (US$433 million).

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

(3) As of 30 June 2012 our total bank and other loans amounted to RMB5,167 million (US$813 million), of which RMB3,636 million (US$572 million) and RMB1,531 million (US$241 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 30 June 2012, capital commitments were RMB198 million (US$31 million).

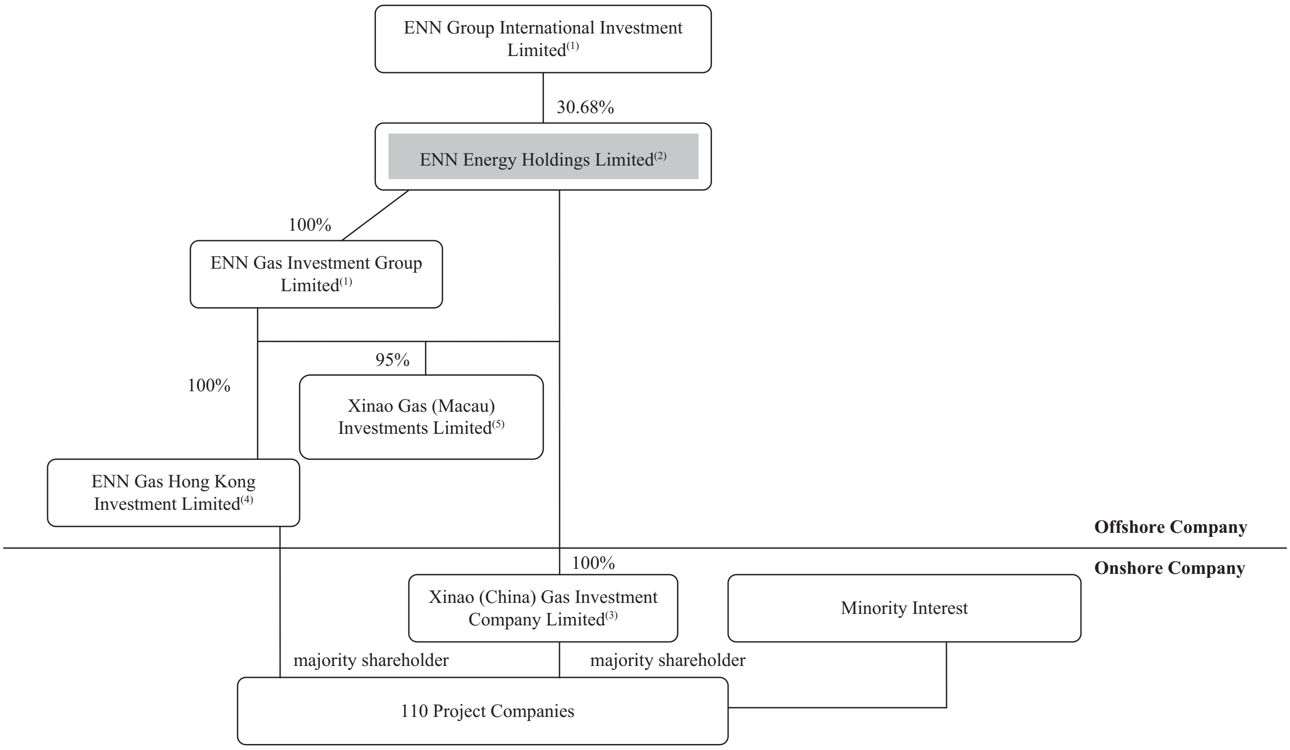
(5) Long-term borrowings exclude the current portion of long-term bank and other loans.

(6) On 16 February 2011, Xinao (China) Gas Investment Company, one of our wholly owned subsidiaries, issued the RMB500 million principal amount of 6.45% corporate bonds due 2018.

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

## CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure as of 30 June 2012:




(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.

# BUSINESS

## 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 refuelling stations in China. We are also involved in the sale of gas appliances and equipment, the production of stored value card gas metres, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist our customers in optimising their 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 30 June 2012, we had a total of 110 operational locations with a total connectable population of 53,389,000. 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 refuelling 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 110 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 2010 and 2011 and the six months ended 30 June 2012, we secured eleven, fifteen and seven new projects, respectively, in China, which added an urban connectible population of approximately 2.7 million, 6.3 million and 0.4 million, respectively, to our total connectable urban population as of 30 June 2012. 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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, our revenue was approximately RMB11,215 million, RMB15,068 million and RMB8,774 million, respectively, and our net profit was approximately RMB1,401 million, RMB1,667 million and RMB988 million, respectively.

Our shares were listed in the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, or GEM, on 10 May 2001 and were transferred to the Main Board of The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, (stock code: 2688) on 3 June 2002.

## Recent Developments

On 12 December 2011, we, jointly with China Petroleum & Chemical Corporation ("Sinopec"), announced a pre-conditional voluntary general offer to (i) acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") other than these shares already held by us and Sinopec and parties acting in concert with us and Sinopec and (ii) to cancel all of the outstanding share options of China Gas (together, the "Offers"). The Offers were subject to several pre-conditions, and on 15 October 2012, we and Sinopec jointly announced that the outstanding pre-conditions for the Offers remained unfulfiled and the long stop date would not be further extend and, accordingly, we and Sinopec would not proceed with the Offers.

**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 110 operational locations in 15 provinces, municipalities and autonomous regions across China with a total connectable population of 53,389,000 as of June 30, 2012. 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, urbanisation 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 2012, natural gas consumption in China has grown from 2.7 billion cubic feet per day in 2001 to 12.6 billion cubic feet per day in 2011, representing a CAGR, of 16.9%. Even with such strong growth, natural gas currently accounted for approximately only 4.5% in 2011 of China's energy consumption. Under the 12th Five-year Plan, the PRC government targets to increase this proportion to 7.5% 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 30 June 2012, the overall piped gas penetration rate of residential households in our operational locations in China was only 41.8%. 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 30 June 2012, C/I customers accounted for 66.6% of the total volume of our sales of piped gas, but only accounted for 26.3% 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 urbanisation, economic development and expansion of pipeline networks, together with the strong support of the PRC government to utilise 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 110 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 the first half of 2012, 73.7% and 26.3% of our 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 66.6%, respectively, of the total volume of our sales of piped gas, with an additional 13.7% attributed to sales of piped gas through our vehicle refuelling stations. We have continued to grow our portfolio of both residential and C/I customers to strengthen our income sources. In 2010 and 2011, we provided new piped natural gas connections for 875,744 and 1,029,727 residential households, respectively, increasing by 17.6% from 2010 to 2011. In the first half of 2012, we provided new piped natural gas connections for 556,127 residential households, representing an increase of 8.3% as compared to the corresponding period of 2011. In addition, the total installed designed daily capacity of C/I customers has grown steadily from 18.2 million $m^3$ in 2010 to 29.7 million $m^3$ in the first half of 2012, representing a CAGR of 37.5%. 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 refuelling 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. We also expect strong volume growth from the CNG/LNG segments. Our experience and track record of expansion to 110 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 20 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 10 years of experience in constructing and operating vehicle refuelling stations and have successfully constructed a total of 276 vehicle refuelling stations as of 30 June 2012. Moreover, we have developed an integrated energy storage and transportation network, through utilising 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 12 years with us or have over 12 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 refuelling 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 refuelling 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 110 existing operational locations. As of 30 June 2012, the overall piped gas penetration rate of residential households across our 110 operational locations in China was approximately 41.8%. 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 emphasising 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 refuelling station businesses***

We intend to continue our efforts to expand the scope of our vehicle refuelling station business. As of 30 June 2012, we operated 276 vehicle refuelling stations in 71 locations across China. In addition, we have obtained approval from local governments for the construction of 527 vehicle refuelling stations across China, approximately 13.8% of which are LNG vehicle refuelling stations. We intend to leverage our experience in the CNG vehicle refuelling station business to expand into the LNG vehicle refuelling station market. We plan to construct LNG vehicle refuelling 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 refuelling 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 subsidise 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 30 June 2012, we completed the conversion of approximately 53,000 vehicles into natural gas vehicles. From June 2011 to June 2012, natural gas sales to vehicles increased by 39.5%. To capitalise on such demand, we intend to continue to expand our network of vehicle refuelling 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 refuelling 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 favourable 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 refuelling 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 utilisation 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 utilisation 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. These projects enhance energy utilisation 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 in the PRC.

## Project Operational Data as of June 30, 2012

| | | | | | | | Accumulated number of piped gas (including natural gas) customers | | |
|---|---|---|---|---|---|---|---|---|---|
| | Operational location[1] | Year of establishment | Length of existing pipelines (km)[2] | No. of existing natural gas processing stations | Daily capacity of existing natural gas processing stations ($m^3$) | Residential households | C/I customers | Installed designed daily capacity for C/I customers ($m^3$) | Number of vehicle gas refuelling stations |
| 1 | Langfang | 1993 | 463 | 4 | 632 | 185,735 | 1,082 | 752,557 | 7 |
| 2 | Liaocheng | 2000 | 323 | 2 | 460 | 128,402 | 603 | 803,259 | 5 |
| 3 | Huludao | 2000 | 320 | 2 | 230 | 175,579 | 397 | 270,644 | 7 |
| 4 | Xingcheng[3] | 2002 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | Pinggu | 2001 | 137 | 1 | 180 | 28,693 | 156 | 206,342 | 0 |
| 6 | Huangdao | 2001 | 371 | 1 | 920 | 142,409 | 289 | 1,198,260 | 3 |
| 7 | Changping | 2001 | 142 | 1 | 200 | 46,599 | 340 | 97,825 | 0 |
| 8 | Zhucheng | 2001 | 227 | 0 | 100 | 80,200 | 159 | 222,425 | 1 |
| 9 | Chengyang | 2001 | 408 | 3 | 500 | 167,707 | 372 | 469,264 | 6 |
| 10 | Yantai Development Zone | 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | Yantai | 2004 | 635 | 7 | 1,005 | 313,448 | 690 | 1,209,640 | 9 |
| 12 | Gaoyou | 2001 | 83 | 1 | 72 | 35,357 | 170 | 31,951 | 0 |
| 13 | Bengbu | 2002 | 376 | 1 | 960 | 150,722 | 353 | 482,961 | 8 |
| 14 | Zouping | 2002 | 163 | 1 | 360 | 34,245 | 106 | 502,940 | 3 |
| 15 | Taixing | 2002 | 172 | 2 | 396 | 39,601 | 349 | 244,323 | 1 |
| 16 | Laiyang | 2002 | 199 | 1 | 72 | 52,056 | 224 | 152,979 | 4 |
| 17 | Yancheng | 2002 | 460 | 3 | 1,650 | 172,694 | 779 | 384,822 | 2 |
| 18 | Huaian | 2002 | 503 | 2 | 580 | 192,411 | 399 | 610,197 | 5 |
| 19 | Haian | 2002 | 179 | 2 | 127 | 33,518 | 226 | 235,182 | 0 |
| 20 | Chuzhou | 2002 | 376 | 3 | 610 | 94,833 | 499 | 444,137 | 2 |
| 21 | Lu'an | 2003 | 165 | 1 | 160 | 87,847 | 236 | 88,478 | 4 |
| 22 | Rizhao | 2002 | 302 | 1 | 300 | 105,774 | 198 | 223,831 | 2 |
| 23 | Xinxiang | 2002 | 486 | 1 | 560 | 210,801 | 732 | 556,392 | 7 |
| 24 | Xinghua | 2002 | 111 | 1 | 50 | 34,951 | 163 | 32,225 | 0 |
| 25 | Bozhou | 2003 | 206 | 1 | 46 | 37,317 | 154 | 48,176 | 3 |
| 26 | Haining | 2002 | 292 | 2 | 396 | 39,969 | 223 | 417,738 | 2 |
| 27 | Quzhou | 2002 | 168 | 3 | 280 | 51,923 | 219 | 211,516 | 0 |
| 28 | Shijiazhuang | 2002 | 658 | 1 | 792 | 674,634 | 981 | 1,199,285 | 19 |
| 29 | Chaohu | 2003 | 138 | 2 | 210 | 72,669 | 263 | 235,088 | 4 |
| 30 | Lanxi | 2003 | 44 | 0 | 0 | 12,766 | 73 | 108,162 | 0 |
| 31 | Wujin | 2003 | 1,032 | 2 | 1,410 | 157,890 | 1,860 | 1,469,051 | 5 |
| 32 | Jinhua | 2003 | 113 | 2 | 210 | 42,243 | 182 | 101,017 | 0 |
| 33 | Wenzhou | 2003 | 80 | 1 | 120 | 14,549 | 61 | 117,235 | 0 |
| 34 | Wenzhou Longwan[4] | 2004 | 1 | 0 | 0 | 606 | 0 | 0 | 0 |
| 35 | Xiangtan | 2003 | 336 | 2 | 380 | 200,201 | 1,131 | 388,015 | 4 |
| 36 | Dongguan | 2003 | 1,208 | 4 | 1,929 | 255,579 | 1,867 | 2,358,820 | 17 |
| 37 | Lianyungang | 2003 | 528 | 2 | 420 | 183,507 | 615 | 494,169 | 3 |
| 38 | Changsha | 2003 | 1,424 | 6 | 1,980 | 966,191 | 2,379 | 2,663,783 | 11 |
| 39 | Kaifeng | 2003 | 630 | 2 | 350 | 190,494 | 954 | 307,446 | 2 |
| 40 | Jiaozhou | 2003 | 325 | 1 | 420 | 88,096 | 327 | 391,151 | 1 |
| 41 | Zhuzhou | 2003 | 880 | 1 | 880 | 313,320 | 1,540 | 1,411,237 | 3 |
| 42 | Jiaonan | 2003 | 276 | 1 | 210 | 77,684 | 141 | 206,253 | 3 |
| 43 | Tongliao | 2004 | 96 | 1 | 50 | 86,207 | 119 | 44,792 | 2 |
| 44 | Guilin | 2004 | 256 | 2 | 240 | 102,846 | 126 | 66,822 | 1 |
| 45 | Huzhou | 2004 | 315 | 2 | 672 | 72,615 | 316 | 373,721 | 4 |
| 46 | Zhanjiang | 2004 | 255 | 2 | 380 | 83,030 | 333 | 331,597 | 3 |
| 47 | Luquan | 2004 | 54 | 1 | 1,800 | 22,094 | 14 | 26,259 | 0 |
| 48 | Shangqiu | 2004 | 201 | 1 | 240 | 81,361 | 270 | 47,485 | 3 |
| 49 | Shantou | 2004 | 121 | 3 | 180 | 40,893 | 141 | 135,615 | 0 |
| 50 | Guigang | 2004 | 97 | 1 | 100 | 28,224 | 90 | 33,247 | 0 |
| 51 | Huangyan | 2005 | 108 | 0 | 0 | 30,184 | 97 | 72,672 | 0 |
| 52 | Yongkang | 2005 | 152 | 1 | 160 | 13,790 | 182 | 369,840 | 0 |

| | Operational location(1) | Year of establishment | Length of existing pipelines (km)(2) | No. of existing natural gas processing stations | Daily capacity of existing natural gas processing stations ($m^3$) | Residential households | Accumulated number of piped gas (including natural gas) customers: C/I customers | Installed designed daily capacity for C/I customers ($m^3$) | Number of vehicle gas refuelling stations |
|---|---|---|---|---|---|---|---|---|---|
| 53 | Zhaoqing Development Zone | 2005 | 78 | 1 | 100 | 2,432 | 48 | 182,725 | 0 |
| 54 | Luoyang | 2006 | 1,159 | 4 | 1,340 | 342,225 | 868 | 1,350,898 | 7 |
| 55 | Quanzhou | 2006 | 270 | 5 | 620 | 57,749 | 249 | 163,424 | 2 |
| 56 | Xiaoshan | 1994 | 329 | 0 | 200 | 130,717 | 327 | 309,084 | 2 |
| 57 | Fengyang | 2005 | 56 | 0 | 0 | 4,821 | 27 | 148,210 | 1 |
| 58 | Nanan | 2006 | 74 | 1 | 210 | 11,045 | 72 | 367,873 | 1 |
| 59 | Huian | 2006 | 63 | 0 | 0 | 13,829 | 71 | 64,251 | 0 |
| 60 | Shishi | 2006 | 87 | 0 | 0 | 10,134 | 155 | 225,297 | 0 |
| 61 | Jinjiang | 2006 | 215 | 1 | 1,340 | 25,180 | 399 | 2,482,736 | 1 |
| 62 | Laian | 2006 | 63 | 0 | 0 | 11,830 | 66 | 58,707 | 0 |
| 63 | Ningbo | 2007 | 318 | 0 | 130 | 91,706 | 447 | 252,533 | 0 |
| 64 | Quanjiao | 2007 | 76 | 0 | 0 | 24,021 | 97 | 63,955 | 0 |
| 65 | Xinan | 2007 | 42 | 1 | 7,555 | 13 | 13 | 117,872 | 0 |
| 66 | Dehua | 2003 | 91 | 1 | 120 | 2,532 | 234 | 237,695 | 0 |
| 67 | Guzhen | 2007 | 1 | 0 | 0 | 0 | 2 | 6,000 | 0 |
| 68 | Zhaoqing | 2008 | 124 | 1 | 120 | 32,044 | 107 | 88,310 | 2 |
| 69 | Quangang | 2008 | 11 | 0 | 0 | 0 | 3 | 8,000 | 0 |
| 70 | Guangzhou Zengcheng | 2007 | 30 | 0 | 0 | 42,804 | 15 | 1,563 | 0 |
| 71 | Haiyan | 2008 | 19 | 1 | 240 | 0 | 29 | 69,698 | 2 |
| 72 | Yichuan | 2009 | 0.0 | 1 | 0 | 0 | 0 | 0 | 0 |
| 73 | Luanxian | 2009 | 3 | 1 | 1,200 | 792 | 1 | 3,000 | 0 |
| 74 | Longyou | 2009 | 45 | 0 | 0 | 4,246 | 22 | 38,365 | 0 |
| 75 | Sihui | 2009 | 35 | 1 | 36 | 5,301 | 21 | 70740 | 0 |
| 76 | Yongchun | 2009 | 1 | 0 | 60 | 0 | 24 | 23,120 | 0 |
| 77 | Huzhou Nanxun | 2009 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 78 | Huadou | 2010 | 212 | 1 | 540 | 59,494 | 351 | 219,594 | 0 |
| 79 | Wenshan | 2010 | 25 | 1 | 100 | 1,591 | 5 | 248 | 0 |
| 80 | Huaihua | 2010 | 34 | 1 | 120 | 3,474 | 7 | 1,061 | 0 |
| 81 | Guangning | 2010 | 0.0 | 0 | 0 | 392 | 0 | 0 | 0 |
| 82 | Huaiji | 2010 | 0.0 | 0 | 0 | 963 | 0 | 0 | 0 |
| 83 | Luoding | 2010 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 84 | Xinyi | 2010 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 85 | Fengkai | 2010 | 0.0 | 0 | 0 | 370 | 0 | 0 | 0 |
| 86 | Lianzhou | 2010 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 87 | Changsha County | 2010 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 88 | Zhuzhou County | 2010 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 89 | Ningxiang | 2011 | 80 | 0 | 0 | 15,430 | 57 | 57,441 | 0 |
| 90 | Wangcheng | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 91 | Yongzhou | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 92 | Gaoxin district of Kunming | 2011 | 15 | 1 | 460 | 168 | 13 | 48,870 | 0 |
| 93 | Rongcheng | 2011 | 5 | 0 | 0 | 1,573 | 3 | 188 | 0 |
| 94 | Hongze | 2011 | 38 | 0 | 48 | 7,696 | 44 | 46,108 | 0 |
| 95 | Dayoulinghai Economic Zone of Linghai | 2011 | 28 | 1 | 50 | 2,396 | 18 | 26,803 | 0 |
| 96 | Anxi | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 97 | Environmental Industrial Park of Yancheng | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 98 | Guiping Industrial Park of Guigang | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 99 | Zhengding New district of Shijiazhuang | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100 | Jingxing | 2011 | 17 | 0 | 0 | 1,014 | 3 | 27,800 | 0 |

| | Operational location(1) | Year of establishment | Length of existing pipelines (km)(2) | No. of existing natural gas processing stations | Daily capacity of existing natural gas processing stations ($m^3$) | Residential households | Accumulated number of piped gas (including natural gas) customers: C/I customers | Installed designed daily capacity for C/I customers ($m^3$) | Number of vehicle gas refuelling stations |
|---|---|---|---|---|---|---|---|---|---|
| 101 | Changqing district of Jinan | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 102 | Yunan | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 103 | Panyu district of Guangzhou | 2011 | 180 | 1 | 1,272 | 66,019 | 347 | 126,548 | 0 |
| 104 | Gaocheng | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 105 | Shenze | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 106 | Wenan Industrial Zone | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 107 | Longyan Industrial Zone | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 108 | Xinxiang Weihui | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 109 | Qingdao Zhongde | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 110 | Wanquan Light Industry Base of Wenzhou | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other project** | | | | | | | | | |
| Shanghai (CNG) | | 2002 | 0.0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Shanghai (LPG) | | 2007 | 0.0 | 0 | 0 | 0 | 0 | 0 | 28 |
| Shanghai (DME) | | 2007 | 0.0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Other gas refuelling station projects | | | 0.0 | 0 | 0 | 0 | 0 | 0 | 59 |
| Total | | | 19,952 | 116 | 32,285 | 7,436,007 | 27,327 | 29,737,646 | 276 |

(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 was 19,952 km as of 30 June 2012.

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 refuelling 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 30 June 2012 would reach approximately 62.3 million.

**Our Business Activities in the PRC**

| | Year ended 31 December | | Six months ended 30 June |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| **Highlights** | | | |
| Number of connected households (Piped Gas) | 5,618,583 | 6,815,165 | 7,436,007 |
| Installed designed daily capacity for C/I customers ($m^3$) (Piped Gas) | 18,175,160 | 25,767,276 | 29,737,646 |
| Units of piped gas sold | | | |
| Residential households ($m^3$) | 640,597,000 | 824,276,000 | 510,957,000 |
| C/I customers ($m^3$) | 3,508,759,000 | 4,549,268,000 | 2,128,610,000 |
| Length of existing pipelines (km) | 16,340 | 18,854 | 19,952 |
| Number of existing natural gas processing stations | 100 | 115 | 116 |
| Daily capacity of existing natural gas processing stations ($m^3$) | 23,970,000 | 32,003,000 | 32,285,000 |
| Vehicle gas refuelling stations | 192 | 238 | 276 |
| Connectable urban population coverage (millions) | 46.87 | 53.14 | 53.39 |
| Connectable residential households coverage (millions) | 15.62 | 17.71 | 17.80 |
| Piped gas penetration rate of residential households | 36.0% | 38.5% | 41.8% |

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 refuelling 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 30 June 2012, we have 110 operational locations across 15 provinces in China and in three cities in Vietnam, supplying piped gas to 7,436,007 residential households and 27,327 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 favourable 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 utilisation 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 programme 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 refuelling Stations Business***

In 2002, we launched our CNG vehicle refuelling station business in Langfang, Hebei Province and later expanded the business to Shijiazhuang, Hebei Province. As of 30 June 2012, we converted 34,854 taxis and 1,566 buses into natural gas vehicles. Since 2004, we have launched our LNG vehicle refuelling 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 refuelling stations, which are more compact and safer to operate, than CNG refuelling stations. We continue to regard vehicle refuelling 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 refuelling station department to focus on the vehicle refuelling station business.

During the first half of 2012, the number of vehicle gas refuelling stations completed and in operation was 38, adding to a total of 276 vehicle gas refuelling stations located in 46 cities across China, among which 29 were not among our gas project cities. We prioritise development of vehicle refuelling stations in operational locations where we already have a piped gas project. This allows us to minimise transportation cost while capturing the synergy between our piped natural gas and vehicle refuelling station businesses. In addition, as of 30 June 2012, the number of vehicle refuelling stations which have obtained construction approval from local governments had increased to 527, approximately 13.8% of which are for LNG vehicle refuelling stations.

The construction of our vehicle refuelling 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 refuelling station. We finalise the location of the station and begin preliminary negotiations once authorisation has been obtained from the government to install a new vehicle refuelling station. Vehicle refuelling 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 refuelling 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 refuelling station*

While waiting to obtain local government approvals and permits, we begin designing the station in preparation for construction. The design of a vehicle refuelling 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 refuelling station***

After completion, a vehicle refuelling 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 emphasise 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 kilometres 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 centre and provide energy to our customers using various energy inputs that suit their needs. Currently, our energy management projects include two polygeneration projects for the Changsha Huanghua Airport and Shen Neng Cheng project in Zhuzhou. 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 addition, we have completed our industrial energy conservation project, low-cost gas acquisition project, including biogas projects such as Zhanjiang Guangda Jiujing and Xuehua Beer, heat, electricity and gas multi-generation projects (多聯供) and projects relating to special industrial zones (園區項目). 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 utilisation 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.

***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 metres. We have established our own production plant of stored value card gas metres, 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 31 December | | Six months ended 30 June |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| **Customer base** | | | |
| Number of piped gas residential customers | 5,618,583 | 6,815,165 | 7,436,007 |
| Volume of piped gas sales to residential customers (million $m^3$) | 640.6 | 824.3 | 511.0 |
| Number of piped gas C/I customers | 18,424 | 23,969 | 27,327 |
| Volume of piped gas sales to C/I customers (million $m^3$) | 2,988.3 | 3,852.9 | 2,128.6 |
| Total installed designed daily capacity for C/I customers of piped gas (million $m^3$) | 18.2 | 25.8 | 29.7 |
| Volume of gas sales to vehicles (million $m^3$) | 520.4 | 696.4 | 439.0 |

*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 organisations 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 urbanisation in China, we believe that piped natural gas usage by residential owners will grow substantially in the coming years.

During the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, we completed piped natural gas connections to 875,744, 1,029,727 and 566,127 residential households, respectively. As of 30 June 2012, we provide piped gas to a total of 7,436,007 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 instalments 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 31 December 2010 and 2011 and the six months ended 30 June 2012, we completed piped gas connections to C/I customers connected to gas appliances with a total installed designed daily capacity of 18.2 million $m^3$, 25.8 million $m^3$ and 29.7 million $m^3$, respectively. As of 30 June 2012, we have a total of 27,327 C/I customers connected to gas appliances with a total installed designed daily capacity of 29.7 million $m^3$ 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 refuelling 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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, we sold 520.4 million $m^3$, 696.4 million $m^3$ and 439.0 million $m^3$ of natural gas through our vehicle refuelling stations, respectively, representing 13.4%, 16.5% and 17.5% of our total volume of natural gas sales for the respective years. As of 30 June 2012, we completed the conversion of approximately 53,000 vehicles into natural gas vehicles.

**Sales**

For the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, sales of piped gas accounted for approximately 51.1%, 53.0% and 58.2% of our total revenue, respectively; gas connection fees accounted for approximately 23.5%, 22.7% and 19.3% of our total revenue, respectively; and revenue from vehicle refuelling stations accounted for approximately 10.8%, 10.8% and 12.1% of our total revenue, respectively. For the same periods, distributions of bottled LPG accounted for approximately 2.1%, 1.3% and 0.8% of our total revenue, respectively; sales of gas appliances accounted for approximately 0.7%, 0.6% and 0.5% of our total revenue, respectively; wholesale of gas accounted for approximately 8.1%, 7.8% and 6.3% of our total revenue, respectively; and sales of materials accounted for approximately 3.7%, 3.9% and 2.7%, respectively.

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

| | Year ended 31 December | | Six months ended 30 June |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | **RMB million** | **RMB million** | **RMB million** |
| **Revenue:** | | | |
| Sales of piped gas | 5,728 | 7,980 | 5,107 |
| Gas connection fees | 2,635 | 3,415 | 1,694 |
| Vehicle gas refuelling station | 1,209 | 1,620 | 1,063 |
| Distribution of bottled LPG | 240 | 192 | 74 |
| Sales of gas appliances | 84 | 97 | 43 |
| Wholesale of gas | 905 | 1,172 | 552 |
| Sales of materials | 414 | 592 | 241 |
| | 11,215 | 15,068 | 8,774 |

***Sales of Piped Gas***

Sales of piped gas constituted our most significant source of revenue for the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012 and we intend to increase the percentage contribution of this business in the future. During the first half of 2012, we sold 510,957,000 $m^3$ of piped gas to residential households and 2,128,610,000 $m^3$ to C/I customers. Sales to C/I customers made up 66.6% 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 metre 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 metre will produce a sound signal to remind the customer to replenish the value stored in the stored value card. The stored value card system minimises payment default risks with respect to gas sales to residential customers.

For C/I customers and those residential customers without stored value card gas metres installed (amounting to approximately 1,150,000 households), payment for gas usage charges is made in arrears. Gas metres that record actual gas consumption are installed at the users' premises and metre 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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012. 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 instalments 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 organisations), 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 31 December 2010 and 2011 and the six months ended 30 June 2012, we completed piped natural gas connections to 875,744, 1,029,727 and 566,127 residential households, respectively. During the first half of 2012, the average connection fee charged by us was RMB2,729.0 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 instalments 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 31 December 2010 and 2011 and the six months ended 30 June 2012, we completed piped natural gas connections to 4,178, 5,178 and 3,130 C/I customers, respectively. During the first half of 2012, the average connection fee charged by us was RMB140 per $m^3$.

***Vehicle Gas Refuelling Stations***

We derive a portion of our revenue from the distribution and sale of CNG and LNG through our vehicle gas refuelling stations. During the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, sales through these stations generated revenue of RMB1,209 million, RMB1,620 million and RMB1,063 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 years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, our sales of LPG amounted to 47,919 tonnes, 36,402 tonnes and 10,967 tonnes, 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 metres. During the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, we sold a total of 6,682, 8,816 and 2,510 cooking stoves, 9,172, 7,179 and 2,029 water boilers and 1,557, 780 and 391 heaters, respectively. We operate two stored value card metre factories with an annual production capacity of 850,000 units per year. Most of the metres produced were used by us for our own connection business which enabled us to achieve significant savings on stored-value card costs.

***Wholesale of Gas***

We derived a portion of our revenue from the wholesale of gas. We sold 260 million $m^3$ of natural gas during 2011, representing an increase of 17.1% as compared to 2010 and accounting for 4.9% of the total volume of gas sold. During the first half of 2012, the revenue from the wholesale of gas decreased by 5.6% as compared to the corresponding period of 2011.

***Sales of Materials***

We derived a small portion of our revenue from the sales of materials that we purchased at low prices in the process of pipeline construction and gas connection works. The materials sold by our Company accounted to RMB592 million, representing an increase of 43% as compared to 2010. During the first half of 2012, the revenue from sales of materials decreased by 16.3% as compared to the corresponding period of 2011.

**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 adjustment are also subject to the same approval process. Gas usage fees for residential end-users and any adjustment 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. 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 refuelling 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 31 December 2010 and 2011 and the six months ended 30 June 2012.

For each of the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, 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 favourable 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 (direct-supplied and urban industry), fertiliser 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 Circular, our piped gas projects in 18 operational locations, namely Xinxiang, Chuzhou, Changzhou, Bengbu, Huaian, Lianyungang, Luoyang, Xiangtan, Zhuzhou, Yancheng, Haian, Jiaozhou, Huzhou, Dongguan, Huadu, Kaifeng, Shangqiu and Panyu district of Guangzhou, utilise 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 2012, our total gas supply volume committed in the take-or-pay or other long-term supply agreements was 4.3 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 utilise 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 Tai-Qing-Wei Pipelines to our piped gas projects in Qingdao, Jiaozhou, Chenyang, Jiaonan and Zhucheng; 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 Sichuan-East Pipelines to our piped gas projects in Luan and bozhou and Yu-Ji Piepelines to our projects in Zhouping and Liaocheng.

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 metre installed at the point where our intermediate pipelines connect with the suppliers' long distance pipelines. Payment for gas purchased is made by us through cheques, bank drafts or remittance denominated in Renminbi in accordance with the gas supply agreements. For the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, the cost of pipeline gas purchases accounted for 72.4%, 81.8% and 85.1% of our cost of sales, respectively.

Besides fully utilising such gas pipeline networks and LNG terminals, we have also endeavoured 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. We are currently constructing two LNG plants in Pindingshan, Henen province and Guye, Tangshan, Hebei province, respectively. The annual production capacity of these LNG plants is around 580 million $m^3$ in aggregate and has created new gas supply sources for our Group. Moreover, we possess a massive non-pipeline transmission system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 14 million $m^3$. With this additional transmission system, we expect to be able to secure a more stable gas supply.

***Pipes, Machinery and Equipment***

We purchase pipes of various diametres 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 202 natural gas transport vehicles and two leased ships. Our CNG and LNG transport capacity is over 5,658,000 $m^3$ per time.

As of 30 June 2012, we had 116 natural gas processing stations with a combined daily supply capacity of more than 32 million $m^3$, which guarantees our gas supply. 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 centres such as the one in Changsha to further increase our emergency reserve capacity. We own the land and facilities of all of our storage centres. 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 metres 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 labour, 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 Circular, 34 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 refuelling stations and during the natural gas pipeline or CNG vehicle refuelling 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 analysed in the control centre located in the head office of each operational location. We use a computerised 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 centre 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 121 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 information programme to provide rapid and efficient services to our customers, we have also set up a national customer service centre to manage all customer service issues. The customer service centre includes a service support centre, a service supervision centre and a national call centre to provide more comprehensive services. The national call centre will be supplemented by a total of seven regional call centres. Seven regional call centres, located in Qingdao, Luoyang, Langfang, Huzhou, Yancheng, Dongguan and Changsha, respectively, are already in operation. 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 69 members who specialise 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 programmes with overseas gas companies.

Research and development expenses for the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012 amounted to approximately RMB11 million, RMB2 million and RMB2 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 Circular, 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 29 March 2010, we are entitled to use the trademark “” on permitted products in permitted regions for a period of 30 years commencing on 29 March 2010 and ending on 28 March 2040, as set out in the trademark licensing agreement. We have obtained copyrights for four of our computer softwares. 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. Our 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 refuelling 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 refuelling stations. CNG vehicle refuelling stations are where natural gas is compressed and refuelled. 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 30 June 2012, the number of technicians employed and engaged in safety maintenance and technical upgrading was 6,210.

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 Circular, 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 Circular, 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 387 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 RMB5.89 billion as of 30 June 2012 that we consider to be subject to significant operating risks. We have also obtained insurance for other fixed assets with a net book value of approximately RMB1,506 billion, including construction insurance for our construction-in-progress.

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 30 June 2012, we had 22,541 employees, substantially all of which were based in China. We have not experienced any strikes or disruptions due to labour 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 programmes for them. For example, we have established a training programme 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 organise seminars and training courses to equip our employees with new knowledge in the industry. We also sponsor our employees to attend external training programmes organised 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 30 June 2012, our project companies have obtained exclusive rights or rights of first refusal to supply gas to substantially all of their respective 110 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 refuelling 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 refuelling 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 refuelling stations and safety management help us remain competitive in the vehicle refuelling 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.

## MANAGEMENT

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

| Name | Age | Position |
|---|---|---|
| Mr. WANG Yusuo ............... | 49 | Chairman of the Board of Directors and Executive Director |
| Mr. CHEUNG Yip Sang ....... | 46 | Chief executive officer and Executive Director |
| Mr. ZHAO Jinfeng............... | 45 | Executive Director |
| Mr. YU Jianchao ................. | 44 | Finance Director |
| Mr. ZHAO Shengli............... | 43 | Chief operations officer and Executive Director |
| Mr. WANG Dongzhi............ | 44 | Vice president, Executive Director and chief financial officer |
| Ms. ZHAO Baoju.................. | 47 | Non-Executive Director |
| Mr. JIN Yongsheng.............. | 49 | Non-Executive Director |
| Mr. WANG Guangtian.......... | 49 | Independent Non-Executive Director |
| Ms. YIEN Yu Yu, Catherine . | 42 | Independent Non-Executive Director |
| Mr. KONG Chung Kau......... | 43 | Independent Non-Executive Director |
| Mr. ZHANG Gang .............. | 64 | Independent Non-Executive Director |

### Executive Directors

**Mr. WANG Yusuo**, aged 49, 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 26 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 Builder of Socialism with Chinese Characteristics, Outstanding Entrepreneurs in China and The China Charity Award. 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, and the Chairman of Hebei Veyong Bio-Chemical Co., Ltd., a company listed in the Mainland China. Mr. Wang and Ms. Zhao Baoju jointly control various investment holding companies.

**Mr. CHEUNG Yip Sang**, aged 46, 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 31 March 2010.

**Mr. ZHAO Jinfeng**, aged 45, 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 20 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 44, 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 24 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 15 October 2007.

**Mr. ZHAO Shengli**, aged 43, is an Executive Director and the chief operations officer 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 25 March 2011.

**Mr. WANG Dongzhi**, aged 44, is the Executive Director, vice president and the chief financial officer 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 25 March 2011.

**Non-Executive Directors**

**Ms. ZHAO Baoju**, aged 47, is a co-founder and a Non-Executive Director of our Company. She has over 20 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 15 October 2007. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies.

**Mr. JIN Yongsheng**, aged 49, is a Non-Executive Director of our Company. He graduated from the Tianjin University of Finance and Economics in 1986, specialising in finance, and has obtained an executive master's degree in business administration from the Peking University in 2005. Prior to joining 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 practising lawyer in China and has over 23 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 49, 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 42, 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 43, 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 practising 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.

**Mr. ZHANG Gang**, aged 64, is a senior engineer who has extensive experience in quality, safety management and construction of energy-related projects. From August 1999 to April 2001, he worked in the State Administration of Quality and Technical Supervision, and served as a Deputy Director and Director subsequently in Boiler and Pressure Vessel Safety Supervision Bureau in the People's Republic of China("PRC").Mr. Zhang was then appointed as the Director in Special Equipment Safety Supervision Bureau of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") of the PRC. In 2008, Mr. Zhang was appointed as the Chief Engineer of AQSIQ till June 2011.

**Senior Executives**

Our senior executive team include Wang Yusuo, Cheung Yip Sang, Yu Jianchao, Zhao Shengli and Wang Dongzhi. See "– Executive Directors" for the description of their experience. In addition, our senior executive team also includes Wan Jingping, Han Jishen, Liu Yongxin, Chen Fuchao, Yang Jun, Wang Fengsheng, Wu Xingjun, Xu Jinbiao and Li Shuwang, Xue Zhi, Hou Liming, Gao Jihua and Ouyang Su.

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

| Name | Age | Position |
|---|---|---|
| Mr. WAN Jingping | 54 | Executive vice president |
| Mr. HAN Jishen | 48 | Vice president |
| Mr. LIU Yongxin | 50 | Vice president |
| Mr. CHEN Fuchao | 56 | Vice president and general manager – Zhejiang and Shanghai areas |
| Mr. WANG Fengsheng | 43 | Vice president and general manager – Jiangsu region |
| Mr. WU Xingjun | 48 | Vice president and general manager – Henan and Anhui areas |
| Mr. XU Jinbiao | 46 | Vice president |
| Mr. LI Shuwang | 47 | Chief engineer |
| Mr. XUE Zhi. | 49 | Vice president and the chief engineer |
| Mr. HOU Liming. | 49 | Vice president |
| Mr. GAO Jihua. | 45 | Vice president and general manager – Hunan, Hubei and Guangxi areas |
| Mr. OUYANG Su. | 56 | Vice president and executive deputy general manager – Hunan, Hubei and Guangxi areas |

**Mr. WAN Jingping**, aged 54, is the executive vice president of the Company responsible for assisting the chief operations officer in the daily management of the Group's affairs. He graduated from the Shanghai Jiao Tong University in 1991 with a master's degree in engineering. Before joining the Group in 2011, he was the general manager of the Zhuhai Gas Group Company Limited and the vice president of the SHV (China) Investment Company Limited, a Dutch company. Mr. Wan is experienced in corporate governance and the development and research in the energy sector.

**Mr. HAN Jishen**, aged 48, 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 20 years of experience in the PRC gas fuel industry.

**Mr. LIU Yongxin**, aged 50, 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 20 years of experience in operation, marketing and corporate governance in the energy sector.

**Mr. CHEN Fuchao**, aged 56 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 33 years of experience in corporate management.

**Mr. WANG Fengsheng**, aged 43, 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 48, 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 46, 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 47, 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 and was awarded the doctor of philosophy in management from the Nation University of USA in 2007. He is currently a part-time professor in the Sun Yat-sen University. 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 25 years of experience in engineering technology management.

**Mr. XUE Zhi**, aged 49, is the vice president and the chief engineer of the Company responsible for the management of engineering technology and quality, and gas source allocation. Mr. Xue graduated from the Chongqing Jianzhu University in 1984 with a bachelor's degree in engineering, majoring in urban gas. He also received an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2009. Prior to joining the Group in2003, Mr. Xue worked at the Central and Southern China Municipal Engineering Design and Research Institute, and had also held the position of deputy manager in a gas company in Zhuzhou. Mr. Xue possesses over 28 years' experience in the gas industry and has extensive exposure in the management of gas engineering and innovation of engineering technology.

**Mr. HOU Liming**, aged 49, is the vice president of the Company responsible for assisting the chief executive officer and the chief operations officer in the management and operation of vehicle/ship use LNG business. He graduated from Northeast Forestry University, majoring in industrial and residential construction. Prior to joining the Group in 1992, he had worked in Heilongjiang Yabuli Forestry Bureau. Mr. Hou has wide exposure in corporate governance and business expansion.

**Mr. GAO Jihua**, aged 45, is the vice president and general manager-Hunan, Hubei and Guangxi areas responsible for assisting the chief executive officer and the chief operations officer in local project management and business expansion. He graduated from the Hebei University of Science and Technology in 1989 with a bachelor's degree in engineering, majoring in hotwork and was awarded an executive master's degree in business administration by the Peking University in 2009. Prior to joining the Group in 1999, he had worked in HanDan Metallurgical Machinery Plant and was holding senior managerial position. Mr. Gao has extensive experience in corporate governance and market development.

**Mr. OUYANG Su**, aged 56, is the vice president and executive deputy general manager-Hunan, Hubei and Guangxi areas responsible for assisting the chief executive officer and the chief operations officer in local project management and business expansion. He graduated from the China University of Political Science and Law as a postgraduate in economics and management in 2004. Prior to joining the Company in 2003, he had worked in Zhuzhou Water Supply Company and Zhuzhou City Gas Company. Mr. Ouyang has over 29 years of managerial experience in public utilities company.

**Company Secretary**

**Ms. WONG Chui Lai**, aged 35, is the company secretary of our Company, responsible for implementation of good corporate governance. Prior to joining our Group in 2007, Ms. Wong worked at one of the big four international accounting firms. Ms. Wong graduated from the City University of Hong Kong in 2000 with a bachelor's degree. She is a member of the Hong Kong Institute of Certified Public Accountants in Hong Kong and the Associate of Chartered Certified Accountants in England. Ms. Wong has over 12 years of experience in accounting and financial management. Ms. Wong is the Senior Finance Manager of EGII, which is a controlling shareholder of our Company.

**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 31 December 2010 and 2011, the aggregate amount of remuneration paid by us to our directors was RMB52.1 million and RMB39.5 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 judgements 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 authorised 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 31 December 2011 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. One Remuneration Committee meetings were held during the financial year ended 31 December 2011. 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 30 June 2012, 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 30 June 2010 |
|---|---|---|---|---|---|---|---|---|
| Mr. Wang .............. | Beneficial owner and interest of controlled corporation | 596,000(2) | 326,095,000(1) | | 326,691,000 | 500,000(2) | 327,691,000 | 30.68% |
| Ms. Zhao Baoju ("Ms. Zhao").......... | Interest of controlled corporation and interest of spouse | – | 326,095,000(1) | 596,000(2) | 326,691,000 | 500,000(2) | 327,691,000 | 30.68% |
| Mr. Cheung Yip Sang. .. | Beneficial Owner | – | – | – | – | 1,950,000 | 1,950,000 | 0.18% |
| Mr. Zhao Jinfeng........ | Beneficial Owner | – | – | – | – | 1,180,000 | 1,180,000 | 0.11% |
| Mr. Yu Jianchao......... | Beneficial Owner | – | – | – | – | 1,800,000 | 1,800,000 | 0.17% |
| Mr. Cheng Chak Ngok... | Beneficial Owner | – | – | – | – | 225,000 | 225,000 | 0.02% |
| Mr. Zhao Shengli........ | Beneficial Owner | – | – | – | – | 1,550,000 | 1,550,000 | 0.15% |
| Ms. Wang Dongzhi ...... | Beneficial Owner | – | – | – | – | 1,225,000 | 1,225,000 | 0.15% |
| Mr. Jin Yongsheng....... | Beneficial Owner | – | – | – | – | 200,000 | 200,000 | 0.11% |
| 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.

## 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 21 May 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 favour of certain Directors, the details of which are the follows:

| Name of Director | Date of Grant | Exercise Period(1) | Exercise price (HK$) | Number of shares subject to outstanding options as at 1 January 2010 | Number of options granted during the Period(2) | Number of shares subject to outstanding options as at 30 June 2012 (Aggregate) | Approximate percentage of our Company's total issued share capital as at 30 June 2012 (Aggregate) |
|---|---|---|---|---|---|---|---|
| Mr. Wang | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 400,000(3) | 400,000 | 0.04% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Ms. Zhao | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 100,000(3) | 100,000 | 0.01% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Cheung Yip Sang | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 1,950,000 | 1,950,000 | 0.18% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Zhao Jinfeng | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 1,180,000 | 1,180,000 | 0.11% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Yu Jianchao | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 1,800,000 | 1,800,000 | 0.17% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Cheng Chak Ngok | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 225,000 | 225,000 | 0.02% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Zhao Shengli | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 1,550,000 | 1,550,000 | 0.15% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Ms. Wang Dongzhi | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 1,250,000 | 1,250,000 | 0.11% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Jin Yongsheng | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | 200,000 | 200,000 | 0.04% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Wang Guangtian | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | – | 200,000 | 0.02% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Ms. Yien Yu Yu, Catherine | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | – | 200,000 | 0.02% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Mr. Kong Chung Kau | 06/14/2010 | 12/14/2010 – 06/14/2020 | 16.26 | – | – | 200,000 | 0.02% |
| | 06/14/2010 | 14/06/2012 – 06/14/2020 | 16.26 | – | – | | |
| Total | | | | – | 17,860,000 | 9,230,000 | |

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
(2) "Period" refers to the period from 1 January 2012 to 30 June 2012.
(3) 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 30 June 2012, 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:

| | | Interest in Shares | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Shareholder | Capacity | Personal interests | Corporate interests | Family interests | Total interests in shares | Interests in underlying shares pursuant to share options | Total aggregate interests in shares and underlying shares(3) | Approximate percentage of our Company's total issued share capital as at 30 June 2012 |
| Mr. Wang | Beneficial owner and interest of controlled corporation | 596,000(2) | 326,095,000(1) | – | 326,691,000 | 500,000(2) | 327,191,000 (L) | 30.68% |
| Ms. Zhao | Interest of controlled corporation and interest of spouse | – | 326,095,000(1) | 596,000(2) | 326,691,000 | 500,000(2) | 327,191,000 (L) | 30.68% |
| EGII | Beneficial owner | – | 326,095,000(1)(4) | – | 326,095,000 | – | 326,095,000 (L) | 30.57% |
| Capital Research and Management Company | Investment manager | – | 128,156,700 | – | 128,156,700 | – | 128,156,700 (L) | 12.02% |
| Commonwealth Bank of Australia | Interest of controlled corporation | – | 95,858,000 | – | 95,858,000 | – | 95,858,000 (L) | 8.99% |
| Nomura Holdings, Inc. | Investment manager, interest of controlled corporation and custodian corporation/approved lending agent | – | 67,757,312(4) | – | 67,757,312 | – | 67,757,312 (L) | 6.35% |
| JPMorgan Chase & Co. | Beneficial owner, investment manager and custodian corporation/approved lending agent | – | 64,021,233 (L) (including 57,339,640 (P)) 589,822 (S) | – | 64,021,233 (L) (including 57,339,640 (P)) 589,822 (S) | – | 64,021,233 (L) (including 57,339,640 (P)) 589,822 (S) | 6.00% (L) (including 5.38% (P)) 0.06% (S) |

(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 and underlying shares held by Mr. Wang, and vice versa.

(3) (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

(4) Included in the 67,757,312 shares held by Nomura Holdings, Inc. ("Nomura") is 65,000,000 shares beneficially owned by EGII which were pledged to Nomura to secure a term loan facility.

## DIVIDENDS

Subject to the Cayman Companies Law and the Articles of Association of the Company, the Company in general meeting may declare dividends but no dividends shall exceed the amount recommended by the board of directors of the Company. The board of directors of the Company may from time to time pay such interim dividends to the Shareholders of the Company as may appear to the board of directors to be justified by the profits of the Company. No dividend shall be paid otherwise than out of the profits of the Company or with the sanction of an ordinary resolution, out of the share premium account or other fund or account authorised for this purpose in accordance with the Cayman Companies Law. No dividends shall carry interest.

The Company declared a total dividend of 34.01 HK¢ per share for the year ended 31 December 2010.

The Company declared a total dividend of 36.23 HK¢ per share for the year ended 31 December 2011.

## TERMS AND CONDITIONS OF THE BONDS

*The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Bonds, substantially as they will appear on the reverse of each of the definitive certificates evidencing the Bonds.*

The issue of the US$500,000,000 in aggregate principal amount of zero coupon convertible bonds due 2018 (the "**Bonds**", which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 16 and consolidated and forming a single series therewith) of ENN Energy Holdings Limited (the "**Company**") and the right of conversion into Shares (as defined in Condition 6(A)(v)) was authorised by a resolution of the board of directors of the Company on 29 January 2013. The Bonds are constituted by a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated 26 February 2013 (the "**Issue Date**") made between the Company and The Bank of New York Mellon, acting through its London Branch as trustee for the holders (as defined below) of the Bonds (the "**Trustee**", which expression shall include all persons for the time acting as trustee or trustees under the Trust Deed). These terms and conditions (the "**Conditions**") include summaries of which and are subject to the detailed provisions of the Trust Deed. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the paying, conversion and transfer agency agreement dated 26 February 2013 (the "**Agency Agreement**") relating to the Bonds made between the Company, the Trustee, The Bank of New York Mellon, acting through its London Branch as principal paying, conversion and transfer agent (the "**Principal Agent**"), The Bank of New York Mellon (Luxembourg) S.A., as registrar (the "**Registrar**") and the other paying, conversion and transfer agents appointed under it (each a "**Paying Agent**", "**Conversion Agent**", "**Transfer Agent**" and together with the Registrar and the Principal Agent, the "**Agents**") relating to the Bonds. References to the "**Principal Agent**", "**Registrar**" and "**Agents**" below are references to the principal agent, registrar and agents for the time being for the Bonds. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office for the time being of the Trustee (presently at 40th Floor, One Canada Square, London E14 5AL, United Kingdom) and at the specified offices for the time being of each of the Agents.

### 1. Status

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all of the Company's other present and future unsecured and unsubordinated obligations.

### 2. Form, Denomination and Title

#### *(A) Form and Denomination*

The Bonds are in registered form in the denomination of US$250,000 each (the "**Authorised Denomination**") and higher integral multiples thereof. A bond certificate (each a "**Certificate**") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the "**Register**") which the Company will procure to be kept by the Registrar.

*Upon issue, the Bonds will be represented by the Global Bond Certificate deposited with a common depositary for, and representing Bonds registered in the name of a nominee of, Euroclear and Clearstream. The Conditions are modified by certain provisions contained in the Global Bond Certificate. See "The Global Bond Certificate".*

### *(B) Title*

Title to the Bonds passes only by transfer and registration in the Register as described in Condition 3. The holder of any Bond will (except as otherwise required by law or ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Bondholder**" and (in relation to a Bond) "**holder**" means the person in whose name a Bond is registered (or in the case of a joint holding, the first name thereof).

## 3. Transfers of Bonds; Issue of Certificates

### *(A) Register*

The Company will cause the Register to be kept at the specified office of the Registrar outside Hong Kong and the United Kingdom and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

### *(B) Transfer*

Subject to Conditions 3(E) and 3(F) and the terms of the Agency Agreement, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back of such Certificate duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of either the Registrar or any of the Transfer Agents, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of the transfer; *provided, however, that* a Bond may not be transferred unless the principal amount of the Bond transferred and (where not all of the Bonds held by the holder are being transferred) the principal amount of the balance of the Bonds not so transferred, is an Authorised Denomination. Where not all Bonds represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Bonds will be issued to the transferor. No transfer of a Bond will be valid unless and until entered on the Register.

*Transfers of interests in the Bonds evidenced by the Global Bond Certificate will be effected in accordance with the rules of the relevant clearing systems.*

### *(C) Delivery of New Certificates*

Each new Certificate to be issued upon a transfer or (if applicable) conversion of Bonds will, within five business days of receipt by the Registrar or, as the case may be, any Transfer Agent of the original certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Company's expense) to the address specified in the form of transfer. The Registrar will, within five business days of receipt by the Registrar or any Transfer Agent of the documents above, register the transfer in question.

*Except in the limited circumstances described herein (see "The Global Bond Certificate"), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.*

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred or converted, a new Certificate in respect of the Bonds not so transferred or converted will, within five business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or converted (but free of charge to the holder and at the Company's expense) to the address of such holder appearing on the Register.

For the purposes of Condition 3, Condition 6 and Condition 10, "**business day**" shall mean a day other than a Saturday or Sunday on which banks are open for business Hong Kong, New York, London and in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

***(D) Formalities Free of Charge***

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Company, the Registrar or any of the Transfer Agents, but (i) upon payment (or the giving of such indemnity as the Company or such Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) subject to Condition 3(F).

***(E) Closed Periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the dates for payment of any principal pursuant to the Conditions; (ii) after a Conversion Notice (as defined in Condition 6(B)) has been delivered by such Bondholder with respect to a Bond; (iii) after a Relevant Event Redemption Notice (as defined in Condition 8(D)) has been deposited by such Bondholder in respect of such Bond pursuant to Condition 8(D); (iii) after a Put Notice (as defined in Condition 8(E)) has been deposited by such Bondholder in respect of such Bond pursuant to Condition 8(E); and (iv) during the period of 15 days ending on (and including) any date of redemption pursuant to Conditions 8(B) and 8(C). Each such period is a "**Closed Period**".

***(F) Regulations***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

**4. Negative Pledge**

The Company undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed), it will not, and will procure that none of its Subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto, the Company's obligations under the Bonds are secured equally and rateably by the same Encumbrance or, at the option of the Company, by such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

In these Conditions:

"**Encumbrance**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind securing any obligation of any person;

"**Relevant Indebtedness**" means any indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention on the part of the issuer thereof that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement) but shall not include indebtedness under any secured transferable loan facility (which term shall for these purposes mean any agreement for or in respect of indebtedness for borrowed money entered into with one or more banks and/or financial institutions whereunder rights and (if any) obligations may be assigned and/or transferred); and

"**subsidiary**" or "**Subsidiary**" of any person is to any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles from time to time of the Cayman Islands or Hong Kong, should have its accounts consolidated with those of that person.

**5. Interest**

Save as provided in Condition 7(E), the Bonds do not bear any interest.

**6. Conversion**

***(A) Conversion Right***

(i) *Conversion Period:* Subject as hereinafter provided, the Bondholders have the right to convert their Bonds into Shares (as defined in Condition 6(A)(v)) at any time during the Conversion Period referred to below.

The right of a Bondholder to convert any Bond into Shares is called the "**Conversion Right**".

Subject to and upon compliance with, the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 8 April 2013 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the tenth day prior to the Maturity Date (as defined in Condition 8(A)) (both days inclusive), except as provided in Condition 6(A)(iv), and Condition 10, in no event thereafter) or, if such Bond shall have been called for redemption by the Company before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than 15 days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(D) or Condition 8(E) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice (the "**Conversion Period**").

Notwithstanding the foregoing, if the Conversion Date in respect of a Bond would otherwise fall during a period in which the register of shareholders of the Company is closed generally or for the purpose of establishing entitlement to any distribution or other rights attaching to the Shares (a "**Book Closure Period**"), such Conversion Date shall be postponed to the first Stock Exchange Business Day (as defined in Condition 6(B)) following the expiry of such Book Closure Period.

If the Conversion Date in respect of the exercise of any Conversion Right is postpone as a result of the foregoing provision to a date that falls after the expiry of the Conversion Period or after the relevant redemption date, such Conversion Date shall be deemed to be the final day of such Conversion Period or the relevant redemption date, as the case may be.

The number of Shares issuable upon conversion of any Bond shall be determined by dividing the principal amount of the Bond converted (translated into Hong Kong dollars at a fixed exchange rate of HK$7.7577 = US$1.00, the "**Fixed Exchange Rate**") by the Conversion Price in effect on the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted by such holder.

(ii) *Fractions of Shares:* Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. However, if a Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 29 January 2013 which reduces the number of Shares outstanding, the Company will upon conversion of Bonds pay in cash (in United States dollars by means of a United States dollar cheque drawn on a bank in New York) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i), as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds US$10.00. Any such sum shall be paid not later than five Stock Exchange Business Days (as defined in Condition 6(B)(i)) after the relevant Conversion Date.

(iii) *Conversion Price and Conversion Ratio:* The price at which Shares will be issued upon conversion (the "**Conversion Price**") will initially be HK$48.62 per Share, but will be subject to adjustment in the manner provided in Condition 6(C). For the purposes of these Conditions, "**Conversion Ratio**" means the principal amount of each Bond translated into Hong Kong dollars at the Fixed Exchange Rate) divided by the applicable Conversion Price.

(iv) *Revival and/or Survival after Default:* Notwithstanding the provisions of Condition 6(A)(i), if (a) the Company shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10(A), or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A) or the applicable date for redemption in accordance with Condition 8(D), the Conversion Rights attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

(v) *Meaning of "Shares":* As used in these Conditions, the expression "**Shares**" means ordinary shares of par value HK$0.10 each of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

***(B) Conversion Procedure***

(i) *Conversion Notice:* Upon the exercise of any Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense between 9.00 a.m. and 3.00 p.m. (London time) at the specified office of any Conversion Agent a notice of conversion (a "**Conversion Notice**") in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and confirmation that any amounts required to be paid by the Bondholder under Condition 6(B)(ii) have been so paid or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(D) or Condition 8(E) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

The conversion date in respect of a Bond (the "**Conversion Date**") must fall at a time when a Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6(A)(iv) and Condition 10) and will be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice to the relevant Conversion Agent and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice deposited outside the hours specified above or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with that Conversion Agent during the hours specified above on the next business day following such day. Any Bondholder who deposits a Conversion Notice during a Closed Period will not be permitted to convert the Bonds into Shares (as specified in the Conversion Notice) until the next business day after the end of the Closed Period, which (if all other conditions to the exchange have been fulfiled) will be the Conversion Date for such Bonds notwithstanding that such date may fall outside the Conversion Period. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Company consents in writing to such withdrawal or the Company fails to deliver Shares in accordance with these Conditions. "**Stock Exchange Business Day**" means any day (other than a Saturday or Sunday) on which The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") or the Alternative Stock Exchange (as defined in Condition 6(C) below), as the case may be, is open for the business of dealing in securities, *provided that* if no Closing Price (as defined in Condition 6(C) below) is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have been dealing days when ascertaining any period of dealing days.

(ii) *Stamp Duty etc.:* A Bondholder delivering a Certificate in respect of a Bond for conversion must pay directly to the relevant authorities (A) any taxes and capital, stamp, issue, documentary and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in the Cayman Islands, the PRC and Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Company in respect of the allotment and issue of Shares and listing of the Shares on the Hong Kong Stock Exchange or the Alternative Stock Exchange on conversion) and (B) all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion (together, the "**Taxes**"). The Company will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder must declare in the relevant Conversion Notice that any Taxes payable to the relevant tax authorities pursuant to this Condition 6(B)(ii) have been paid. Neither the Trustee nor any Agent is under any obligation to determine whether a Bondholder is liable to pay or has paid any taxes including capital, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6(B)(ii).

(iii) *Registration:* As soon as practicable, and in any event not later than seven Stock Exchange Business Days after the Conversion Date, the Company will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice has been delivered and the relevant Certificate and amounts payable by the relevant Bondholder as required by sub-paragraphs (i) and (ii) have been paid, (A) register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Company's share register and (B) (x) if the Bondholder has also requested in the Conversion Notice and to the extent permitted under the rules and procedures of the Central Clearing and Settlement System of Hong Kong (the "**CCASS**") effective from time to time, take all necessary action to procure that Shares are delivered through the CCASS for so long as the Shares are listed on the Hong Kong Stock Exchange; or (y) make such certificate or certificates available for collection at the office of the Company's share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited at Unit 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) notified to Bondholders in accordance with Condition 17 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single share certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

If the Conversion Date in relation to any Bond shall be on or after the record date for any issue, distribution, grant, offer or other event that gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C) but before the relevant adjustment becomes effective under the relevant Condition, upon the relevant adjustment becoming effective the Company shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares as is, together with Shares to be issued on conversion of the Bonds, equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date.

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Company's register of members (the "**Registration Date**"). The Shares issued upon conversion of the Bonds will be fully-paid and in all respects rank *pari passu* with the Shares in issue on the relevant Registration Date. Save as set out in these Conditions, a holder of Shares issued on conversion of the Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in this sub-paragraph (iii) prior to the time such retroactive adjustment shall have become effective), the Company will calculate and pay to the converting Bondholder or his designee an amount in United States dollars (the "**Equivalent Amount**") equal to the Fair Market Value (as defined below) of such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a United States dollar cheque drawn on a bank in New York and sent to the address specified in the relevant Conversion Notice.

(iv) *Cash Settlement:* Notwithstanding the Conversion Right of each Bondholder in respect of each Bond, at any time when the delivery of Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a Conversion Notice, the Company shall have the option to pay to the relevant Bondholder an amount of cash in United States dollars equal to the Cash Settlement Amount (as defined below) (translated into United States dollars at the Prevailing Rate) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares) (the "**Cash Settlement Option**"). In order to exercise the Cash Settlement Option, the Company shall provide notice of the exercise of the Cash Settlement Option (the "**Cash Settlement Notice**") to the relevant Bondholder as soon as practicable but no later than the third Trading Day following the date of delivery of the Conversion Notice (the "**Cash Settlement Notice Date**"). The Cash Settlement Notice must specify the number of Shares in respect of which the Company will make a cash payment in the manner described in this Condition. The Company shall pay the Cash Settlement Amount not less than 10 Trading Days but no later than 13 Trading Days following the Cash Settlement Notice Date. If the Company exercises its Cash Settlement Option in respect of Bonds held by more than one Bondholder which are to be converted on the same Conversion Date, the Company shall make the same proportion of cash and Shares available to such converting Bondholders.

"**Cash Settlement Amount**" means the product of (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s) to which the Conversion Notice applies, and in respect of which the Company has elected the Cash Settlement Option and (ii) the average of the Closing Price of the Shares for each day during the 10 Trading Days (as defined below) immediately following and excluding the Cash Settlement Notice Date.

***(C) Adjustments to Conversion Price***

Upon the occurrence of any of the following events described below, the Conversion Price will be adjusted as follows:

(i) *Consolidation, Subdivision or Reclassification:* If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(ii) *Capitalisation of Profits or Reserves*:

(A) If and whenever the Company shall issue any Shares credited as fully paid to the holders of the Shares (the "**Shareholders**") by way of capitalisation of profits or reserves including Shares paid up out of distributable profits or reserves and/or share premium account issued, save where Shares are issued in lieu of the whole or any part of a specifically declared cash dividend (the "**Relevant Cash Dividend**"), being a dividend which the Shareholders concerned would or could otherwise have received (a "**Scrip Dividend**") and which would not have constituted a Distribution (as defined in this Condition 6(C)), the

Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if the number of such Shares is fixed on announcement and a record date is fixed therefor, immediately after such record date.

(B) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(iii) *Distributions*:

(A) Subject to Condition 6(C)(iii)(B), if and whenever the Company shall pay or make any Distribution to the Shareholders other than in cash only (except to the extent that the Conversion Price falls to be adjusted under Condition 6(C)(ii) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made or, if later, the first date upon which the Fair Market Value of the Distribution is capable of being determined as provided in these Conditions.

(B) If and whenever the Company shall pay or make any Distribution in cash only to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the record date for the determination of Shareholders entitled to receive such Distribution in cash; and

B is the amount of cash so distributed attributable to one Share.

Such adjustment shall become effective on the date on which such Distribution in cash is actually made or if a record date is fixed therefore, immediately after such record date.

(iv) *Rights Issues of Shares or Options over Shares:* If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe, purchase or otherwise acquire at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

(v) *Rights Issues of Other Securities:* If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares) to all or substantially all Shareholders as a class, by way of rights, or the grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

(vi) *Issues at less than Current Market Price:* If and whenever the Company shall issue (otherwise than as mentioned in Condition 6(C)(iv) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in Condition 6(C)(iv) above) options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at a price per Share which is less than the Current Market Price on the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe, purchase or otherwise acquire any Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

(vii) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6(C)(vii), if and whenever the Company or any of its Subsidiaries (otherwise than as mentioned in Condition 6(C)(iv), 6(C)(v) or 6(C)(vi)), or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries), any other company, person or entity shall issue wholly for cash any securities (other than the Bonds excluding for this purpose any further bonds issued pursuant to Condition 16) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than the Current Market Price on the date of announcement of the terms of issue of such securities.

In such an event, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue;

B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

(viii) *Modification of Rights of Conversion etc.:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(C)(vii) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than the Current Market Price for one Share on the date of announcement of the proposals for such modification.

In such an event, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription attached to the securities, so modified, would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

C is the maximum number of Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as two Independent Investment Banks consider appropriate (if at all) for any previous adjustment under this Condition 6(C)(viii) or 6(C)(vii).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(ix) *Other Offers to Shareholders:* If and whenever the Company or any of its Subsidiaries issues, sells or distributes any securities in connection with which an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Condition 6(C)(iv), Condition 6(C)(v), Condition 6(C)(vi) or Condition 6(C)(vii)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or delivery of the securities.

(x) *Determination by the Company:* If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances (whether or not referred to in paragraphs (i) to (ix) above) (even if the relevant event or circumstance is specifically excluded in these Conditions from the operation of paragraphs (i) to (ix) above), or that an adjustment should not be made (even if the relevant event or circumstance is specifically provided for in paragraphs (i) to (ix) above), or that the effective date for the relevant adjustment should be a date other than that mentioned in paragraphs (i) to (ix) above, the Company may, at its own expense, request an Independent Investment Bank, acting as expert, to determine as soon as practicable (i) what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereto and is appropriate to give the result which the Independent Investment Bank considers in good faith to reflect the intentions of the provisions of this Condition 6(C); and (ii) the date on which such adjustment should take effect; and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination; provided that where the events or circumstances giving rise to any adjustment pursuant to this Condition 6(C) have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6(C) as may be advised by the Independent Investment Bank to be in its opinion appropriate to give the intended result, provided that an adjustment shall only be made pursuant to this Condition 6(C) if it would result in a reduction to the Conversion Price.

For the purposes of these Conditions:

"**Alternative Stock Exchange**" means at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in;

"**Closing Price**" for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet;

"**Current Market Price**" means, in respect of a Share at a particular time on a particular date, the average of the Closing Price for one Share (being a Share carrying full entitlement to dividend) for each of the five consecutive Trading Days ending on the Trading Day immediately preceding such date; *provided that* if at any time during the said five Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

(i) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the Closing Price thereof reduced by an amount equal to the amount of that dividend per Share; or

(ii) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the Closing Price thereof increased by such similar amount;

and provided further that if the Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend per Share;

"**Daily Quotation Sheet**" means the daily quotation sheet published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange;

"**Distribution**" means any dividend or distribution, whether of cash or assets in specie or other property by the Company for any financial period, and whenever paid or made and however described or declared after the Issue Date, and for these purposes a distribution of assets in specie includes without limitation an issue of shares or other securities credited as fully or partly paid (other than Shares credited as fully paid to the extent an adjustment to the Conversion Price is made in respect thereof under Condition 6(C)(ii)(A) by way of capitalisation of reserves and including any Scrip Dividend to the extent of the Relevant Cash Dividend) unless (i) and only to the extent that it does not, when taken together with the aggregate of the Fair Market Value of any other dividend or distribution previously made or paid in respect of the same either current or previous financial year, exceed 0.97% of the Current Market Price of the Shares on the Hong Kong Stock Exchange on the date of announcement of the dividend or distribution or (ii) it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a Subsidiary of the Company), where the weighted average price (before expenses) on any one day in respect of such purchase does not exceed the Current Market Price of the Shares as published in the Daily Quotation Sheet of the Hong Kong Stock Exchange or the equivalent quotation sheet of an Alternative Stock Exchange, as the case may be, by more than 5% either (1) on that date, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day;

"**Fair Market Value**" means, with respect to any asset, security, option, warrant or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank; provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; and (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such Independent Investment Bank) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five Trading Days on the relevant market commencing on the first such Trading Day such options, warrants or other rights are publicly traded;

"**Independent Investment Bank**" means an independent investment bank of international repute, acting as an expert, selected by the Company; and

"**Trading Day**" means a day when the Hong Kong Stock Exchange or, as the case may be an Alternative Stock Exchange is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have been dealing days when ascertaining any period of dealing days.

On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 17 as soon as practicable after the determination thereof.

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value or Shares would be required to be issued in any other circumstances not permitted by applicable laws then in force in Hong Kong.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in its opinion appropriate in order to give such intended result.

No adjustment will be made to the Conversion Price in the following circumstances:

(i) when Shares or other securities (including rights or options) are issued, offered or granted to employees or former employees (including directors or former directors) of the Company or any Subsidiary of the Company pursuant to any Employee Share Scheme (as defined in the Trust Deed) (and which Employee Share Scheme is in compliance with the Listing Rules or, if applicable, the listing rules of an Alternative Stock Exchange); and

(ii) no adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation or re-classification of the Shares as referred to in Condition 6(C)(i) above or where there has been a proven manifest error in the calculation of the Conversion Price.

Neither the Trustee nor the Agents shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or to make any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by them to do so. All adjustments to the Conversion Price under Condition 6(C) shall be determined by the Company, and neither the Trustee nor the Agents shall be responsible for verifying such determinations.

### *(D) Undertakings*

The Company has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders:

(i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange, *provided that* if the Company is unable to obtain or maintain such listing or if the maintenance of such listing is unduly onerous, it will use it best endeavours to obtain and maintain a listing for all the issued Shares on such Alternative Stock Exchange as the Company may from time to time select and notify to the Trustee and the Bondholders in accordance with Condition 17 of the listing or delisting of the Shares (as a class) by any of such stock exchanges;

(ii) it will use its best endeavours to maintain a listing for the Bonds on Singapore Exchange Securities Trading Limited (the "**SGX-ST**") *provided that* if the Company is unable to obtain or maintain such listing or if the maintenance of such listing is unduly onerous, it will use it best endeavours to obtain and maintain a listing for the Bonds on an Alternative Stock Exchange as the Company may from time to time select and notify to the Trustee and the Bondholders in accordance with Condition 17 of the listing or delisting Bonds by any of such stock exchanges.

In the Trust Deed, the Company has also undertaken with the Trustee that so long as any Bond remains outstanding:

(aa) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid;

(bb) it will comply with any law, rule, regulation, judgement, order, authorisation or decree of any government, governmental or regulatory body or court, domestic or foreign having jurisdiction over the Company or any Subsidiary or any of their respective assets and properties; and

(cc) it will not make any offer, issue or distribute or take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would be reduced to such an extent that the Shares to be issued on the conversion of any Bond would be issued below the par value of the Shares of the Company,

provided always that the Company shall not be prohibited from purchasing its Shares to the full extent permitted by law.

The Company has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

***(E) Notice of Change in Conversion Price***

The Company shall give notice to the Bondholders, the Trustee and the Principal Agent in accordance with Condition 17 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

**7. Payments**

***(A) Principal and premium***

Payment of principal and premium due will be made by transfer to the registered account of the Bondholder or by United States dollar cheque drawn on a bank in New York mailed to the registered address of the Bondholder, at the risk of the Bondholder, if it does not have a registered account. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

References in these Conditions, the Trust Deed and the Agency Agreement to principal in respect of any Bond shall, where the context so permits, be deemed to include a reference to any premium payable thereon.

*So long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except December 25 and January 1.*

***(B) Registered Accounts***

For the purposes of this Condition, a Bondholder's registered account means the United States dollar account maintained by or on behalf of it with a bank in New York, details of which appear on the Register at the close of business on the second business day (as defined below) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

***(C) Fiscal Laws***

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

***(D) Payment Initiation***

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal or premium, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

***(E) Default Interest and Delay In Payment***

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of three per cent. per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

***(F) Business Day***

In this Condition, "**business day**" means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong, New York, London and the city in which the specified office of the Principal Agent is located, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

**8. Redemption, Purchase and Cancellation**

***(A) Maturity***

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Bond at 102.53 per cent. of its principal amount on 26 February 2018 (the "**Maturity Date**"). The Company may not redeem the Bonds at its option prior to that date except as provided in Condition 8(B) or 8(C) below (but without prejudice to Condition 10).

***(B) Redemption for Taxation Reasons***

(i) The Bonds may be redeemed at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders in accordance with Condition 17 (which notice shall be irrevocable) at the Early Redemption Amount if (A) the Company has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction (as defined in Condition 9), or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 29 January 2013, and (B) such obligation cannot be avoided by the Company taking reasonable measures available to it, *provided that* no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due.

Prior to the publication of any Tax Redemption Notice pursuant to this paragraph, the Company shall deliver to the Trustee (a) a certificate signed by two directors of the Company stating that the obligation referred to above cannot be avoided by the Company taking reasonable measures available to it and (b) an opinion of independent legal or tax advisors of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective). The Trustee shall accept and rely upon such certificate and opinion (without further investigation or enquiry) and it shall be conclusive and binding on the Bondholders. Upon the expiry of the Tax Redemption Notice, the Company will be bound to redeem the Bonds on the date fixed for redemption.

(ii) If the Company gives a Tax Redemption Notice pursuant to Condition 8(B)(i), each Bondholder will have the right to elect that its Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal or premium to be made in respect of such Bond(s) whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(B)(ii), the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent (the "**Tax Option Exercise Notice**") together with the Certificate evidencing the Bonds on or before the day falling 10 days prior to the date fixed by the Company for the redemption of the Bonds pursuant to this Condition 8(B). A Tax Option Exercise Notice, once delivered, shall be irrevocable and may not be withdrawn without the Company's consent.

***(C) Redemption at the Option of the Company***

On giving not less than 30 nor more than 60 days' notice to the Bondholders and the Trustee (which notice will be irrevocable), the Company:

(i) may at any time after 26 February 2016 and prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount, provided that (a) the Closing Price of the Shares (translated into US dollars at the Prevailing Rate) for each of any 20 Trading Days within a period of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is published was at least 130 per cent. of the Early Redemption Amount divided by the then prevailing Conversion Ratio and (b) the applicable redemption date does not fall within a Closed Period; or

(ii) may at any time prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount provided that prior to the date of such notice at least 90 per cent. in principal amount of the Bonds originally issued (including any further bonds issued pursuant to Condition 16 and consolidated and forming a single series with the Bonds) has already been converted, redeemed or purchased and cancelled.

If there shall occur an event giving rise to a change in the Conversion Price during any such 20 Trading Day period, appropriate adjustments for the relevant days shall be made, as determined by two Independent Investment Banks, for the purpose of calculating the Closing Price for such days.

***(D) Redemption for Delisting, Suspension of Trading or Change of Control***

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only (subject to the principal amount of such holder's Bonds redeemed and the principal amount of the balance of such holder's Bonds not redeemed being an Authorised Denomination) of such holder's Bonds on the Relevant Event Redemption Date at the Early Redemption Amount. To exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent, specifying the number of Bonds to be redeemed and the Relevant Event that has occurred ("**Relevant Event Redemption Notice**"), together with the Certificate evidencing the Bonds to be redeemed by not later than (a) 60 days following a Relevant Event, or, if later, (b) 60 days following the date upon which notice thereof is given to Bondholders by the Company in accordance with Condition 17. The "**Relevant Event Redemption Date**" shall be the fourteenth day after the expiry of such period of 60 days as referred to in (a) and (b) above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and may not be withdrawn without the Company's consent and the Company shall redeem the Bonds the subject of the Relevant Event Redemption Notice as aforesaid on the Relevant Event Redemption Date. The Company shall give notice to Bondholders in accordance with Condition 17 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 8(D) and shall give brief details of the Relevant Event.

None of the Trustee or the Agents shall be required to monitor or take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur and shall be entitled to assume that no such event has occurred until they have received written notice to the contrary from the Company. The Trustee and the Agents shall not be required to take any steps to ascertain whether the condition for the exercise of the rights in accordance with Condition 8(D) has occurred. None of the Trustee or the Agents shall be responsible for determining or verifying whether a Bond is to be accepted for redemption under this Condition 8(D) and will not be responsible to Bondholders for any loss arising from any failure by it to do so. None of the Trustee or the Agents shall be under any duty to determine, calculate or verify the redemption amount payable under this Condition 8(D) and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

A "**Relevant Event**" occurs:

(i) when the Shares cease to be listed or admitted to trading or suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange (a "**Delisting**"); or

(ii) when there is a Change of Control.

***(E) Redemption at the option of the Bondholders***

On 26 February 2016 (the "**Put Option Date**"), the holder of each Bond will have the right, at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at 101.51 per cent. of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent ("**Put Notice**") together with the Certificate evidencing the Bonds to be redeemed not earlier than 75 days and not later than 45 days prior to the Put Option Date.

A Put Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Company consents to such withdrawal) and the Company shall redeem the Bonds the subject of the Put Notices delivered as aforesaid on the Put Option Date.

***(F) Purchase***

The Company or any of its Subsidiaries may at any time and from time to time purchase Bonds at any price in the open market or otherwise.

***(G) Cancellation***

All Bonds which are redeemed or converted, or purchased by the Company or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

***(H) Redemption Notices***

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition will specify (i) the Conversion Price as at the date of the relevant notice, (ii) the Conversion Period, (iii) the

Closing Price of the Shares as at the latest practicable date prior to the publication of the notice (iv) the date for redemption, (v) the manner in which redemption will be effected and (vi) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

If more than one notice of redemption is given (being a notice given by either the Company or a Bondholder pursuant to this Condition), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable hereunder.

*In the case of a partial redemption of Bonds represented by the Global Bond Certificate, the Bonds to be redeemed will be selected by such method in such place as the Trustee may approve and in such manner as the Trustee shall deem to be appropriate, in accordance with the rules of the relevant clearing system.*

***(I) Definitions***

For the purposes of this Condition 8:

"**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.

"**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.

a "**Change of Control**" occurs upon:

(i) the Permitted Holders are the beneficial owners of less than 25% of the total voting power of the Voting Stock of the Company; or

(ii) any person or persons acting together is or becomes the beneficial owner, 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; or

(iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the board of directors of the Company (together with any new directors whose election or appointment by such board of directors 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 of the Company then in office; or

(iv) 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 other than Permitted Holders or wholly owned Subsidiaries of the Company; or

(v) the approval by the shareholders of the Company of a plan or proposal for the liquidation or dissolution of the Company;

"**Issue Date**" means 26 February 2013;

"**Permitted Holders**" means Mr. Wang Yusuo and Ms. Zhao Baoju and any Affiliate of any of them;

"**Person**" includes any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof but does not include the Company's directors or any other governing board and does not include the Company's wholly-owned direct or indirect subsidiaries;

"**Prevailing Rate**" means a rate for exchanging US dollars and Hong Kong dollars which, applicable to any date shall be the spot exchange rate, expressed as the amount of Hong Kong dollars per one US dollar, which appears on the relevant Reuters HKDFIX page at or about 11.00 a.m. (Hong Kong time) on that date *provided that* if no such rate appears on the relevant Reuters HKDFIX page, The Hongkong and Shanghai Banking Corporation Limited's rate at such time (or the rate of such other bank as is selected by the Company and notified to the Trustee at such time) shall be used instead; and

"**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.

In these Conditions,

"**Early Redemption Amount**" means an amount in respect of each US$250,000 principal amount of Bonds calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a Semi-annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-annual Date):

Early Redemption Amount = (Previous Redemption Amount x $(1 + r/2)^{d/p}$)

Previous Redemption Amount = the Early Redemption Amount for each US$250,000 principal amount of Bonds on the Semi-annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 26 August 2013, US$250,000):

| **Semi-annual Date** | **Early Redemption Amount** |
|---|---|
| | **(US$)** |
| 26 August 2013 | 250,625.00 |
| 26 February 2014 | 251,251.56 |
| 26 August 2014 | 251,879.69 |
| 26 February 2015 | 252,509.39 |
| 26 August 2015 | 253,140.66 |
| 26 February 2016 | 253,773.51 |
| 26 August 2016 | 254,407.95 |
| 26 February 2017 | 255,043.97 |
| 26 August 2017 | 255,681.57 |
| 26 February 2018 | 256,320.78 |

r = 0.50 per cent. expressed as a fraction

d = number of days from and including the immediately preceding Semi-annual Date (or if the Bonds are to be redeemed on or before 26 August 2013, from and including the Issue Date) to, but excluding, the date fixed for redemption, calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the actual number of days elapsed

p = 180

## 9. Taxation

All payments made by the Company under or in respect of the Bonds, the Trust Deed or the Agency Agreement will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by (i) any jurisdiction where the Company is organised or otherwise considered by a taxing authority to be resident for tax purposes or any political organisation or governmental authority thereof or therein having power to tax or (ii) any jurisdiction from or through which the Company makes a payment on the Bonds, or any political organisation or governmental authority thereof or therein having power to tax ((i) and (ii) each, a "**Relevant Tax Jurisdiction**"), unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Company will pay such additional amounts (the "**Additional Tax Amounts**") as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bond:

(i) *Other connection:* to a Bondholder (or to a third party on behalf of a Bondholder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Hong Kong, the PRC, the British Virgin Islands or the Cayman Islands otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond;

(ii) *Presentation more than 30 days after the relevant date:* (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days;

(iii) *Payment to individuals:* where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) *Payment by another Paying and Conversion Agent:* held by a Bondholder (or a third party on behalf of a Bondholder) who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

For the purposes hereof, "**relevant date**" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

For the avoidance of doubt, the obligation of the Company to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on, the Bonds.

References in these Conditions to principal, premium (if any) and interest (if any) shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

**10. Events of Default**

If any of the following events (each an "**Event of Default**") occurs the Trustee at its sole discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in either case to being indemnified and/or secured and/or pre-funded by the holders to its satisfaction), give notice to the Company that the Bonds are, and they shall immediately become due and repayable at the Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

(i) *Non-Payment:* there is a default in the payment of any principal or premium or Early Redemption Amount in respect of the Bonds on the due date for such payment;

(ii) *Breach of Other Obligations:* the Company does not perform or comply with one or more of its other obligations in the Bonds, the Trust Deed or the Agency Agreement which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee;

(iii) *Failure to deliver Shares or pay Cash Settlement Amount:* the Company fails to deliver the Shares as and when such Shares are required to be delivered or the Company fails to pay the Cash Settlement Amount following conversion of a Bond and such failure continues for seven Trading Days;

(iv) *Insolvency:* the Company or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend, payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or any of its Subsidiaries or an administrator or liquidator of the Company, or any of its Subsidiaries or the whole or any part of the assets and revenue of the Company or any of its Subsidiaries is appointed (or application for any such appointment is made);

(v) *Cross Default:* (s) any other present or future indebtedness (whether actual or contingent) of the Company or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Company or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph 10(v) have occurred equals or exceeds US$20,000,000 or its equivalent in any other currency or currencies;

(vi) *Enforcement Proceedings:* a distress, attachment, execution, seizure before judgement or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Company and is not discharged or stayed within 30 days;

(vii) *Winding up:* an order is made or an effective resolution passed for the liquidation, winding-up or dissolution, judicial management or administration of the Company or any of its Subsidiaries (other than a voluntary winding-up on a solvent basis), or the Company or any of its Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Company or another of its Subsidiaries;

(viii) *Security Enforced:* a secured party takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or any part of the undertaking, assets or revenues of the Company or any of its Subsidiaries (as the case may be) and is not discharged within 30 days;

(ix) *Nationalisation:* (a) any step is taken by any governmental or judicial authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its Subsidiaries or (b) the Company or any of its Subsidiaries is prevented from exercising normal control over all or any substantial part of its property, assets and revenue;

(x) *Authorisation and Consents:* any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfiled or done in order (a) to enable the Company lawfully to exercise its rights and perform and comply with its obligations under the Bonds, the Trust Deed and the Agency Agreement, (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Bonds, the Trust Deed and the Agency Agreement admissible in evidence in the courts of the Cayman Islands or England is not taken, fulfiled or done;

(xi) *Illegality:* it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Bonds, the Trust Deed or the Agency Agreement; or

(xii) *Analogous Events:* any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (iv), (vi), (vii) or (viii) above.

**11. Consolidation, Amalgamation or Merger**

So long as any of the Bonds remain outstanding, the Company will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a "**Merger**"), unless:

(i) the corporation formed by such Merger or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed, all obligations of the Company, under the Trust Deed and the performance of every covenant and agreement applicable to it contained therein;

(ii) immediately after giving effect to any such Merger, no Event of Default, and no event which, after notice or lapse of time or both, may become an Event of Default shall have occurred or be continuing or would result therefrom; and

(iii) the corporation formed by such Merger, or the person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such Merger with respect to the payment of principal, and premium on the Bonds,

and such Merger shall not be effective until the Company has delivered to the Trustee an officer's certificate stating that all requirements relating to such Merger have been complied with and that such Merger is authorised and permitted under the Trust Deed. The Trustee shall be entitled to rely on and shall be protected and shall incur no liability to any Holder for or in respect of any action taken, omitted or suffered in reliance upon such officer's certificate.

**12. Prescription**

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years from the relevant date (as defined in Condition 9) in respect thereof.

**13. Enforcement**

At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such actions or proceedings against the Company as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed but it will not be bound to take any such actions or proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder will be entitled to proceed directly against the Company unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

**14. Meetings of Bondholders, Modification, Waiver and Substitution**

***(A) Meetings***

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal or premium (if any) or Equivalent Amount or Early Redemption Amount payable in respect of the Bonds or changing the method of calculation of the Early Redemption Amount, (iii) to change the currency of payment of the Bonds, (iv) to modify (except by an adjustment to the Conversion Price in accordance with Condition 6(C)) or cancel any of the Conversion Rights, or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution (each a "**Reserved Matter**"), in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66 per cent., or at any adjourned such meeting not less than 33 per cent., in aggregate principal amount of the Bonds for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting.

The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

Any duty derived from any principle of law or equity that would otherwise have the effect of requiring the Bondholders to exercise their powers to vote for or against an Extraordinary Resolution or any other resolution contemplated by the Trust Deed or these Conditions, for the benefit or in the interests of any group or class of Bondholders as a whole and not merely individual Bondholders, is extended to the fullest extent permitted by law.

***(B) Modification and Waiver***

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except for Reserved Matters in Condition 14(A) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is, in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds, the Agency Agreement or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Company to the Bondholders as soon as practicable thereafter.

***(C) Interests of Bondholders***

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation, waiver or substitution) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

***(D) Certificates/Reports***

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not obtained by or addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in absence of manifest error, be conclusive and binding on all parties) notwithstanding that such certificate or report and/or engagement letter or other document entered into in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof.

**15. Replacement of Certificates**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**16. Further Issues**

The Company may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the Bonds. Such further bonds shall be constituted by a deed supplemental to the Trust Deed.

**17. Notices**

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). Any such notice shall be deemed to have been given on the later of the date(s) of such publication(s) and the seventh day after being so mailed, as the case may be.

*So long as the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled account holders in substitution for notification as required by these Conditions.*

**18. Agents**

The names of the initial Agents and the Registrar and their specified offices are set out below. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Company will at all times maintain (a) a Principal Agent, (b) as necessary, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Directive 2003/48/EC or any other European Directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform, to such Directive, and (c) a Registrar which will maintain the Register outside Hong Kong and the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Company to the Bondholders and in any event not less than 45 days' notice will be given.

**19. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking actions or proceedings to enforce repayment unless indemnified and/or secured and/or pre-funded to their satisfaction. The Trustee is entitled to enter into business transactions with the Company or any Bondholder and any entity related to the Company or any Bondholder without accounting for any profit.

**20. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 but this shall not affect any right or remedy which exists or is available apart from such Act.

**21. Governing Law and Submission to Jurisdiction**

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds the Company has in the Trust Deed irrevocably submitted to the exclusive jurisdiction of the courts of England and in relation thereto has appointed Law Debenture Corporate Services Limited now at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent for service of process in England.

## DESCRIPTION OF THE SHARES

*Set out below is certain information concerning the Shares and a summary of certain provisions of the Company's Amended and Restated Articles of Association (the "Articles") and certain other information concerning the Company. Such summary does not purport to be complete and is qualified in its entirety by reference to the full Articles.*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000 under the Companies Law (2012 Revision) of the Cayman Islands and, therefore, operates subject to Cayman Islands law.

**Alteration of Capital**

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and

(iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

**Special resolution – majority required**

A "special resolution" is defined in the Articles to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorised representatives at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution in writing (in one or more counterparts) signed by all of the members of the Company being entitled to receive notice of and to attend and vote at a general meeting of the Company (or being corporations by their duly appointed representatives) and the effective date of the special resolution so adopted shall be the date on which it was signed by the last member to sign.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorised representatives at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

**Voting rights (generally, on a poll and right to demand a poll)**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Share registered in his name in the register of members of the Company.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his Shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting. Where any member of the Company is, under any applicable laws or the Listing Rules from time to time, required to abstain from voting on any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least five members of the Company present in person or by proxy and entitled to vote; or

(c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or

(d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify then number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

**Annual general meeting**

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

**Transfer of Share**

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any Share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any Shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of Share;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;

(e) the Shares concerned are free of any lien in favour of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any Share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

**Power of the Company to purchase its own Shares**

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

**Power of any subsidiary of the Company to own Shares**

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

**Dividends and other methods of distributions**

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any Shares not fully paid throughout the period in respect of which the dividend is paid be apportioned and paid pro rata according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a Share in advance of calls shall be treated as paid up on the Share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay dividends half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other moneys payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Unless otherwise directed by the Directors, any dividend, interest or other such distribution payable in cash to a holder of Shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such Shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

**Inspection of register of members**

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the Shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the register shall not be closed for more that 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

**Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person (or, in the case of a member being a corporative, by its duly authorised representative) or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**Procedure on Liquidation**

Subject to any special rights, privileges of restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares, (i) if the Company shall be wound up and the assets available for distribution among the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst such members in proportion to the capital at the commencement of the winding up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

**Pre-emption Rights**

The Articles do not contain any pre-emptive rights in respect of the issue of shares. However, the listing agreement between the Company and the Hong Kong Stock Exchange provides that the directors may not, without the prior approval of the Company in general meeting, exercise any power of the Company to allot shares otherwise than under an offer made *pro rata* by the Company to its shareholders. As a matter of practice, the Company adopts in each year a general mandate authorising the directors to allot and issue and otherwise dispose of shares, during a specified period, up to the level, currently 20% of the issued share capital in issue at the time of passing the resolution, permitted by the Listing Rules without the requirement for any such authority. Such a mandate was given at the annual general meeting of the Company's Shareholders on 26 June 2012 and can be utilised at any time until the Company's next annual general meeting.

# PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Bond Certificate contains provisions which apply to the Bonds in respect of which the Global Bond Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "**Conditions**" or the "**Terms and Conditions**") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

The Bonds will be represented by a Global Bond Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

Under the Global Bond Certificate, the Issuer, for value received, promises to pay such principal sum to the holder on 26 February 2018 or on such earlier date or dates as the same may become payable in accordance with the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

The Global Bond Certificate will become exchangeable in whole, but not in part, for individual bond certificates ("**Individual Bond Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 10 (Events of Default) occurs.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Bond Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Bond Certificate will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Bond Certificate. The following is a summary of certain of those provisions:

### *Meetings*

The registered holder of the Global Bond Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US$250,000 in principal amount of Bonds for which the Global Bond Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which the Global Bond Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity.

### *Cancellation*

Cancellation of any Bonds required by the Conditions to be cancelled following their redemption, conversion or purchase by the Issuer will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

***Trustee's Powers***

In considering the interests of Bondholders while the Global Bond Certificate is registered in the name of a nominee for a clearing system, the Trustee may to the extent it considers it appropriate to do so in the circumstances, have regard to any information provided to it by such clearing system as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and may consider such interests as if such accountholders were the holders of the Bonds.

***Conversion***

The Bonds are convertible into fully-paid ordinary shares of par value HK$0.10 of the Issuer subject to and in accordance with the Conditions and the Trust Deed. Subject to the requirements of Euroclear and Clearstream, Luxembourg (or any other clearing system an "**Alternative Clearing System**")), the Conversion Rights (as defined in the Conditions) attaching to the Bonds may be exercised by the presentation thereof to or to the order of the Principal Agent of one or more Conversion Notices (as defined in the Conditions) duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Bond Certificate with the Principal Agent together with the relevant Conversion Notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Bond Certificate.

***Record Date***

Notwithstanding Condition 7(A) (*Payments – Principal and premium*), so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, each payment in respect of the Global Bond Certificate will be made to the person shown as the holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Bond Certificate is being held is open for business.

***Notices***

Notwithstanding Condition 17 (*Notices*), so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, notices to holders of Bonds represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

***Determination of entitlement***

The Global Bond Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the holder is entitled to payment in respect of the Global Bond Certificate.

***Transfer***

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System) and their respective direct and indirect participants.

***Partial Redemption***

In the case of a partial redemption of the Bonds, such Bonds to be redeemed will be selected by such method in such place as the Trustee may approve and in such manner as the Trustee shall deem to be appropriate, in accordance with the rules of the relevant Clearing System, not more than 60 and not less than 30 days prior to the date fixed for redemption.

***Enforcement***

For all purposes other than with respect to the payment of principal, interest (if any) and premium (if any) on the Bonds in respect of which the Global Bond Certificate is issued, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of Bonds represented by a Global Bond Certificate standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

# TAXATION

*The following summary of certain Cayman Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Bonds and Shares is based upon applicable laws, regulations, rulings and decisions as of the date of this Offering Circular, 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 Bonds or the Shares 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 Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Bonds and Shares, 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 Bonds. 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 (including Early Redemption Amounts) and premium on the Bonds and dividends and capital in respect of the Shares will not be subject to taxation and no withholding will be required on the payment of principal and premium to any holder of the Bonds or the Shares, as the case may be, nor will gains derived from the disposal of the Bonds or the Shares 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 Bonds or the Shares. An instrument of transfer in respect of a Bond or certificates representing the Bonds is stampable if executed in or brought into the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Law (2011 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 29 August 2000.

***Hong Kong***

No withholding tax in Hong Kong is payable on payments of principal (including Early Redemption Amounts and any premium payable on redemption of the Bonds), interest or additional amounts, if any, in respect of the Bonds.

No withholding tax in Hong Kong is payable on payments of dividends on the Shares.

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 Bonds where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds 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 Bonds or the Shares 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 Bonds is maintained outside Hong Kong) of a Bond.

No Hong Kong stamp duty will be chargeable upon the issue of the Shares. Hong Kong stamp duty is payable, however, on any purchase and sale of Shares for as long as the transfer thereof is required to be registered in Hong Kong. The duty is charged on each of the purchaser and the seller at the ad valorem rate of 0.1 per cent. of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2 per cent. is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a sale or purchase of Shares registered on a Hong Kong share register is effected by a person who is not resident in Hong Kong and any stamp duty payable thereon is not paid, the relevant instrument of transfer (if any) is chargeable with such duty in default and the transferee is liable to pay such duty.

***PRC Taxation***

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Bonds is based upon applicable laws, rules and regulations in effect as of the date of this Offering Circular, 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 Bonds 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 Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Bonds, including such possible consequences under the laws of their country of citizenship, residence or domicile.

*Taxation on Capital Gains.* The EIT Law impose a tax at the rate of 10% on capital gains realised by an enterprise holder of Bonds 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 realised 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 EIT Law and the Individual Tax Law, although the matter is unclear, if we are considered a PRC resident enterprise, capital gains realised by non-resident enterprise holders and non-resident individual holders of the Bonds 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 Bonds.

*Stamp duty.* No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Bonds is maintained outside Mainland China) of a Bond.

***EU directive on the taxation of savings income***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

## SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with the Joint Lead Managers dated 29 January 2013 (the "**Subscription Agreement**") pursuant to which, and subject to certain conditions contained therein, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers agreed to severally, but not jointly, subscribe for, US$500,000,000 in aggregate principal amount of the Bonds.

The Subscription Agreement provides that the Issuer will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Each Joint Lead Manager or its affiliates may purchase the Bonds or Shares for its own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swap relating to the Bonds or Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds or Shares to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchaser of the Bonds). Each of the Joint Lead Managers and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries or associates from time to time. Each Joint Lead Manager may receive customary fees and commissions for these transactions. Each Joint Lead Manager or certain of its affiliates may purchase Bonds or Shares and be allocated Bonds or Shares for asset management and/or proprietary purposes but not with a view to distribution. In addition to the transactions noted above, each Joint Lead Manager and its affiliates may, from time to time, engage in other transactions with, and perform services for, the Issuer or its subsidiaries or affiliates in the ordinary course of their business. In addition, each Joint Lead Manager and certain of its subsidiaries and affiliates may hold shares or other securities in the Issuer as beneficial owners, on behalf of clients or in the capacity of investment advisors.

The Issuer has agreed in the Subscription Agreement that neither the Issuer nor any person acting on its or their behalf will (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Joint Lead Managers between the date of the Subscription Agreement and the date which is 90 days after the Issue Date (both dates inclusive) except for the Bonds and the Shares issued on conversion of the Bonds.

In addition, ENN Group International Investment Limited, has agreed that for a period from the date of the Subscription Agreement up to 90 days after the Issue Date (both dates inclusive), neither it nor any of its subsidiaries (if applicable) or affiliates or spouse (if applicable) or family members (if applicable) over which it exercises management or voting control, nor any person acting on its or their behalf will, without the prior written consent of the Joint Lead Managers, (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Lock-up Shares (as defined in the Subscription Agreement) or securities of the same class as the Bonds or the Lock-up Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Lock-up Shares or other instruments representing interests in the Bonds, the Lock-up Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Lock-up Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Lock-up Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Bonds are new issues of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds.

**Selling Restrictions**

***General***

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, neither the Bonds nor any Shares may be offered or sold, directly or indirectly, and neither the Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares may be distributed or published, by the Company or the Joint Lead Managers in or from any country or jurisdiction, except in compliance with all applicable rules and regulations of any such country or jurisdiction.

***United States***

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. 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. Each Joint Bookrunner has represented and warranted to the Issuer that it has not offered or sold, and agrees with the Issuer that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds or the Shares to be issued upon conversion of the Shares. Terms used in this paragraph have the meaning given to them by Regulation S.

***United Kingdom***

Each of the Joint Lead Managers has represented, warranted to and agreed with the Issuer that:

(a) 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 Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

***Netherlands***

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer that it will not make an offer of Bonds which are the subject of the offering contemplated by the Offering Circular to the public in the Netherlands unless such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in the Netherlands.

For the purposes of this provision, the expression "**an offer of Bonds to the public**" in the Netherlands in relation to any Bonds means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in the Netherlands by any measure implementing the Prospectus Directive in the Netherlands, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Netherlands, and includes any relevant implementing measure in the Netherlands, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

***Hong Kong***

Each of the Joint Lead Managers has represented, warranted to and agreed with the Issuer that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

***The People's Republic of China***

Each of the Joint Lead Managers has represented, warranted to and agreed with the Issuer that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

***Singapore***

Each of the Joint Lead Managers has acknowledged to the Issuer that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager represents, warrants and undertakes that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and it has not circulated or distributed and will not circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (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 Bonds 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 Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person 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;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

***Japan***

Each of the Joint Lead Managers has acknowledged to the Issuer that the Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "**Financial Instruments and Exchange Act**") and, accordingly, each Joint Lead Manager represents, warrants and undertakes to the Issuer that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

***Cayman Islands***

Each of the Joint Lead Managers has represented, warranted and agreed with the Issuer that the public in the Cayman Islands will not be invited to subscribe for the Bonds.

## LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for us by Sidley Austin as to matters of Hong Kong law, Sidley Austin LLP as to matters of English law, Maples and Calder as to matters of Cayman Islands law and Commerce & Finance Law Offices as to matters of PRC law. Certain legal matters will be passed upon for the Joint Lead Managers by Clifford Chance as to matters of English law and Haiwen & Partners as to matters of PRC law.

## INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of and for the years ended 31 December 2010 and 2011 included in this Offering Circular have been audited by Deloitte Touche Tohmatsu, certified public accountants, as stated in their reports appearing herein. Our unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2011 and 2012 included in this Offering Circular have been reviewed by Deloitte Touche Tohmatsu in accordance with HKSRE 2410 issued by the HKICPA as stated in their reports appearing herein.

## GENERAL INFORMATION

1. **Clearing Systems**: The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 088441001 and the International Securities Identification Number for the Bonds is XS0884410019.

2. **Listing of Shares**: Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds.

3. **Listing of Bonds**: Approval in-principle has been received for the listing and quotation of the Bonds on 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 Circular. Approval in-principle granted by the SGX-ST for the listing and quotation of the Bonds on the SGX-ST is not to be taken as indication of the merits of the Bonds, the Shares, the Issuer and/or its Subsidiaries. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$250,000 or its equivalent in foreign currencies for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Bond Certificate is exchanged for Individual Bond Certificates. In addition, in the event that the Global Bond Certificate is exchanged for Individual Bond Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Individual Bond Certificates, including details of the paying agent in Singapore.

4. **Authorisations**: The Company has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company passed on 29 January 2013.

5. **No Material Adverse Change**: There has been no material adverse change in the financial or trading position or prospect of the Company or the Group since 30 June 2012.

6. **Litigation**: Neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Company aware that any such proceedings are pending or threatened.

7. **Issuer Rating:** The Company has been assigned a long-term corporate credit rating of BBB- by Standard & Poor's Ratings Services, an issuer rating of Baa3 with a stable outlook by Moody's Investors Service and a rating of BBB with a positive outlook by Fitch Ratings.

8. **Available Documents**: The latest annual report and consolidated accounts of the Company and the latest unaudited interim consolidated accounts of the Company, as well as the Trust Deed and the Agency Agreement, will be available for inspection, at the principal office of the Company at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong during normal office hours on any weekday, except public holidays, so long as any of the Bonds is outstanding.

9. **Reliance by the Trustee**: The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants to the Company whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants to the Company and whether by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Terms and Conditions of the Bonds or the Trust Deed. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.

10. **Audited Financial Statements:** The Company's audited consolidated financial statements as of and for the years ended 31 December 2010 and 2011, which are included elsewhere in this Offering Circular, have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, as stated in its report appearing herein.

    The Company's unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2011 and 2012 which are included elsewhere in this Offering Circular, have been reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants in accordance with HKSRE 2410 issued by the HKICPA.

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Note:

(1) Page references included in the unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2011 and 2012 and the audited consolidated financial statements as of and for the years ended 31 December 2010 and 2011 as set forth below refers to pages set out in the relevant interim report or annual reports.

## INDEX TO FINANCIAL INFORMATION

Page references included in the consolidated financial statements as of and for each of the years ended 31 December 2010 and 2011 and as of and for each of the six months ended 30 June 2011 and 2012 set forth below refer to pages in such consolidated financial statements as set forth in our annual reports for the years ended 31 December 2010 and 2011 and interim reports for the six months ended 30 June 2011 and 2012 as the case may be. These annual reports are not incorporated by reference herein and do not form part of this Offering Circular.

Deloitte.
德勤

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**TO THE BOARD OF DIRECTORS OF ENN ENERGY HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the condensed consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries set out on pages 11 to 37, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
27 August 2012

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

| | | Six months ended 30 June | |
|---|---|---|---|
| | Notes | **2012**<br>**RMB million**<br>**(unaudited)** | 2011<br>RMB million<br>(unaudited) |
| Revenue | 3 | **8,774** | 7,202 |
| Cost of sales | | **(6,363)** | (5,311) |
| Gross profit | | **2,411** | 1,891 |
| Other income | 4 | **94** | 84 |
| Other gains and losses | 5 | **3** | (20) |
| Distribution and selling expenses | | **(169)** | (126) |
| Administrative expenses | | **(785)** | (607) |
| Share of results of associates | | **22** | 12 |
| Share of results of jointly controlled entities | | **135** | 172 |
| Finance costs | 6 | **(309)** | (238) |
| Profit before tax | 7 | **1,402** | 1,168 |
| Income tax expense | 8 | **(414)** | (327) |
| Profit and total comprehensive income for the period | | **988** | 841 |
| Profit and total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **730** | 629 |
| Non-controlling interests | | **258** | 212 |
| | | **988** | 841 |
| Earnings per share | 10 | | |
| Basic | | **68.78 cents** | 59.88 cents |
| Diluted | | **68.54 cents** | 59.30 cents |

# Condensed Consolidated Statement of Financial Position

At 30 June 2012

| | Notes | **At 30 June 2012 RMB million (unaudited)** | At 31 December 2011 RMB million (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **13,904** | 13,073 |
| Prepaid lease payments | 11 | **723** | 695 |
| Investment properties | 11 | **57** | 57 |
| Goodwill | | **196** | 196 |
| Intangible assets | 12 | **1,239** | 1,051 |
| Interests in associates | | **766** | 694 |
| Interests in jointly controlled entities | | **1,814** | 1,733 |
| Available-for-sale financial assets | | **14** | 14 |
| Loan receivable | | **2** | 3 |
| Other receivables | 13 | **7** | 5 |
| Amounts due from associates | | **42** | 39 |
| Amounts due from jointly controlled entities | | **98** | 66 |
| Amounts due from related companies | | **24** | 26 |
| Deferred tax assets | 8 | **216** | 176 |
| Deposits paid for investments | | **137** | 41 |
| Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights | | **65** | 68 |
| Restricted bank deposits | 14 | **10** | 7 |
| | | **19,314** | 17,944 |
| **Current assets** | | | |
| Inventories | | **297** | 272 |
| Trade and other receivables | 13 | **1,956** | 1,837 |
| Prepaid lease payments | 11 | **15** | 17 |
| Amounts due from customers for contract work | | **183** | 201 |
| Amounts due from associates | 15 | **129** | 31 |
| Amounts due from jointly controlled entities | 16 | **656** | 404 |
| Amounts due from related companies | | **60** | 31 |
| Restricted bank deposits | 14 | **2,752** | 2,675 |
| Cash and cash equivalents | | **3,618** | 3,349 |
| | | **9,666** | 8,817 |
| Assets classified as held for sale | 17 | **74** | 127 |
| | | **9,740** | 8,944 |

| | Notes | At 30 June 2012 RMB million (unaudited) | At 31 December 2011 RMB million (audited) |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 18 | **4,172** | 4,172 |
| Amounts due to customers for contract work | | **964** | 989 |
| Amounts due to associates | 15 | **112** | 119 |
| Amounts due to jointly controlled entities | 16 | **705** | 627 |
| Amounts due to related companies | | **31** | 37 |
| Taxation payables | | **247** | 234 |
| Bank and other loans – due within one year | 19 | **3,636** | 1,913 |
| Short-term debentures | 20 | **1,340** | 1,300 |
| Financial guarantee liability | | **4** | 9 |
| Dividend payable | | **315** | – |
| Deferred income | 21 | **53** | 44 |
| | | **11,579** | 9,444 |
| Liabilities associated with assets held for sale | 17 | **63** | 76 |
| | | **11,642** | 9,520 |
| **Net current liabilities** | | **(1,902)** | (576) |
| **Total assets less current liabilities** | | **17,412** | 17,368 |
| **Capital and reserves** | | | |
| Share capital | 22 | **111** | 110 |
| Reserves | | **7,577** | 6,936 |
| Equity attributable to owners of the Company | | **7,688** | 7,046 |
| Non-controlling interests | | **1,851** | 1,794 |
| **Total equity** | | **9,539** | 8,840 |
| **Non-current liabilities** | | | |
| Bank and other loans – due after one year | 19 | **1,531** | 2,327 |
| Corporate bond | | **496** | 496 |
| Senior notes | | **4,654** | 4,636 |
| Deferred tax liabilities | 8 | **343** | 337 |
| Deferred income | 21 | **849** | 732 |
| | | **7,873** | 8,528 |
| | | **17,412** | 17,368 |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

**Six months ended 30 June 2012 (unaudited)**

| | Equity attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB million | Share premium RMB million | Special reserve RMB million (note c) | Share option reserve RMB million | Statutory surplus reserve fund RMB million (note a) | Designated safety fund reserve RMB million (note b) | Accumulated profits RMB million | Total RMB million | Equity attributable to non-controlling interests RMB million | Total equity RMB million |
| At 1 January 2012 | 110 | 2,202 | (18) | 142 | 409 | 38 | 4,163 | 7,046 | 1,794 | 8,840 |
| Profit for the period and total comprehensive income for the period | – | – | – | – | – | – | 730 | 730 | 258 | 988 |
| Recognition of equity settled share-based payment | – | – | – | 21 | – | – | – | 21 | – | 21 |
| Acquisition of subsidiaries (Note 23) | – | – | – | – | – | – | – | – | 15 | 15 |
| Capital contribution from non-controlling shareholder of a subsidiary | – | – | – | – | – | – | – | – | 16 | 16 |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | – | – | – | (216) | (216) |
| Transfer to statutory surplus reserve fund | – | – | – | – | 42 | – | (42) | – | – | – |
| Dividend recognised as distribution (Note 9) | – | – | – | – | – | – | (313) | (313) | – | (313) |
| Disposal of subsidiaries (Notes 24 & 25) | – | – | – | – | – | – | – | – | (16) | (16) |
| Exercise of share option (Note 22) | 1 | 273 | – | (70) | – | – | – | 204 | – | 204 |
| Transfer to designated safety fund reserve | – | – | – | – | – | 1 | (1) | – | – | – |
| At 30 June 2012 | 111 | 2,475 | (18) | 93 | 451 | 39 | 4,537 | 7,688 | 1,851 | 9,539 |

**Six months ended 30 June 2011 (unaudited)**

| | Equity attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB million | Share premium RMB million | Special reserve RMB million (note c) | Share option reserve RMB million | Statutory surplus reserve fund RMB million (note a) | Designated safety fund reserve RMB million (note b) | Accumulated profits RMB million | Total RMB million | Equity attributable to non-controlling interests RMB million | Total equity RMB million |
| At 1 January 2011 | 110 | 2,184 | (17) | 101 | 368 | 26 | 3,260 | 6,032 | 1,508 | 7,540 |
| Profit for the period and total comprehensive income for the period | – | – | – | – | – | – | 629 | 629 | 212 | 841 |
| Recognition of equity settled share-based payment | – | – | – | 23 | – | – | – | 23 | – | 23 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | 1 | 1 |
| Capital contribution from non-controlling shareholder of a subsidiary | – | – | – | – | – | – | – | – | 3 | 3 |
| Dividend recognised as distribution (Note 9) | – | – | – | – | – | – | (297) | (297) | – | (297) |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | – | – | – | (151) | (151) |
| Transfer to statutory surplus reserve fund | – | – | – | – | 11 | – | (11) | – | – | – |
| Transfer to designated safety fund reserve | – | – | – | – | – | 7 | (7) | – | – | – |
| At 30 June 2011 | 110 | 2,184 | (17) | 124 | 379 | 33 | 3,574 | 6,387 | 1,573 | 7,960 |

Notes:

a. In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserve fund retained by the 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 safety fund reserve. The fund will be used for installation and repair and maintenance of safety facilities.

c. The amount at 30 June 2011 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 RMB2 million 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 million.

   After 30 June 2011, the Group acquired additional interest in a subsidiary from a non-controlling shareholder, the difference between the consideration paid and the carrying amount of non-controlling interests in respect of the additional interest in a subsidiary of RMB1 million is dealt with in reserve and attributable to owners of the Company.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

| | Note | Six months ended 30 June<br>**2012**<br>**RMB million**<br>**(unaudited)** | <br>2011<br>RMB million<br>(unaudited) |
|---|---|---|---|
| Net cash from operating activities | | **1,295** | 1,051 |
| Investing activities | | | |
| Deferred income received | | **150** | 122 |
| Purchase of property, plant and equipment | | **(1,334)** | (982) |
| Net cash outflow on acquisition of subsidiaries | 23 | **(124)** | (31) |
| (Increase) decrease in restricted bank deposits | | **(80)** | 22 |
| Other investing activities | | **(369)** | (237) |
| Net cash used in investing activities | | **(1,757)** | (1,106) |
| Financing activities | | | |
| Dividends paid to owners of the Company | | **–** | (297) |
| New bank loans raised | | **3,721** | 2,210 |
| Repayment of bank loans | | **(2,674)** | (2,615) |
| Repayment of guaranteed notes, including premium | | **–** | (1,389) |
| Proceeds from issue of senior notes | | **–** | 4,863 |
| Expenses from issue of senior notes | | **–** | (66) |
| Proceeds from issue of corporate bond | | **–** | 500 |
| Expenses from issue of corporate bond | | **–** | (5) |
| Other financing activities | | **(317)** | (340) |
| Net cash from financing activities | | **730** | 2,861 |
| Increase in cash and cash equivalents | | **268** | 2,806 |
| Cash and cash equivalents at the beginning of the period | | **3,355** | 2,851 |
| Cash and cash equivalents at the end of the period | | **3,623** | 5,657 |
| Represented by: | | | |
| Cash and cash equivalents included in assets classified as held for sale | | **5** | – |
| Cash and cash equivalents at the end of the period | | **3,618** | 5,657 |
| | | **3,623** | 5,657 |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In preparing the condensed consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB1,902 million as at 30 June 2012. Having considered the secured credit facilities of approximately RMB5,486 million which remain unutilised at the date of approval of the condensed 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 condensed consolidated financial statements for the period ended 30 June 2012 have been prepared on a going concern basis.

In addition, the Directors have also considered the impact of the potential obligations under the pre-conditional general offer of the shares of China Gas Holdings Limited (the "Offer") announced by the Company on 12 December 2011 on the Group's financial position and are confident that the Group can obtain sufficient funding and banking facilities to finance the acquisition had the Offer been successfully made in 2012.

## 2. Principal Accounting Policies

The condensed 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 appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

| | |
|---|---|
| HKFRS 7 (Amendments) | Financial Instruments: Disclosures – Transfers of Financial Assets; and |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets |

## 2. Principal Accounting Policies *(continued)*

### Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time through rental income and that the presumption set out in the amendments to HKAS 12 is rebutted.

The application of above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in and/or disclosures set out in the condensed consolidated financial statements.

## 3. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resources allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection segment, sales of piped gas segment, vehicle refuelling stations segment, wholesale of gas segment, distributions of bottled liquefied petroleum gas segment, sales of gas appliances segment and sales of material segment.

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

### Six months ended 30 June 2012 (unaudited)

| | Gas connection RMB million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distributions of bottled liquefied petroleum gas RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 1,694 | 5,107 | 1,063 | 552 | 74 | 43 | 241 | 8,774 |
| Segment profit before depreciation and amortisation | 1,081 | 1,193 | 258 | 49 | 2 | 18 | 34 | 2,635 |
| Depreciation and amortisation | (28) | (172) | (18) | (3) | (2) | (1) | – | (224) |
| Segment profit | 1,053 | 1,021 | 240 | 46 | – | 17 | 34 | 2,411 |

## 3. Segment Information *(continued)*

**Six months ended 30 June 2011 (unaudited)**

| | Gas connection RMB million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distributions of bottled liquefied petroleum gas RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 1,580 | 3,863 | 741 | 585 | 102 | 43 | 288 | 7,202 |
| Segment profit before depreciation and amortisation | 995 | 807 | 163 | 66 | 4 | 16 | 25 | 2,076 |
| Depreciation and amortisation | (28) | (137) | (12) | (5) | (2) | (1) | – | (185) |
| Segment profit | 967 | 670 | 151 | 61 | 2 | 15 | 25 | 1,891 |

Segment profit represents the gross profit earned by each segment without allocation of other income, other gains and losses, distribution and selling expenses, administrative expenses, share of results of associates and jointly controlled entities, finance costs and income tax expense. This is the measure reported to the CEO for the purposes of resources allocation and performance assessment.

## 4. Other Income

| | Six months ended 30 June | |
|---|---|---|
| | **2012** **RMB million** | 2011 RMB million |
| Other income includes: | | |
| Incentive subsidies (Note) | **28** | 33 |
| Interest income | **19** | 14 |
| Rental income from investment properties, net | **1** | 1 |
| Financial guarantee income | **4** | 1 |

Note: The amount represents incentives received from the government for sales of gas and provision of connection service and refunds of various taxes as incentives received from the government authorities in various cities of the PRC. These incentive subsidies were recorded in the period when the relevant approval was obtained.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 5. Other Gains and Losses

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| Impairment loss reversed (recognised) on: | | |
| – Trade receivables | **1** | (8) |
| – Other receivables | **7** | 27 |
| Loss on disposal of property, plant and equipment | **–** | (3) |
| Gain of derecognition of subsidiaries (Notes 24 & 25) | **28** | – |
| Early redemption premium of guaranteed notes (note a) | **–** | (95) |
| (Loss) gain on foreign exchange, net (note b) | **(14)** | 59 |
| Arrangement fee of banking facilities (note c) | **(19)** | – |
| | **3** | (20) |

Notes:

a. On 28 June 2011 (the "Redemption Date"), the Company redeemed the entire outstanding guaranteed notes in full at a redemption price equal to 100% of the principal amount outstanding thereof which was US$200 million (equivalent to approximately RMB1,294 million), plus the applicable premium of approximately US$15 million (equivalent to approximately RMB95 million) and accrued and unpaid interest of approximately US$6 million (equivalent to approximately RMB38 million) as of the Redemption Date. The guaranteed notes were originally matured in 2012. The premium of approximately RMB95 million was recognised.

b. Included in the balance for the period ended 30 June 2012 is an amount of approximately RMB18 million which is the exchange loss arising from the translation of senior notes denominated in United State dollar to RMB.

c. The arrangement fee is in connection with the pre-conditional commitment set out in Note 26 (c) and is non-refundable notwithstanding whether the related banking facilities are utilised.

## 6. Finance Costs

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| Interest on: | | |
| Bank and other loans wholly repayable within five years | **113** | 77 |
| Bank loans not wholly repayable within five years | **39** | 53 |
| Guaranteed notes | **–** | 55 |
| Short-term debentures | **40** | 13 |
| Senior notes | **142** | 37 |
| Corporate bond | **16** | 12 |
| | **350** | 247 |
| Less: Amount capitalised under construction in progress | **(41)** | (9) |
| | **309** | 238 |

## 7. Profit Before Tax

| | Six months ended 30 June | |
|---|---|---|
| | **2012** **RMB million** | 2011 RMB million |
| Profit before tax has been arrived at after charging: | | |
| Share-based payment expenses (included in administrative expenses) | **21** | 23 |
| Depreciation and amortisation: | | |
| – property, plant and equipment | **274** | 231 |
| – intangible assets | **30** | 17 |
| Total depreciation and amortisation (Note) | **304** | 248 |
| Release of prepaid lease payments | **10** | 7 |
| Research and development expenses | **2** | 2 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2012** **RMB million** | 2011 RMB million |
| Depreciation and amortisation included in: | | |
| Cost of sales | **224** | 185 |
| Administrative expenses | **80** | 63 |
| | **304** | 248 |

## 8. Income Tax Expense

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| PRC Enterprise Income Tax | **448** | 345 |
| Deferred taxation | **(34)** | (18) |
| | **414** | 327 |

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries. The PRC Enterprise Income Tax rate is 25% for the six months ended 30 June 2012 (six months ended 30 June 2011: 25%).

The Group's effective income tax rate for the six months ended 30 June 2012 is 29.5% (six months ended 30 June 2011: 28.0%) as a result of an increase of the preferential tax rate of certain subsidiaries of the Group. During the six months ended 30 June 2012, the preferential tax rate applicable to these subsidiaries is 25% (six months ended 30 June 2011: 24% to 25%) and the reduced tax rate is 12.5% (six months ended 30 June 2011: 12% to 12.5%). In addition, during the six months ended 30 June 2012, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB376 million (six months ended 30 June 2011: RMB294 million) due to the uncertainty of future profit streams.

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

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| Deferred tax assets | **216** | 176 |
| Deferred tax liabilities | **(343)** | (337) |
| | **(127)** | (161) |

## 8. Income Tax Expense *(continued)*

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and preceding interim periods:

| | Attributable to | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation of properties RMB million | Intangible assets RMB million | Capitalisation of interest in property, plant and equipment RMB million | Undistributed retained profit of PRC entities from 1 January 2008 RMB million (Note) | Deferred income RMB million | Others RMB million | Total RMB million |
| At 1 January 2011 | 5 | 142 | 44 | 37 | (134) | – | 94 |
| Acquisition of a business | – | 7 | – | – | – | – | 7 |
| (Credit) charge to profit or loss | – | (3) | 1 | 11 | (27) | – | (18) |
| At 30 June 2011 | 5 | 146 | 45 | 48 | (161) | – | 83 |
| At 1 January 2012 | 5 | 231 | 65 | 56 | (196) | – | 161 |
| (Credit) charge to profit or loss | – | (6) | 9 | 11 | (30) | (18) | (34) |
| At 30 June 2012 | 5 | 225 | 74 | 67 | (226) | (18) | 127 |

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 profits of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders as the Directors consider the amount will probably be reversed in the foreseeable future upon distribution of profit by the respective group entities.

## 9. Dividend

The final dividend in respect of fiscal year 2011 of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share on 1,066,594,397 shares (six months ended 30 June 2011: final dividend in respect of 2010 of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share) amounting to approximately RMB313 million (six months ended 30 June 2011: RMB248 million) were declared on 25 March 2012 and were not paid as at 30 June 2012.

During the six months ended 30 June 2011, there was a special dividend in respect of fiscal year 2010 of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share amounting to approximately RMB49 million, which was declared on 25 March 2011 and was paid on 22 June 2011.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 10. 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share and diluted earnings per share | **730** | 629 |

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,062,064** | 1,050,149 |
| Effect of dilutive potential ordinary shares arising from share options | **3,582** | 10,233 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,065,646** | 1,060,382 |

## 11. Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties

During the six months ended 30 June 2012, the Group acquired property, plant and equipment and prepaid lease payments amounting to approximately RMB1,334 million and RMB44 million (six months ended 30 June 2011: RMB982 million and RMB24 million) respectively.

In addition, through acquisition of subsidiaries or business, the Group's property, plant and equipment and prepaid lease payments increased by approximately RMB3 million and RMB2 million respectively (six months ended 30 June 2011: RMB23 million and RMB2 million respectively) during the current interim period.

The valuation of the Group's investment properties at 31 December 2011 was carried out by Knight Frank Petty Limited, on an open market value basis. The Directors consider that the fair values of the investment properties at 30 June 2012 were not significantly different from their fair values on 31 December 2011.

## 12. Intangible Assets

During the six months ended 30 June 2012, through acquisition of subsidiaries or business, the Group's intangible assets increased by approximately RMB218 million (six months ended 30 June 2011: RMB27 million).

## 13. Trade and Other Receivables

The following is an aged analysis, net of impairment, presented based on invoice date at the end of the reporting period:

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| 0-3 months | **406** | 358 |
| 4-6 months | **40** | 58 |
| 7-9 months | **42** | 29 |
| 10-12 months | **20** | 10 |
| More than 1 year | **7** | 8 |
| Total trade receivables (Note) | **515** | 463 |
| Other receivables | **438** | 341 |
| Notes receivable | **400** | 318 |
| Advance to suppliers, deposits and prepayments | **610** | 720 |
| | **1,963** | 1,842 |
| Analysed for reporting purpose as: | | |
| Current portion | **1,956** | 1,837 |
| Non-current portion | **7** | 5 |
| | **1,963** | 1,842 |

Note: The Group allows an average credit period ranging from 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days.

## 14. Restricted Bank Deposits

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, deposits pledged to local government to secure the rights of operations and bank deposits in escrow for the Offer set out in note 26(c).

Restricted bank deposits classified as non-current assets represent the bank deposits pledged to local government to secure the rights of operations.

The restricted bank deposits carry fixed interest rate range from 0.30% to 0.40% per annum (31 December 2011: 0.30% to 0.36%). The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

## 15. Amounts Due from/to Associates

Included in the amounts due from/to associate are trade receivables amounting to RMB33 million (31 December 2011: RMB20 million) and trade payables amounting to RMB1 million (31 December 2011: RMB14 million) and the aged analysis is as follows:

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| Trade receivables due from associates | | |
| 0-3 months | **18** | 9 |
| 4-6 months | **3** | 3 |
| 7-9 months | **4** | 2 |
| 10-12 months | **2** | 1 |
| More than 1 year | **6** | 5 |
| | **33** | 20 |

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| Trade payables due to associates | | |
| Within three months | **1** | 13 |
| 4-6 months | **–** | 1 |
| | **1** | 14 |

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.

## 16. Amounts Due from/to Jointly Controlled Entities

Included in the amounts due from/to jointly controlled entities are trade receivables amounting to RMB350 million (31 December 2011: RMB217 million) and trade payables amounting to RMB187 million (31 December 2011: RMB125 million) and the aged analysis is as follow:

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| Trade receivables due from jointly controlled entities | | |
| 0-3 months | **176** | 155 |
| 4-6 months | **80** | 29 |
| 7-9 months | **51** | 12 |
| 10-12 months | **21** | 4 |
| More than 1 year | **22** | 17 |
| | **350** | 217 |

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| Trade payables due to jointly controlled entities | | |
| 0-3 months | **147** | 93 |
| 4-6 months | **38** | 4 |
| 7-9 months | **–** | 5 |
| More than 1 year | **2** | 23 |
| | **187** | 125 |

Owing the strategic relationship with the jointly controlled entities, 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.

## 17. Assets Classified As Held for Sale/Liabilities Associated with Assets Held for Sale

The amount as of 31 December 2011 represented the assets and liabilities of the Group's 95% owned subsidiary, 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited), which was disposed of during the current interim period set out in Note 24, and 80% owned subsidiary, 北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited) and the carrying amount of certain property, plant and equipment of 新奧燃氣發展有限公司 of which are stated at the lower of the carrying amount and fair value less costs to sell.

Pursuant to various equity and assets transfer agreements between the Group and the buyers dated 1 December 2011, the Group agreed to sell the equity interest in Beijing Xinao Jingchang Gas Company Limited and certain property, plant and equipment at an aggregate consideration of RMB73 million as at 30 June 2012, out of which RMB48 million (31 December 2011: RMB42 million) was received as a deposit for the transaction which was classified as liability associated with assets classified as held for sales at 30 June 2012. The remaining consideration will be settled upon completion of the transaction which is expected to be in 2012.

## 18. Trade and Other Payables

The following is an aged analysis, presented based on invoice date at the end of the reporting period:

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| 0-3 months | **1,102** | 1,060 |
| 4-6 months | **76** | 191 |
| 7-9 months | **55** | 34 |
| 10-12 months | **17** | 13 |
| More than 1 year | **88** | 139 |
| Total trade payables | **1,338** | 1,437 |
| Advances received from customers | **2,185** | 2,050 |
| Accrued charges and other payables | **649** | 685 |
| | **4,172** | 4,172 |

## 19. Bank and Other Loans

During the current interim period, the Group obtained new bank loans in the amount of RMB3,721 million (six months ended 30 June 2011: RMB2,210 million) and made repayments in the amount of RMB2,674 million (six months ended 30 June 2011: RMB2,615 million). The loans bear interest at the range from 2.05% to 8.12% per annum (31 December 2011: 2.22% to 8.80% per annum). These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2012, certain assets of the Group with aggregate carrying value of RMB96 million (31 December 2011: RMB53 million) were pledged as security for bank and other loans, bills facilities and contracts granted to the Group, its associates and jointly controlled entities.

## 20. Short-term Debentures

The balance at 30 June 2012 represents the short-term debenture issued to third party with face value of RMB1,300 million (31 December 2011: RMB1,300 million) and the accrued interests of RMB40 million (31 December 2011: RMB2 million). The amount was unsecured, carries interest at 5.9% per annum and is repayable on 19 December 2012.

## 21. Deferred Income

| | At 30 June 2012 RMB million | At 31 December 2011 RMB million |
|---|---|---|
| Balance at beginning of the period/year | **776** | 531 |
| Additions | **150** | 281 |
| Release to profit or loss | **(24)** | (36) |
| Balance at end of the period/year | **902** | 776 |
| Analysed for the reporting purpose as: | | |
| Current portion | **53** | 44 |
| Non-current portion | **849** | 732 |
| Total | **902** | 776 |

Note:

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. These 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 30 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas provision period and the useful lives of the related assets.

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 release to the profit or loss over the estimated useful lives of the assets constructed.

## 22. Share Capital and Share Options

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$0.10 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 for a total of 18,680,000 shares in the Company. In 2011, two employees who were the Grantees of the share options were appointed as Directors and two directors who were the Grantees of the share options retired from directorship. Accordingly, the share options granted to the directors and certain employees of the Company has changed to 18,860,000 and 14,630,000 share options, respectively.

After taking into consideration of 15,445,000 share options exercise during the current interim period, the outstanding share options granted to the directors and certain employees of the Company has changed to 9,230,000 and 7,815,000 share options, respectively as at 30 June 2012 (31 December 2011: 17,860,000 and 14,630,000, respectively).

## 22. Share Capital and 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 six months ended 30 June 2012:

| | | | | | Number of options ('000) | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Vesting period | Exercise period | Exercise price | Outstanding at 1.1.2012 | Granted during the period | Exercised during the period | Outstanding at 30.6.2012 |
| Tranche 1 | 14.6.2010 | 14.6.2010 to 13.12.2010 | 14.12.2010 to 13.6.2020 | HK$16.26 | 15,745 | – | 15,445 | 300 |
| Tranche 2 | 14.6.2010 | 14.6.2010 to 13.6.2012 | 14.6.2012 to 13.6.2020 | HK$16.26 | 16,745 | – | – | 16,745 |
| | | | | | 32,490 | – | 15,445 | 17,045 |
| Exercisable at the end of the period | | | | | 15,745 | – | – | 17,045 |
| Weighted average exercise price | | | | | HK$16.26 | – | HK$16.26 | HK$16.26 |

During the six months ended 30 June 2012, the Group recognised share-based expenses of RMB21 million (six months ended 30 June 2011: RMB23 million).

On 21 January 2012, 15,445,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options, which was recognised in share capital and share premium of HK$1.5 million (equivalent to approximately RMB1 million) and HK$249.6 million (equivalent to approximately RMB203 million) respectively. These shares rank pari passu with the then existing shares in all respects. There was no further ordinary share issued during the current interim period.

## 23. Acquisition of Assets Through Acquisition of Subsidiaries

### (a) Acquisition of 龍岩民生燃氣發展有限公司 ("Longyan")

On 24 February 2012, the Group acquired 70% of the registered capital of Longyan at a cash consideration of RMB34 million. Longyan is engaged in sales of piped gas. Longyan had not yet commenced operation as at acquisition date. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

| | RMB million |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 1 |
| Intangible assets – right of operation | 47 |
| Prepaid lease payments | 2 |
| **Current assets** | |
| Trade and other receivables | 2 |
| **Current liabilities** | |
| Trade and other payables | (3) |
| **Total net assets** | 49 |
| Less: Non-controlling interests | (15) |
| **Net assets acquired** | 34 |
| **Total consideration** | 34 |
| **Satisfied by:** | |
| Cash | 18 |
| Consideration payables (included in other payables) | 16 |
| **Total consideration** | 34 |
| **Net cash outflow arising on acquisition:** | |
| Cash consideration paid | 18 |
| Less: cash and cash equivalents acquired | – |
| | 18 |

## 23. Acquisition of Assets Through Acquisition of Subsidiaries *(continued)*

### (b) Acquisition of 聚源通投資有限公司 ("Juyuantong")

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 six months ended 30 June 2012, the Group has acquired assets through the acquisitions of the following subsidiary.

On 22 March 2012, the Group acquired 100% of the registered capital of Juyuantong at a cash consideration of approximately RMB173 million. At the time of the acquisition, Juyuantong and its subsidiary had not yet commenced operations other than securing gas supply contracts for the sales of piped gas in Henan province. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

| | RMB million |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 2 |
| Intangible assets – gas contracts | 171 |
| **Current assets** | |
| Other receivables | 1 |
| **Current liabilities** | |
| Other payables | (1) |
| **Net assets acquired** | 173 |
| **Total consideration** | 173 |
| **Satisfied by:** | |
| Cash | 106 |
| Consideration payables (included in other payables) | 67 |
| **Total consideration** | 173 |
| **Net cash outflow arising on acquisition:** | |
| Cash consideration paid | 106 |
| Less: cash and cash equivalents acquired | – |
| | 106 |

## 24. Disposal of a Subsidiary

On 1 December 2011, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to transfer 95% of equity interest in 北京新奧燃氣有限公司 ("Beijingxinao") at a cash consideration of RMB39 million. The disposal was completed on 22 May 2012.

The net assets of Beijingxinao derecognised at the date of disposal were as follows:

| | RMB million |
|---|---|
| **Non-current asset** | |
| Property, plant and equipment | 31 |
| Intangible assets | 6 |
| **Current assets** | |
| Cash and cash equivalents | 3 |
| Trade and other receivables | 10 |
| Inventories | 1 |
| **Current liabilities** | |
| Trade and other payables | (45) |
| | 6 |
| Gain on disposal of a subsidiary | 33 |
| **Total consideration satisfied by cash** | 39 |
| **Net cash inflow arising on disposal:** | |
| Cash consideration | 39 |
| Cash and cash equivalents disposed of | (3) |
| | 36 |

## 25. Deemed Disposal of a Subsidiary

In 2011, a 72.8% owned subsidiary, 江蘇大通管輸天然氣有限公司 ("Jiangsu Datong"), increased its registered capital of approximately RMB30 million by introducing of 大豐市大豐港開發建設有限公司 ("Dafeng") and 鹽城市城市建設投資集團有限公司 ("Yancheng") as its equity holders. Dafeng and Yancheng together contributed RMB30 million as additional registered capital of Jiangsu Datong.

On 1 January 2012, upon completion of the contribution from Dafeng and Yancheng, the Group's equity interest in Jiangsu Datong diluted to 51%. Pursuant to the revised articles of association of Jiangsu Datong, the Group was unable to control Jiangsu Datong because a resolution for the financial and operating activities of Jiangsu Datong can only be passed with a two-third majority.

The net assets of Jiangsu Datong derecognised at the date of the Group lost control over Jiangsu Datong were as follows:

| | RMB million |
|---|---|
| **Non-current asset** | |
| Property, plant and equipment | 218 |
| Prepaid lease payment | 4 |
| **Current assets** | |
| Inventories | 1 |
| Other receivables | 41 |
| Cash and cash equivalents | 15 |
| **Current liabilities** | |
| Trade and other payables | (86) |
| Taxation payable | (1) |
| **Non-current liabilities** | |
| Bank loans | (120) |
| | 72 |
| Less: Non-controlling interests | (16) |
| Net amount derecognised attributable to the equity owners of the Group before capital injection | 56 |
| Capital injection by Dafeng and Yancheng | 30 |
| Net amount derecognised including capital injection by Dafeng and Yancheng | 86 |

## 25. Deemed Disposal of a Subsidiary *(continued)*

The loss recognised in profit or loss on loss of control of Jiangsu Datong was calculated as follows:

| | RMB million |
|---|---|
| Fair value of the residual interests in Jiangsu Datong recognised as investment cost of an associate | 51 |
| Capital injection by Dafeng and Yancheng | 30 |
| | 81 |
| Less: Net assets derecognised | (86) |
| Loss on derecognition of a subsidiary on loss of control to associate | (5) |
| Cash outflow arising on derecognition: | |
| Cash and cash equivalents disposed of | (15) |

## 26. Commitments

### (a) Capital commitments

| | **At 30 June 2012 RMB million** | At 31 December 2011 RMB million |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided | **114** | 124 |
| Capital commitment in respect of investments in associates or jointly controlled entities | **84** | 57 |

### (b) Other commitments

As at 30 June 2012, the Group has commitment amounting to RMB30 million (31 December 2011: RMB32 million) in respect of acquisition of land use rights in the PRC.

### (c) Pre-conditional commitment

In the announcement dated 12 December 2011 (the "Announcement"), China Petroleum & Chemical Corporation ("Sinopec") and the Company jointly announced the formation of a consortium and intend to, subject to the satisfaction or waiver (as applicable) of the pre-conditions as set out in the Announcement, make a voluntary conditional cash offer (i) to acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") (other than those shares in China Gas already held by Sinopec or the Company or other parties acting in concert with Sinopec or the Company) at cash consideration of HK$3.50 per share and (ii) to cancel all outstanding share options in China Gas at cash consideration of HK$0.90 to HK$2.79 per share option.

As stated in the Announcement, with respect of the Company, assuming that all the outstanding share options are exercised before the close of the Offer and the share offer is accepted in full, the financial resources required by the Company in order to satisfy the obligations in respect of full acceptance of the Offer amount to approximately HK$9,185 million (equivalent to approximately RMB7,446 million).

Pursuant to the announcement dated 6 August 2012 jointly made by Sinopec and the Company, the Long Stop Date, which is the last date for the offerors to confirm that the pre-conditions to the Offer are satisfied or waiver (as applicable), was extended to 6 September 2012.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 27. Related Party Transactions

The Group has entered into the following transactions with its related parties during the period:

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| Associates | | |
| – Sales of gas to | **3** | 9 |
| – Sales of materials to | **10** | 3 |
| – Provision of gas transportation services to | **1** | – |
| – Purchase of materials from | **1** | 1 |
| – Purchase of gas from | **22** | 18 |
| Jointly controlled entities | | |
| – Sales of gas to | **203** | 143 |
| – Sales of materials to | **50** | 44 |
| – Purchase of gas from | **194** | 132 |
| – Provision of gas transportation services to | **185** | 128 |
| – Loan interest received from | **4** | – |
| – Loan interest paid to | **4** | – |
| – Provision of supporting services | **9** | 17 |
| – Provision of construction services | **17** | 21 |
| Companies controlled by Mr. Wang Yu Suo ("Mr. Wang") a controlling shareholder and director of the Company | | |
| – Sales of gas to | **4** | 4 |
| – Provision for engineering construction by | **2** | – |
| – Provision of energy supporting services by | **3** | – |
| – Provision of gas connection service to | **2** | 1 |
| – Provision for property management services by | **4** | 3 |
| – Provision of maritime transportation services by | **6** | 8 |
| – Purchase of equipment and supporting service from | **3** | – |
| – Lease of premises from | **1** | 1 |
| – Provision of supporting service by | **10** | 10 |
| Non-controlling shareholders of subsidiaries | | |
| – Provision of gas construction service to | **–** | 5 |
| – Provision of construction service by | **3** | 2 |
| – Lease of premises from | **2** | – |
| – Lease of land from | **–** | 1 |
| – Provision of transportation services by | **1** | 1 |
| – Purchase of gas from | **1** | – |

## 27. Related Party Transactions *(continued)*

The Company issued US$750 million senior notes (the "2021 Senior Notes") on 13 May 2011. The terms and conditions of the 2021 Senior Notes require Mr. Wang to retain control over the Company throughout the term of the 2021 Senior Notes failing which the Company would be require to repurchase all outstanding notes at purchase price equal to 101% of their principal amount plus accrued and unpaid interest at such repurchase date.

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB500 million (31 December 2011: RMB2,250 million) to certain banks for banking facilities granted to the Group as at 30 June 2012.

A jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounted to RMB95 million (31 December 2011: RMB100 million) granted to the Group. Such banking facilities have not been utilised as at 30 June 2012.

The Group has provided guarantees to associates amounting to RMB45 million (31 December 2011: RMB45 million) and to jointly controlled entities amounting to RMB50 million (31 December 2011: RMB50 million).

The compensation to key management personnel during the period is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **4,983** | 4,929 |
| Post-employment benefits | **68** | 26 |
| Share-based payments | **11,283** | 14,031 |
| | **16,334** | 18,986 |

# 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 (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 78 to 160, which comprise the consolidated statement of financial position as at 31 December 2011, 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 of the Company 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 of the Company, 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 2011, 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
27 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

| | Notes | **2011 RMB million** | 2010 RMB million |
|---|---|---|---|
| Revenue | 7 | **15,068** | 11,215 |
| Cost of sales | | **(11,166)** | (8,203) |
| Gross profit | | **3,902** | 3,012 |
| Other income | 8 | **167** | 114 |
| Other gains and losses | 9 | **14** | 96 |
| Distribution and selling expenses | | **(283)** | (213) |
| Administrative expenses | | **(1,380)** | (1,169) |
| Share of results of associates | | **51** | 5 |
| Share of results of jointly controlled entities | | **316** | 277 |
| Finance costs | 10 | **(460)** | (311) |
| Profit before tax | 11 | **2,327** | 1,811 |
| Income tax expense | 13 | **(660)** | (410) |
| Profit and total comprehensive income for the year | | **1,667** | 1,401 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **1,253** | 1,013 |
| Non-controlling interests | | **414** | 388 |
| | | **1,667** | 1,401 |

| | | **2011 RMB** | 2010 RMB |
|---|---|---|---|
| Earnings per share | 15 | | |
| – Basic | | **1.19** | 0.97 |
| – Diluted | | **1.18** | 0.95 |

# Consolidated Statement of Financial Position

At 31 December 2011

| | Notes | 2011 RMB million | 2010 RMB million |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 16 | **13,073** | 10,800 |
| Prepaid lease payments | 17 | **695** | 658 |
| Investment properties | 18 | **57** | 54 |
| Goodwill | 19 | **196** | 192 |
| Intangible assets | 20 | **1,051** | 702 |
| Interests in associates | 21 | **694** | 488 |
| Interests in jointly controlled entities | 22 | **1,733** | 1,361 |
| Available-for-sale financial assets | 23 | **14** | 14 |
| Loan receivable | 24 | **3** | 6 |
| Other receivables | 25 | **5** | 72 |
| Amounts due from associates | 26 | **39** | 21 |
| Amounts due from jointly controlled entities | 27 | **66** | – |
| Amounts due from related companies | 28 | **26** | 21 |
| Deferred tax assets | 29 | **176** | 131 |
| Deposits paid for investments | 30 | **41** | 30 |
| Deposits paid for acquisition of property, and plant and equipment, land use rights and operation rights | | **68** | 6 |
| Restricted bank deposits | 31 | **7** | 5 |
| | | **17,944** | 14,561 |
| **Current Assets** | | | |
| Inventories | 32 | **272** | 249 |
| Trade and other receivables | 25 | **1,837** | 1,356 |
| Prepaid lease payments | 17 | **17** | 13 |
| Amounts due from customers for contract work | 33 | **201** | 307 |
| Amounts due from associates | 26 | **31** | 12 |
| Amounts due from jointly controlled entities | 27 | **404** | 213 |
| Amounts due from related companies | 28 | **31** | 13 |
| Restricted bank deposits | 31 | **2,675** | 65 |
| Cash and cash equivalents | 34 | **3,349** | 2,851 |
| | | **8,817** | 5,079 |
| Assets classified as held for sale | 35 | **127** | – |
| | | **8,944** | 5,079 |

## Consolidated Statement of Financial Position

At 31 December 2011

| | Notes | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade and other payables | 36 | **4,172** | 3,574 |
| Amounts due to customers for contract work | 33 | **989** | 665 |
| Amounts due to associates | 26 | **119** | 69 |
| Amounts due to jointly controlled entities | 27 | **627** | 554 |
| Amounts due to related companies | 37 | **37** | 41 |
| Taxation payables | | **234** | 172 |
| Bank and other loans – due within one year | 38 | **1,913** | 1,569 |
| Short-term debentures | 39 | **1,300** | 810 |
| Financial guarantee liability | 40 | **9** | 6 |
| Deferred income | 41 | **44** | 29 |
| | | **9,444** | 7,489 |
| Liabilities associated with assets held for sale | 35 | **76** | – |
| | | **9,520** | 7,489 |
| **Net Current Liabilities** | | **(576)** | (2,410) |
| **Total Assets less Current Liabilities** | | **17,368** | 12,151 |
| **Capital and Reserves** | | | |
| Share capital | 42 | **110** | 110 |
| Reserves | | **6,936** | 5,922 |
| Equity attributable to owners of the Company | | **7,046** | 6,032 |
| Non-controlling interests | | **1,794** | 1,508 |
| **Total Equity** | | **8,840** | 7,540 |
| **Non-current Liabilities** | | | |
| Bank and other loans – due after one year | 38 | **2,327** | 2,568 |
| Corporate bond | 43 | **496** | – |
| Senior notes | 44 | **4,636** | – |
| Guaranteed notes | 45 | **–** | 1,316 |
| Deferred tax liabilities | 29 | **337** | 225 |
| Deferred income | 41 | **732** | 502 |
| | | **8,528** | 4,611 |
| | | **17,368** | 12,151 |

The consolidated financial statements on pages 78 to 160 were approved and authorised for issue by the Board of Directors on 27 March 2012 and are signed on its behalf by:

| | |
|---|---|
| **Wang Yusuo**<br>*DIRECTOR* | **Yu Jianchao**<br>*DIRECTOR* |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

| | Equity attributable to owners of the Company | | | | | | | | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special reserve | Share options reserve | Statutory surplus reserve fund | Designated safety fund | Retained earnings | Total | | |
| | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million |
| | (Note 42) | | (Note a) | | (Note b) | (Note c) | | | | |
| Balance at 1 January 2010 | 110 | 2,184 | (18) | – | 307 | 14 | 2,520 | 5,117 | 1,310 | 6,427 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 1,013 | 1,013 | 388 | 1,401 |
| Acquisition of businesses (Note 47(b)) | – | – | – | – | – | – | – | – | 1 | 1 |
| Acquisition of assets through acquisition of subsidiaries (Note 48) | – | – | – | – | – | – | – | – | 26 | 26 |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | – | – | – | 8 | 8 |
| Acquisition of additional interests in subsidiaries | – | – | 1 | – | – | – | – | 1 | (8) | (7) |
| Recognition of equity settled share-based payment | – | – | – | 101 | – | – | – | 101 | – | 101 |
| Dividend appropriation (Note 14) | – | – | – | – | – | – | (200) | (200) | – | (200) |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | – | – | – | (217) | (217) |
| Transfer to statutory surplus reserve fund | – | – | – | – | 61 | – | (61) | – | – | – |
| Transfer to designated safety fund | – | – | – | – | – | 12 | (12) | – | – | – |
| Balance at 31 December 2010 | 110 | 2,184 | (17) | 101 | 368 | 26 | 3,260 | 6,032 | 1,508 | 7,540 |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **1,253** | **1,253** | **414** | **1,667** |
| Issue of shares upon exercise of share option (Note 46) | **–** | **18** | **–** | **(5)** | **–** | **–** | **–** | **13** | **–** | **13** |
| Acquisition of businesses (Note 47(a)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **45** | **45** |
| Capital contribution from non-controlling shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **58** | **58** |
| Acquisition of additional interest in a subsidiary | **–** | **–** | **(1)** | **–** | **–** | **–** | **–** | **(1)** | **(1)** | **(2)** |
| Recognition of equity settled share-based payment | **–** | **–** | **–** | **46** | **–** | **–** | **–** | **46** | **–** | **46** |
| Dividend appropriation (Note 14) | **–** | **–** | **–** | **–** | **–** | **–** | **(297)** | **(297)** | **–** | **(297)** |
| Dividend paid to non-controlling shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(230)** | **(230)** |
| Transfer to statutory surplus reserve fund | **–** | **–** | **–** | **–** | **41** | **–** | **(41)** | **–** | **–** | **–** |
| Transfer to designated safety fund | **–** | **–** | **–** | **–** | **–** | **12** | **(12)** | **–** | **–** | **–** |
| Balance at 31 December 2011 | **110** | **2,202** | **(18)** | **142** | **409** | **38** | **4,163** | **7,046** | **1,794** | **8,840** |

Notes:

a. The balance as of 31 December 2010 represented the difference between paid up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB2 million during the group restructuring carried out for the purpose of initial offering of the Company's shares in 2001 and the difference between the fair value and the carrying values of the underlying assets and liabilities attributable to the additional acquisition of interest in subsidiaries of RMB19 million.

During the year ended 31 December 2011, the Group acquired additional interest in a subsidiary from a non-controlling shareholder, the difference between the consideration paid and the carrying amount of non-controlling interests in respect of the additional interest in a subsidiary of RMB1 million is dealt with in reserve and attributable to owners of the Company.

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

c. 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 2011

| | Notes | 2011 RMB million | 2010 RMB million |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | **2,327** | 1,811 |
| Adjustments for: | | | |
| Share of results of associates | | **(51)** | (5) |
| Share of results of jointly controlled entities | | **(316)** | (277) |
| Exchange gain of guaranteed notes | | **(168)** | (41) |
| Impairment loss on property, plant and equipment | | **–** | 15 |
| Reversal of impairment loss on trade and other receivables, net | | **(23)** | (17) |
| Loss on disposal of property, plant and equipment | | **5** | 20 |
| Gain on disposal of prepaid lease payments | | **–** | (20) |
| Gain on disposal/deregistration of jointly controlled entities | | **–** | (3) |
| Gain on derecognition/disposal of subsidiaries | 49 | **–** | (10) |
| Loss on deregistration of subsidiaries | | **–** | 1 |
| Increase in fair value of investment properties | | **(8)** | (3) |
| Share-based payment expenses | | **46** | 101 |
| Depreciation of property, plant and equipment | | **482** | 409 |
| Amortisation of intangible assets | | **37** | 32 |
| Release of prepaid lease payments | | **18** | 14 |
| Fair value adjustment on interest-free advances to related companies at initial recognition | | **3** | – |
| Reversal of fair value adjustment on interest-free advances due to early settlement | | **–** | (4) |
| Financial guarantee income | | **(5)** | (2) |
| Bank interest income | | **(46)** | (26) |
| Imputed interest on interest-free advances to related companies | | **–** | (1) |
| Premium an early redemption of guaranteed notes | | **95** | – |
| Interest expenses | | **460** | 311 |
| Deferred income released to profit or loss | | **(36)** | (24) |
| | | **2,820** | 2,281 |
| Movements in working capital: | | | |
| (Increase) decrease in inventories | | **(16)** | 37 |
| Increase in trade and other receivables | | **(391)** | (93) |
| Decrease (increase) in amounts due from customers for contract work | | **106** | (65) |
| (Increase) decrease in amounts due from associates | | **(11)** | 76 |
| Increase in amounts due from jointly controlled entities | | **(103)** | (24) |
| (Increase) decrease in amounts due from related companies | | **(5)** | 8 |
| Increase in trade and other payables | | **500** | 754 |
| Increase in amounts due to customers for contract work | | **324** | 100 |
| (Decrease) increase in amounts due to jointly controlled entities | | **(38)** | 56 |
| Increase (decrease) in amounts due to associates | | **13** | (1) |
| (Decrease) increase in amounts due to related companies | | **(14)** | 17 |
| Cash generated from operations | | **3,185** | 3,146 |
| PRC enterprise income tax paid | | **(628)** | (431) |
| **Net cash generated from operating activities** | | **2,557** | 2,715 |

| | Notes | 2011 RMB million | 2010 RMB million |
|---|---|---|---|
| **Investing activities** | | | |
| Dividend received from jointly controlled entities | | **234** | 89 |
| Dividend received from associates | | **11** | 8 |
| Interest received | | **46** | 26 |
| Deferred income received | | **281** | 259 |
| Purchase of property, plant and equipment | | **(2,650)** | (2,151) |
| Increase in prepaid lease payments | | **(55)** | (184) |
| Deposits paid for investments | | **(11)** | – |
| Deposit paid for acquisition of property, plant and equipment | | **(62)** | – |
| Net cash outflow on acquisition of subsidiaries | 47 | **(354)** | (211) |
| Net cash inflow (outflow) on derecognition/deregistration of subsidiaries | 49 | **–** | (12) |
| Deposit received from disposal group | | **42** | – |
| Proceeds from disposal of a jointly controlled entity | | **20** | 6 |
| Investments in jointly controlled entities | | **(248)** | (136) |
| Investments in associates | | **(135)** | (138) |
| Acquisition of intangible assets | | **–** | (40) |
| Proceeds from disposal of property, plant and equipment | | **54** | 4 |
| Proceeds from disposal of prepaid lease payments | | **–** | 21 |
| Increase in restricted bank deposits | | **(2,669)** | (42) |
| Decrease in restricted bank deposits | | **57** | 93 |
| Repayment of loan receivable | | **–** | 3 |
| Amounts advanced to associates | | **(30)** | (9) |
| Amounts repaid by associates | | **1** | 6 |
| Amounts advanced to jointly controlled entities | | **(384)** | (43) |
| Amounts repaid by jointly controlled entities | | **224** | 52 |
| Amounts advanced to related companies | | **(21)** | (43) |
| Amounts repaid by related companies | | **–** | 57 |
| **Net cash used in investing activities** | | **(5,649)** | (2,385) |
| **Financing activities** | | | |
| Interest paid | | **(474)** | (345) |
| Net proceeds from shares issued on exercise of share options | | **13** | – |
| Proceeds from issuance of short-term debentures | | **1,298** | 800 |
| Repayment of short-term debentures | | **(800)** | (800) |
| Repayment of guaranteed notes, including premium | | **(1,389)** | – |
| Net proceeds from issue of corporate bond | | **496** | – |
| Acquisition of additional interests in subsidiaries | | **(2)** | (7) |
| Contribution from non-controlling shareholders | | **58** | 8 |
| Dividends paid to non-controlling shareholders | | **(230)** | (217) |
| Dividends paid to shareholders | | **(297)** | (200) |
| New bank loans raised | | **4,820** | 2,278 |
| Repayment of bank loans | | **(4,820)** | (1,876) |
| Net proceeds from issue of senior notes | | **4,765** | – |
| Amount advanced from associates | | **72** | 55 |
| Amount repaid to associates | | **(35)** | (61) |
| Amount advanced from jointly controlled entities | | **511** | 564 |
| Amount repaid to jointly controlled entities | | **(400)** | (394) |
| Amount advanced from related companies | | **10** | 6 |
| Amount repaid to related companies | | **–** | (3) |
| **Net cash generated from (used in) financing activities** | | **3,596** | (192) |

## Consolidated Statement of Cash Flows

For the year ended 31 December 2011

| | Notes | 2011 RMB million | 2010 RMB million |
|---|---|---|---|
| **Net increase in cash and cash equivalents** | | **504** | 138 |
| **Cash and cash equivalents at the beginning of the year** | | **2,851** | 2,713 |
| **Cash and cash equivalents at the end of the year** | | **3,355** | 2,851 |
| **Represented by:** | | | |
| **Cash and cash equivalents included in assets classified as held for sale** | | **6** | – |
| **Cash and cash equivalents at the end of the year** | | **3,349** | 2,851 |
| | | **3,355** | 2,851 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 1. General Information

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 58.

## 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 RMB576 million as at 31 December 2011. Having considered the secured credit facilities of approximately RMB5,594 million 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 for the year ended 31 December 2011 have been prepared on a going concern basis.

In addition, the Directors have also considered the impact of the potential obligations under the pre-conditional general offer of the shares of China Gas Holdings Limited (the "Offer") made in the Company's announcement dated 12 December 2011 on the Group's financial position and are confident that the Group can obtain sufficient funding and banking facilities to finance the acquisition had the Offer been successfully made in 2012.

## 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 (the "HKICPA") that are mandatorily effective for the Group's financial year ended 31 December 2011.

The application of the new and revised HKFRSs 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.

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

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| HKAS 19 (Revised 2011) | Employee Benefits[2] |
| HKAS 27 (Revised 2011) | Separate Financial Statements[2] |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |

1 Effective for annual periods beginning on or after 1 July 2011.

2 Effective for annual periods beginning on or after 1 January 2013.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 January 2012.

5 Effective for annual periods beginning on or after 1 July 2012.

6 Effective for annual periods beginning on or after 1 January 2014.

The Directors anticipate that the application of the new and revised HKFRSs, other than set out below, will have no material impact on the consolidated financial statements.

## 3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

### HKFRS 9 financial instruments

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 anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the year ending 31 December 2015, 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.

### New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC)-Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures" and HK (SIC)-Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the Directors have not yet performed a detailed analysis of the application of these standards and hence have yet quantified the extent of the impact.

### HKFRS 13 fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may result in more extensive disclosures in the consolidated financial statements.

## 3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

**Amendments to HKAS 1 presentation of items of other comprehensive income**

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

**Amendments to HKAS 12 deferred tax – recovery of underlying assets**

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.

## 4. 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 (the "Listing Rules") 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.

**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*

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.

## 4. Significant Accounting Policies *(continued)*

### Basis of consolidation *(continued)*

*Changes in the Group's ownership interests in existing subsidiaries*

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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specific by applicable HKFRSs). 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.

### Business combinations

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.

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.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

## 4. Significant Accounting Policies *(continued)*

### Goodwill

Goodwill arising on an acquisition of a business is carried cost less 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.

### 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.

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.

## 4. Significant Accounting Policies *(continued)*

### Interests in joint ventures

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.

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 a jointly controlled entity. 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.

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.

### Non-current assets held for sale

Non-current assets and 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 non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

### 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.

## 4. Significant Accounting Policies *(continued)*

**Revenue recognition** *(continued)*

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 provides that the Group is committed to provide ongoing access to gas supply, 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.

**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.

## 4. Significant Accounting Policies *(continued)*

**Leasing** *(continued)*

*Leasehold land and buildings*

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.

**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.

## 4. Significant Accounting Policies *(continued)*

### 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.

## 4. 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 purposes (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 accumulated impairment losses, if any.

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.

Properties in the course of construction for production or supply of goods or services, or for administrative purposes 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.

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 their 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 item 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 deemed cost of the property 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 effective of any changes in estimate being accounted for on a prospective basis.

## 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 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 accumulated impairment losses, if any, 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 are measured at the difference between the net disposal proceeds and the carrying amount of the asset and 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 value 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.

## 4. 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 identified 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 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 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.

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.

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.

For certain categories of financial asset, such as trade and other 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.

## 4. Significant Accounting Policies *(continued)*

**Financial instruments** *(continued)*

*Financial assets (continued)*

Impairment of financial assets *(continued)*

For financial assets carried at amortised cost, the amount of the impairment loss 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).

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, amounts due from associates, jointly controlled entities and related parties, 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.

*Financial liabilities and equity instruments*

Financial liabilities

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 debentures, senior notes 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.

## 4. Significant Accounting Policies *(continued)*

### 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 the revenue recognition policy.

### Derecognition

The Group derecognises a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

### Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 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 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 2011 amounted to RMB13,073 million (2010: RMB10,800 million). 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 2011 amounted to RMB196 million (2010: RMB192 million). 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 2011, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB804 million (2010: RMB723 million). Details of movement in impairment on trade and other receivables are set out in Note 25.

## 6. 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 38, 39, 43, 44 and 45, net of cash on hand) 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:

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Bank and other loans | 4,240 | 4,137 |
| Short-term debentures | 1,300 | 810 |
| Corporate bond | 496 | – |
| Senior notes | 4,636 | – |
| Guaranteed notes | – | 1,316 |
| | 10,672 | 6,263 |
| Less: Cash and cash equivalents | (3,349) | (2,851) |
| Bank deposits to secure for pre-conditional cash offer of China Gas Holdings Limited (note) | (2,520) | – |
| Net debt | 4,803 | 3,412 |
| Total equity | 8,840 | 7,540 |

| | 2011 % | 2010 % |
|---|---|---|
| Net debt to total equity ratio | 54.3 | 45.3 |

Note: Details of the pre-conditional cash offer are set out in Note 50(c). As the pre-conditional cash offer did not become unconditional at 31 December 2011 or up to the date of approval of the consolidated financial statements, the deposit as escrow for this cash offer was deducted from the total dabt for the purpose of computing the gearing ratio for the Group's capital risk management purpose.

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

### b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities (including financial assets and liabilities that has been classified as held for sale) at the end of the reporting period are set out as follows:

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale financial assets | 14 | 14 |
| Loans and receivables (including cash and cash equivalents) | 7,543 | 3,919 |
| **Financial liabilities** | | |
| Amortised cost | 13,091 | 8,464 |
| Financial guarantee liability | 9 | 6 |

## 6. Capital Management and Financial Instruments *(continued)*

### 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, 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 debentures, corporate bond, senior notes, guaranteed notes and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate 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 | |
|---|---|---|---|---|
| | **2011 RMB million** | 2010 RMB million | **2011 RMB million** | 2010 RMB million |
| Foreign currency: | | | | |
| United States Dollar ("USD") | **2,691** | 30 | **5,529** | 2,484 |
| Hong Kong Dollar ("HKD") | **37** | 23 | **9** | 11 |

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 | |
|---|---|---|---|---|
| | **2011 %** | 2010 % | **2011 %** | 2010 % |
| Possible change in exchange rate | **5** | 5 | **5** | 5 |

| | **2011 RMB million** | 2010 RMB million | **2011 RMB million** | 2010 RMB million |
|---|---|---|---|---|
| (Decrease) increase in profit for the year: | | | | |
| – if RMB weakens against foreign currencies | **(142)** | (123) | **1** | 1 |
| – if RMB strengthens against foreign currencies | **142** | 123 | **(1)** | (1) |

## 6. Capital Management and Financial Instruments *(continued)*

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

*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 associates, jointly controlled entities and related companies, and fixed-rate bank and other loans, short-term debentures, corporate bond, senior notes and guaranteed notes (see Notes 26, 27, 28, 38, 39, 43, 44 and 45 for details of these amounts, loans, debentures, bond and notes respectively).

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

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 38 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. The management of the Group has adjusted the sensitivity analysis from 27 basis points to 75 basis points due to the increased volatility of interest rate in 2011. 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.

| | **2011**<br>**RMB million** | 2010<br>RMB million |
|---|---|---|
| Reasonably possible change in interest rate | **75 basis points** | 27 basis points |
| (Decrease) increase in profit for the year | | |
| – as a result of increase in interest rate | **(28)** | (9) |
| – as a result of decrease in interest rate | **28** | 9 |

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

*Credit risk management*

As at 31 December 2011, 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 guarantees 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 40.

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, advances to associate, jointly controlled entity and related party 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 guarantee, 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 31 December 2010 and 2011.

## 6. 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, capital expansion plans 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 the date of the approval of the consolidated financial statements, the Group has available unutilised credit facilities of approximately RMB5,594 million (2010: RMB3,655 million).

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 existed 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 undiscounted cash flow | Carrying amount at end of the reporting period |
|---|---|---|---|---|---|---|---|---|---|
| | % | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million |
| At 31 December 2011 | | | | | | | | | |
| Trade and other payables | | 1,733 | – | – | – | – | – | 1,733 | 1,733 |
| Amounts due to associates | | 118 | – | – | – | – | – | 118 | 118 |
| Amounts due to jointly controlled entities | | 531 | – | – | – | – | – | 531 | 531 |
| Amounts due to related-companies | | 37 | – | – | – | – | – | 37 | 37 |
| Bank and other loans | | | | | | | | | |
| – fixed rate | 6.20 | 410 | – | – | – | – | – | 410 | 396 |
| – variable rate | 5.50 | 1,896 | 974 | 338 | 372 | 344 | 602 | 4,526 | 3,844 |
| Short-term debentures | 6.09 | 1,374 | – | – | – | – | – | 1,374 | 1,300 |
| Corporate bond | 6.62 | 32 | 32 | 32 | 32 | 32 | 538 | 698 | 496 |
| Senior notes | 6.28 | 284 | 284 | 284 | 284 | 284 | 6,245 | 7,665 | 4,636 |
| Financial guarantee contracts | | 95 | – | – | – | – | – | 95 | 9 |
| | | 6,510 | 1,290 | 654 | 688 | 660 | 7,385 | 17,187 | 13,100 |
| At 31 December 2010 | | | | | | | | | |
| Trade and other payables | – | 1,534 | 3 | – | – | – | – | 1,537 | 1,537 |
| Amounts due to associates | – | 69 | – | – | – | – | – | 69 | 69 |
| Amounts due to jointly controlled entities | – | 554 | – | – | – | – | – | 554 | 554 |
| Amounts due to related companies | – | 41 | – | – | – | – | – | 41 | 41 |
| Bank and other loans | | | | | | | | | |
| – fixed rate | 4.88 | 783 | – | – | – | – | – | 783 | 772 |
| – variable rate | 5.69 | 967 | 690 | 962 | 279 | 303 | 848 | 4,049 | 3,365 |
| Short-term debentures | 3.27 | 826 | – | – | – | – | – | 826 | 810 |
| Guaranteed notes | 7.37 | 98 | 1,383 | – | – | – | – | 1,481 | 1,316 |
| Financial guarantee contracts | – | 45 | – | – | – | – | – | 45 | 6 |
| | | 4,917 | 2,076 | 962 | 279 | 303 | 848 | 9,385 | 8,470 |

## 6. 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:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **RMB million** | **Expiry period** | RMB million | Expiry period |
| Guarantees issued to banks to secure loan facilities granted to an associate and a jointly controlled entity | **95** | **2012–2013** | 45 | 2012–2013 |

### 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.

Except as detailed in the following table, 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:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Carrying amount RMB million** | **Fair value RMB million** | Carrying amount RMB million | Fair value RMB million |
| Fixed-rate bank loans | **396** | **372** | 772 | 683 |
| Senior notes | **4,636** | **4,442** | – | – |
| Guaranteed notes | **–** | **–** | 1,316 | 1,327 |
| Short-term debentures | **1,300** | **1,288** | 810 | 781 |
| Corporate bond | **496** | **479** | – | – |

## 7. Revenue

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Revenue comprises the following: | | |
| Sales of goods | | |
| Sales of piped gas | **7,980** | 5,728 |
| Vehicle gas refuelling stations | **1,620** | 1,209 |
| Wholesale of gas | **1,172** | 905 |
| Distributions of bottled liquefied petroleum gas (“LPG”) | **192** | 240 |
| Sales of gas appliances | **97** | 84 |
| Sales of material | **592** | 414 |
| | **11,653** | 8,580 |
| Provision of service | | |
| Gas connection fees | **3,415** | 2,635 |
| | **15,068** | 11,215 |

## 8. Other Income

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Other income includes: | | |
| Incentive subsidies (note a) | **46** | 50 |
| Bank interest income | **46** | 26 |
| Imputed interest on interest-free advances to related companies (Note 28) | **–** | 1 |
| Rental income from investment properties, net (note b) | **3** | 3 |
| Financial guarantee income | **5** | 2 |

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. The property rental income, net of outgoing expenses of RMB416,000 (2010: RMB424,000), earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB2,919,000 (2010: RMB2,731,000).

## 9. Other Gains and Losses

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Impairment loss (recognised) reversed on: | | |
| – Property, plant and equipment (Note 16) | – | (15) |
| – Trade and other receivables, net (Note 25) | 23 | 17 |
| Gain (loss) on disposal of: | | |
| – Property, plant and equipment | (5) | (20) |
| – Prepaid lease payments | – | 20 |
| – Jointly controlled entities (note a) | – | 3 |
| Gain on derecognition of subsidiary to jointly controlled entities (Note 49) | – | 10 |
| Loss on deregistration of subsidiaries (Note 49) | – | (1) |
| Increase in fair value of investment properties (Note 18) | 8 | 3 |
| Early redemption premium of guaranteed notes (Note 45) | (95) | – |
| Arrangement fee of a banking facility (note b) | (57) | – |
| Fair value adjustment on interest-free advances to related companies at initial recognition | (3) | – |
| Reversal of fair value adjustment on interest-free advances to related companies due to early settlement (Note 28) | – | 4 |
| Gain on foreign exchange, net (note c) | 143 | 75 |
| | 14 | 96 |

Notes:

a. The balance for the year ended 31 December 2010 was arising from the disposal of 雲南新奧清潔能源有限公司 (Yunnan Xinao Clean Energy Company Limited).

b. The balance represented an arrangement fee payable to a financial institution for certain banking facilities granted to the Group which is not refundable regardless of the utilisation of such facilities by the Group.

c. Included in the balance for the year ended 31 December 2011 is an amount of approximately RMB138 million which is the exchange gain arising from the translation of senior notes denominated in USD to RMB.

## 10. Finance Costs

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Interest on: | | |
| Bank and other loans wholly repayable within five years | 155 | 76 |
| Bank loans not wholly repayable within five years | 105 | 143 |
| Guaranteed notes | 55 | 104 |
| Short-term debentures | 18 | 27 |
| Senior notes | 187 | – |
| Corporate bond | 29 | – |
| | 549 | 350 |
| Less: Amount capitalised under construction in progress (note) | (89) | (39) |
| | 460 | 311 |

Note: Borrowing costs capitalised during both year arose from funds borrowed specifically for the purpose of obtaining qualifying assets. In addition, during the year ended 31 December 2011, the borrowing cost capitalised arose from the pool of general borrowing calculated by applying a capitalisation rate of 5.74% per annum to expenditure on qualifying assets.

## 11. Profit Before Tax

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Profit before tax has been arrived at after (crediting) charging: | | |
| Share-based payment expenses, including directors' emoluments (included in administrative expenses) | **46** | 101 |
| Other staff costs, including directors' emoluments | **1,272** | 819 |
| Less: Amount of other staff costs capitalised under construction in progress | **(56)** | (27) |
| | **1,216** | 792 |
| Depreciation and amortisation: | | |
| Property, plant and equipment | **482** | 409 |
| Intangible assets | **37** | 32 |
| Total depreciation and amortisation (note) | **519** | 441 |
| Impairment loss on property, plant and equipment | **–** | 15 |
| Release of prepaid lease payments | **18** | 14 |
| Auditors' remuneration | **8** | 8 |
| Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss | **49** | 40 |
| Research and development expenses (included in administrative expenses) | **2** | 11 |

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

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Depreciation and amortisation included in: | | |
| Cost of sales | **388** | 345 |
| Administrative expenses | **131** | 96 |
| | **519** | 441 |

## 12. Remuneration of Directors and Employees

### a. Directors' emoluments

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

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| **Name of director** | **Fee RMB'000** | **Salaries and allowance RMB'000** | **Discretionary performance bonus RMB'000** | **Share-based payment RMB'000** | **Retirement benefit scheme contributions RMB'000** | **Total emoluments RMB'000** |
| Wang Yusuo | – | **2,583** | – | **1,103** | – | **3,686** |
| Zhao Jinfeng | – | **596** | – | **3,252** | – | **3,848** |
| Jin Yongsheng | **199** | – | – | **551** | – | **750** |
| Yu Jianchao | – | **596** | – | **4,962** | – | **5,558** |
| Cheung Yip Sang | – | **1,834** | **493** | **5,375** | **48** | **7,750** |
| Cheng Chak Ngok | – | **1,490** | – | **620** | **10** | **2,120** |
| Liang Zhiwei* | – | **209** | – | **1,722** | – | **1,931** |
| Zhai Xiaoqin* | – | **209** | – | **1,722** | – | **1,931** |
| Zhao Baoju | **199** | – | – | **276** | – | **475** |
| Wang Guangtian | **199** | – | – | **276** | – | **475** |
| Yien Yu Yu, Catherine | **199** | – | – | **276** | – | **475** |
| Kong Chung Kau | **199** | – | – | **276** | – | **475** |
| Zhao Shengli** | – | **954** | **941** | **4,273** | **48** | **6,216** |
| Wang Dongzhi** | – | **447** | – | **3,377** | – | **3,824** |
| | **995** | **8,918** | **1,434** | **28,061** | **106** | **39,514** |

* In accordance with the articles of association of the Company, Mr. Liang Zhiwei and Ms. Zhai Xiaoqin, executive directors of the Company, retired from office as directors of the Company at the annual general meeting on 31 May 2011 and did not offer themselves for re-election.

** Mr. Zhao Shengli and Mr. Wang Dongzhi have been appointed as executive directors of the Company with effect from 25 March 2011.

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

* Mr. Chen Jiacheng had resigned as an executive director of the Company with effect from 31 March 2010.

The amounts disclosed above include directors' fees of RMB597,000 (2010: RMB393,000) 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 of the Group in 2011 and 2010 were all directors of the Company and details of their emoluments are included in Note 12(a) above.

## 13. Income Tax Expense

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| PRC Enterprise Income Tax: | | |
| Current tax | **687** | 491 |
| Under provision in prior years | **–** | 1 |
| Withholding tax | **3** | 15 |
| | **690** | 507 |
| Deferred tax (Note 29) | | |
| Current year | **(30)** | (97) |
| | **660** | 410 |

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% 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 current EIT Law from 1 January 2008 and the tax rate applicable for 2011 is 24% (2010: 22%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group 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 24% to 25% (2010: 22% to 25%) and the reduced tax rates for the relief period range from 12% to 12.5% (2010: 11% 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 in 2012.

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

## 13. Income Tax Expense *(continued)*

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

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Profit before tax | **2,327** | 1,811 |
| Tax at the PRC Enterprise Income Tax rate of 25% | **582** | 453 |
| Tax effects of share of results of associates | **(13)** | (1) |
| Tax effects of share of results of jointly controlled entities | **(79)** | (69) |
| Tax effects of income not taxable for tax purpose | **(6)** | (15) |
| Tax effects of expenses not deductible for tax purpose | **101** | 75 |
| Tax effects of tax losses not recognised | **129** | 100 |
| Utilisation of tax losses previously not recognised | **(24)** | (41) |
| Tax effects of deductible temporary differences not recognised | **18** | – |
| Tax concession and exemption granted to PRC subsidiaries | **(29)** | (16) |
| Effect of different tax rates of subsidiaries | **(41)** | (90) |
| Under provision in respect of prior years | **–** | 1 |
| Withholding tax on undistributed profit of PRC entities | **22** | 13 |
| Income tax charge for the year | **660** | 410 |

## 14. Dividends

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Final dividend paid in respect of previous financial year | **248** | 200 |
| Special dividend paid in respect of 2010 | **49** | – |
| | **297** | 200 |

a. 2009 final dividend of HK$21.65 cents (equivalent to approximately RMB19.06 cents) per share or approximately RMB200 million in aggregate was paid during the year ended 31 December 2010.

b. 2010 final dividend of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share or approximately RMB248 million in aggregate was paid during the year ended 31 December 2011.

c. 2010 special dividend of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share or approximately RMB49 million in aggregate was paid during the year ended 31 December 2011.

d. The proposed final dividend in respect of 2011 of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share on 1,066,594,397 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:

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic and diluted earnings per share | **1,253** | 1,013 |

| | **2011 Number of shares** | 2010 Number of shares |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,050,428,849** | 1,050,149,397 |
| Effect of dilutive potential ordinary shares arising from issue of share options by the Company | **11,370,212** | 11,634,003 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,061,799,061** | 1,061,783,400 |

## 16. Property, Plant and Equipment

| | Land and buildings RMB million | Pipelines RMB million | Machinery and equipment RMB million | Motor vehicles RMB million | Office equipment RMB million | Construction in progress RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| Balance at 1 January 2010 | 929 | 6,450 | 697 | 339 | 469 | 1,382 | 10,266 |
| Acquisition of subsidiaries | 18 | 20 | 8 | 7 | – | 47 | 100 |
| Additions | 37 | 22 | 47 | 56 | 57 | 1,970 | 2,189 |
| Reclassification | 136 | 1,155 | 42 | 3 | 81 | (1,417) | – |
| Transfer from investment properties | 22 | – | – | – | – | – | 22 |
| Derecognition/deregistration of subsidiaries | (2) | (36) | (10) | (4) | (2) | (2) | (56) |
| Disposals | (36) | (44) | (22) | (12) | (6) | – | (120) |
| Balance at 31 December 2010 | 1,104 | 7,567 | 762 | 389 | 599 | 1,980 | 12,401 |
| Acquisition of subsidiaries | 17 | 112 | 2 | 7 | 1 | 40 | 179 |
| Additions | 31 | 190 | 92 | 57 | 150 | 2,219 | 2,739 |
| Reclassification | 100 | 1,436 | 28 | – | 73 | (1,637) | – |
| Transfer from investment properties | 5 | – | – | – | – | – | 5 |
| Transfer to assets classified as held for sale | (13) | (104) | (1) | (9) | (2) | (3) | (132) |
| Disposal/deregistration of subsidiaries | (5) | – | (7) | – | – | – | (12) |
| Disposals | (35) | (6) | (25) | (22) | (8) | – | (96) |
| Balance at 31 December 2011 | 1,204 | 9,195 | 851 | 422 | 813 | 2,599 | 15,084 |
| DEPRECIATION AND AMORTISATION/ IMPAIRMENT | | | | | | | |
| Balance at 1 January 2010 | 107 | 703 | 142 | 149 | 131 | 6 | 1,238 |
| Provided for the year | 33 | 231 | 33 | 52 | 60 | – | 409 |
| Impairment loss recognised | – | 15 | – | – | – | – | 15 |
| Eliminated on derecognition/ deregistration of subsidiaries | (1) | (3) | (2) | (1) | – | – | (7) |
| Eliminated on disposals | (9) | (16) | (12) | (12) | (5) | – | (54) |
| Balance at 31 December 2010 | 130 | 930 | 161 | 188 | 186 | 6 | 1,601 |
| Provided for the year | 34 | 255 | 60 | 54 | 79 | – | 482 |
| Transfer to assets classified as held for sale | (3) | (21) | (1) | (5) | (1) | – | (31) |
| Eliminated on disposal/deregistration of subsidiaries | – | – | (3) | (1) | – | – | (4) |
| Eliminated on disposals | (4) | (2) | (10) | (15) | (6) | – | (37) |
| Balance at 31 December 2011 | 157 | 1,162 | 207 | 221 | 258 | 6 | 2,011 |
| CARRYING VALUES | | | | | | | |
| Balance at 31 December 2011 | 1,047 | 8,033 | 644 | 201 | 555 | 2,593 | 13,073 |
| Balance at 31 December 2010 | 974 | 6,637 | 601 | 201 | 413 | 1,974 | 10,800 |

## 16. Property, Plant and Equipment *(continued)*

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis as follows:

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

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB46 million (2010: RMB47 million) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of obtaining the ownership certificates for its buildings in the PRC amounting to approximately RMB235 million (2010: RMB219 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the ownership certificates 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 RMB15 million was recognised in profit or loss.

## 17. Prepaid Lease Payments

| | **2011**<br>**RMB million** | 2010<br>RMB million |
|---|---|---|
| The Group's prepaid lease payments comprise land in the PRC under medium-term lease | **712** | 671 |
| Analysed for reporting purposes as: | | |
| Current portion | **17** | 13 |
| Non-current portion | **695** | 658 |
| | **712** | 671 |

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 RMB50 million (2010: RMB66 million). 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 million |
|---|---|
| FAIR VALUE | |
| At 1 January 2010 | 73 |
| Net increase in fair value recognised in profit or loss | 3 |
| Transfer to property, plant and equipment (Note 16) | (22) |
| At 31 December 2010 | 54 |
| Net increase in fair value recognised in profit or loss | 8 |
| Transfer to property, plant and equipment (Note 16) | (5) |
| At 31 December 2011 | 57 |

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. These investment properties include land and buildings which comprise operating leases in respect of properties situated in the PRC under medium-term.

The fair value of the Group's investment properties at 31 December 2010 and 2011 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.

## 19. Goodwill

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| COST | | |
| At beginning of the year | **243** | 222 |
| Arising on: | | |
| Acquisition of businesses (Note 47) | **4** | 21 |
| At end of the year | **247** | 243 |
| IMPAIRMENT | | |
| At beginning and end of the year | **(51)** | (51) |
| CARRYING AMOUNTS | | |
| At end of the year | **196** | 192 |

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

## 19. Goodwill *(continued)*

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:

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| Sale of piped gas business located in Lianyungang, the PRC | **18** | 18 |
| Sale of piped gas business located in Kaifeng, the PRC | **16** | 16 |
| Sale of piped gas business located in Hangzhou Xiaoshan, the PRC | **37** | 37 |
| Sale of piped gas business located in Guangdong, the PRC | **21** | 21 |
| Production and sale of liquefied natural gas ("LNG") (included under sale of piped gas segment) | **15** | 15 |
| Other CGUs | **89** | 85 |
| | **196** | 192 |

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. The Directors estimate 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 1.5% to 26.5% (2010: 1.5% to 29.1%), and discount rate of 10% (2010: 10%). 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 million | Customer base RMB million | Total RMB million |
|---|---|---|---|
| COST | | | |
| At 1 January 2010 | 482 | 42 | 524 |
| Addition | 40 | – | 40 |
| Arising on acquisition of subsidiaries (Note 47(b)) | 241 | 4 | 245 |
| At 31 December 2010 | 763 | 46 | 809 |
| Arising on acquisition of subsidiaries (Note 47(a)) | 382 | 4 | 386 |
| At 31 December 2011 | 1,145 | 50 | 1,195 |
| AMORTISATION | | | |
| At 1 January 2010 | 70 | 5 | 75 |
| Charge for the year | 30 | 2 | 32 |
| At 31 December 2010 | 100 | 7 | 107 |
| Charge for the year | 35 | 2 | 37 |
| At 31 December 2011 | 135 | 9 | 144 |
| CARRYING VALUES | | | |
| At 31 December 2011 | 1,010 | 41 | 1,051 |
| At 31 December 2010 | 663 | 39 | 702 |

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

## 21. Interests in Associates

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| Cost of investment in associates | | |
| Listed | **44** | 44 |
| Unlisted | **592** | 429 |
| Share of post-acquisition profits net of dividend received | **38** | (2) |
| | **674** | 471 |
| Deemed capital contribution | | |
| Financial guarantee | **9** | 9 |
| Fair value adjustments on interest-free advances | **11** | 8 |
| | **20** | 17 |
| | **694** | 488 |
| Market value of the listed equity interests in an associate | **14** | 32 |

## 21. Interests in Associates *(continued)*

Included in the interests in associates is goodwill of approximately RMB110 million (2010: RMB75 million) arising on acquisitions of associates.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.9% (2010: 5.4%) per annum and average terms of 2 years.

Details of the Group's principal associates as at 31 December 2010 and 31 December 2011 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 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| 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 a)** | 54.57% (note a) | Sales of LPG |
| 新能能源有限公司 (Xinneng Energy Company Limited) ("Xinneng Energy") | Incorporated | The PRC | **15% (note b)** | 15% (note b) | Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant |

Notes:

a. 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 ventures and it is therefore classified as an associate of the Group.

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

c. The above table lists the associates of the Group which in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other associates of the Group would, in the opinion of the Directors, results in particulars of excessive length.

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

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Total assets | **5,226** | 4,552 |
| Total liabilities | **(3,320)** | (3,212) |
| Net assets | **1,906** | 1,340 |
| Group's share of net assets of associates | **564** | 396 |
| Goodwill on acquisition of associates | **110** | 75 |
| Deemed capital contribution | | |
| – Financial guarantee | **9** | 9 |
| – Fair value adjustments on interest-free advances | **11** | 8 |
| | **694** | 488 |
| Revenue | **3,496** | 1,783 |
| Profit (loss) for the year | **221** | (102) |

## 22. Interests in Jointly Controlled Entities

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Cost of unlisted investments | **1,048** | 772 |
| Shares of post-acquisition profits, net of dividends received | **669** | 587 |
| | **1,717** | 1,359 |
| Deemed capital contribution | | |
| Financial guarantee | **9** | 1 |
| Fair value adjustments on interest-free advances | **7** | 1 |
| | **16** | 2 |
| | **1,733** | 1,361 |

Included in the interests in jointly controlled entities is goodwill of approximately RMB160 million (2010: RMB94 million) arising on acquisitions of jointly controlled entities.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.9% (2010: 5.4%) per annum and average terms of 2 years.

Details of the Group's principal jointly controlled entities as at 31 December 2010 and 2011 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 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| 長沙新奧燃氣發展有限公司 (Changsha Xinao Gas Development Limited) | Incorporated | The PRC | **55% (note a)** | 55% (note a) | Sales of piped 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 LPG |
| 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 |
| 株州新奧燃氣發展有限公司 (Zhuzhou Xinao Gas Development Company Limited) ("Zhuzhou Xinao") | Incorporated | The PRC | **55% (note b)** | 55% (note b) | Sales of piped gas |

Notes:

a. 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.

b. 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.

c. The above table lists the jointly controlled entities of the Group which in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other jointly controlled entities of the Group would, in the opinion of the Directors, results in particulars of excessive length.

## 22. Interests in Jointly Controlled Entities *(continued)*

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

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Current assets | **1,258** | 1,086 |
| Non-current assets | **1,926** | 1,487 |
| Current liabilities | **1,236** | 1,055 |
| Non-current liabilities | **240** | 158 |
| Income | **3,121** | 2,394 |
| Expenses | **2,805** | 2,117 |

## 23. Available-for-Sale Financial Assets

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Unlisted equity securities, at cost less impairment | **14** | 14 |

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.

## 24. Loan Receivable

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Represented by: | | |
| Current portion (included in trade and other receivables) | **6** | 3 |
| Non-current portion | **3** | 6 |
| | **9** | 9 |

During the year ended 31 December 2008, the Group granted a loan amounting to RMB15 million 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.

## 25. Trade And Other Receivables

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Trade receivables | 525 | 526 |
| Less: Impairment | (62) | (62) |
| | 463 | 464 |
| Other receivables (note a): | | |
| Current portion | 353 | 231 |
| Non-current portion | 5 | 72 |
| | 358 | 303 |
| Less: Impairment | (17) | (44) |
| | 341 | 259 |
| Notes receivable (note b) | 318 | 79 |
| Advance to suppliers, deposits and prepayments | 720 | 626 |
| Total trade and other receivables | 1,842 | 1,428 |

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Analysed for reporting purpose as: | | |
| Current portion | 1,837 | 1,356 |
| Non-current portion | 5 | 72 |
| | 1,842 | 1,428 |

Notes:

a. Included in other receivables as at 31 December 2010 were amounts due from affiliates of non-controlling shareholders of a subsidiary of approximately RMB67 million.

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

## 25. Trade And Other Receivables *(continued)*

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:

| | **2011**<br>**RMB million** | 2010<br>RMB million |
|---|---|---|
| Within three months | **358** | 378 |
| 4 to 6 months | **58** | 50 |
| 7 to 9 months | **29** | 16 |
| 10 to 12 months | **10** | 13 |
| More than one year | **8** | 7 |
| | **463** | 464 |

The following is an aged analysis of notes receivable:

| | **2011**<br>**RMB million** | 2010<br>RMB million |
|---|---|---|
| Within three months | **228** | 65 |
| 4 to 6 months | **90** | 14 |
| | **318** | 79 |

Before accepting any new customer, the Group assesses 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 approximately RMB408 million (2010: RMB455 million) 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 83 days (2010: 67 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.

## 25. Trade And Other Receivables *(continued)*

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Within one year | **397** | 454 |
| Over one year | **11** | 1 |
| Total | **408** | 455 |

Movements in the impairment on trade receivables

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Balance at beginning of the year | **62** | 76 |
| Impairment losses recognised on receivables | **27** | 38 |
| Amounts recovered during the year | **(23)** | (50) |
| Amounts written off as uncollectible | **(4)** | (2) |
| Balance at end of the year | **62** | 62 |

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

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Balance at beginning of the year | **44** | 49 |
| Impairment losses recognised on receivables | **–** | 1 |
| Amounts recovered during the year | **(27)** | (6) |
| Balance at end of the year | **17** | 44 |

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 approximately RMB1 million had been made during the year ended 31 December 2010. No impairment loss was made during the year ended 31 December 2011.

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either affiliates of non-controlling shareholders of a subsidiary or with satisfactory repayment history. Included in other receivables as of 31 December 2011 of approximately RMB45 million (2010: Nil) is secured by pledge of shares held by the debtor in an associate of the Group.

## 26. Amounts Due from/to Associates

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Amounts due from associates: | | |
| Current portion | **31** | 12 |
| Non-current portion | **39** | 21 |
| | **70** | 33 |
| Amounts due to associates | **119** | 69 |

Included in the amount due from/to associates are trade receivables amounting to approximately RMB20 million (2010: RMB8 million) and trade payables amounting to approximately RMB14 million (2010: RMB2 million) and the aged analysis presented based on the invoice date at the end of the reporting period is as follows:

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| **Trade receivables due from associates** | | |
| Within three months | **9** | 3 |
| 4 to 6 months | **3** | 1 |
| 7 to 9 months | **2** | 1 |
| 10 to 12 months | **1** | – |
| More than one year | **5** | 3 |
| | **20** | 8 |
| **Trade payables due to associates** | | |
| Within three months | **13** | 2 |
| 4 to 6 months | **1** | – |
| | **14** | 2 |

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. The interest-free amounts due from associates that the Group expects to recover after one year from the end of the reporting period are stated at fair value calculated using an effective interest rate at 6.9% (2010: 5.4%) per annum. For the remaining amounts due from associates, the Directors expect 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 associates are not impaired as the counterparties are associates that are financially sound.

## 27. Amounts Due from/to Jointly Controlled Entities

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Amounts due from jointly controlled entities: | | |
| Current portion | **404** | 213 |
| Non-current portion | **66** | – |
| | **470** | 213 |
| Amounts due to jointly controlled entities | **627** | 554 |

Included in the amounts due from jointly controlled entities was approximately RMB56 million (2010: RMB19 million) 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.

Included in the amounts due from/to jointly controlled entities are trade receivables amounting to approximately RMB217 million (2010: RMB95 million) and trade payables amounting to approximately RMB125 million (2010: RMB141 million) and the aged analysis presented based on invoice date is as follows:

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| **Trade receivables due from jointly controlled entities** | | |
| Within three months | **155** | 58 |
| 4 to 6 months | **29** | 13 |
| 7 to 9 months | **12** | 10 |
| 10 to 12 months | **4** | 2 |
| More than one year | **17** | 12 |
| | **217** | 95 |
| **Trade payables due to jointly controlled entities** | | |
| Within three months | **93** | 122 |
| 4 to 6 months | **4** | 13 |
| 7 to 9 months | **5** | 3 |
| 10 to 12 months | **–** | – |
| More than one year | **23** | 3 |
| | **125** | 141 |

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 are unsecured, interest-free and repayable on demand.

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 approximately RMB17 million was reversed and recorded as return of capital in the investment in these jointly controlled entities. 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 are stated at fair value calculated using an effective interest rate at 6.9% (2010: 5.4%) per annum. For the remaining amounts due from jointly controlled entities, the Directors expect 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.

## 28. Amounts Due From Related Companies

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Balance at 31.12.2011 RMB million | Balance at 1.1.2011 RMB million | Maximum amount outstanding during the year RMB million | Balance at 31.12.2010 RMB million | Balance at 1.1.2010 RMB million | Maximum amount outstanding during the year RMB million |
| Amounts due from non-controlling shareholders of subsidiaries with significant influence | **43** | **23** | **59** | 23 | 25 | 34 |
| Amounts due from companies controlled by a shareholder and director (note a) | **14** | **11** | **17** | 11 | 26 | 30 |
| | **57** | **34** | | 34 | 51 | |

Analysed for reporting purposes as:

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Current portion (note b) | **31** | 13 |
| Non-current portion (note c) | **26** | 21 |
| | **57** | 34 |

Notes:

a. The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is the 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 shareholders. The Directors consider that the balances will not be repayable within one year, therefore, they are classified as non-current assets. During the year ended 31 December 2010, unwinding of imputed interest of RMB670,000 and a fair value adjustment of RMB3,912,000 resulted from the related companies settled the interest-free advances earlier than the Group expected, has been included in profit or loss.

## 28. Amounts Due From Related Companies *(continued)*

Included in the amounts due from related companies are trade receivables amounting to RMB16 million (2010: RMB11 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| Within three months | **8** | 7 |
| 4 to 6 months | **2** | 1 |
| 7 to 9 months | **1** | 2 |
| 10 to 12 months | **2** | – |
| More than one year | **3** | 1 |
| | **16** | 11 |

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 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.

## 29. Deferred Taxation

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| Deferred tax assets | **176** | 131 |
| Deferred tax liabilities | **(337)** | (225) |
| | **(161)** | (94) |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

| | **Valuation of properties** RMB million | **Intangible assets** RMB million | **Capitalisation of interest in property, plant and equipment** RMB million | **Undistributed retained profit of PRC entities from 1 January 2008** RMB million (Note) | **Deferred income** RMB million | **Total** RMB million |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 5 | 87 | 36 | 39 | (36) | 131 |
| Acquisition of business (Note 47) | – | 60 | – | – | – | 60 |
| Reversal upon payment of withholding tax | – | – | – | (15) | – | (15) |
| (Credit) charge to profit or loss | – | (5) | 8 | 13 | (98) | (82) |
| At 31 December 2010 | 5 | 142 | 44 | 37 | (134) | 94 |
| Acquisition of business (Note 47) | – | 97 | – | – | – | 97 |
| Reversal upon payment of withholding tax | – | – | – | (3) | – | (3) |
| (Credit) charge to profit or loss | – | (8) | 21 | 22 | (62) | (27) |
| At 31 December 2011 | 5 | 231 | 65 | 56 | (196) | 161 |

## 29. 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 amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders at a withholding tax rate of 5% or 10% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB289 million (2010: RMB190 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries 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 approximately RMB1,382 million (2010: RMB1,393 million) 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:

| | **2011**<br>**RMB million** | 2010<br>RMB million |
|---|---|---|
| 2011 | **–** | 67 |
| 2012 | **184** | 202 |
| 2013 | **342** | 363 |
| 2014 | **345** | 362 |
| 2015 | **382** | 399 |
| 2016 | **129** | – |
| | **1,382** | 1,393 |

At the end of the reporting period, the Group has other deductible temporary differences of approximately RMB651 million (2010: RMB578 million), which are mainly arising from impairment of trade and other receivables and unrealised profits 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.

## 30. Deposits Paid For Investments

The balance as at 31 December 2011 of RMB41 million represented the deposits paid for the investments in six projects in various provinces of the PRC which have not been completed at the end of the reporting period. The balance as at 31 December 2010 of RMB30 million represented the deposit paid for the investment in a company located in Baoding City, PRC which is engaged in the sales of LPG and piped gas. As at 31 December 2011, the acquisition was in the negotiation stage.

## 31. Restricted Bank Deposits

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Current portion | **2,675** | 65 |
| Non-current portion | **7** | 5 |
| | **2,682** | 70 |
| Bank deposits secured for: | | |
| Bills facilities | **99** | 18 |
| Purchase contracts with suppliers | **56** | 46 |
| Rights of operations | **7** | 6 |
| Pre-conditional cash offer of shares of China Gas Holdings Limited | **2,520** | – |
| | **2,682** | 70 |

The balance as at 31 December 2011 included the restricted bank deposits of RMB2,520 million which was made pursuant to an escrow agreement dated 1 December 2011 entered into between the Company, a financial institution and an escrow agent. According to the agreement, the Group has agreed to establish an escrow account and credited a sum of US$400 million (the "Escrow Amount") to secure the proposed pre-conditional cash offer of shares of China Gas Holdings Limited (the "Offer") made by the Group in its announcement dated 12 December 2011. The Escrow Amount will be released upon the completion of the Offer closes for acceptances.

As at 31 December 2011, the restricted bank deposits carry fixed interest rate range from 0.30% to 0.36% (2010: 0.36%) 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.

## 32. Inventories

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Construction materials | **142** | 142 |
| Gas appliances | **61** | 44 |
| Piped gas | **45** | 34 |
| Bottled LPG | **6** | 3 |
| Spare parts and consumable | **18** | 26 |
| | **272** | 249 |

The cost of inventories recognised as an expense during the year was approximately RMB9,942 million (2010: RMB7,047 million).

## 33. Amounts Due from (to) Customers for Contract Work

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Contract costs incurred plus recognised profits | **879** | 718 |
| Less: Progress billings | **(1,667)** | (1,076) |
| | **(788)** | (358) |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **201** | 307 |
| Amounts due to customers for contract work | **(989)** | (665) |
| | **(788)** | (358) |

## 34. Cash and Cash Equivalents

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.5% to 3.1% (2010: 0.36% to 2.25%) per annum as at 31 December 2011. 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 RMB207 million (2010: RMB53 million), of which approximately RMB170 million (2010: RMB30 million) and approximately RMB37 million (2010: RMB23 million) are denominated in USD and HKD respectively.

## 35. Assets Classified As Held for Sale

The amount as of 31 December 2011 represented the assets and liabilities of the Group's 95% owned subsidiary, 北京新奥燃氣有限公司 (Beijing Xinao Gas Company Limited) and the Group's 80% owned subsidiary, 北京新奥京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited), and the carrying amount of certain property, plant and equipment of 新奥燃氣發展有限公司 of which are stated at the lower of the carrying amount and fair value less costs to sell. Pursuant to various equity and assets transfer agreements between the Group and the buyer dated 1 December 2011, the Group agreed to sell the above-mentioned equity interests and property, plant and equipment at an aggregate consideration of RMB112 million, out of which RMB42 million was received during the year as a deposit for the transaction which was classified as liability associated with assets classified as held for sale at 31 December 2011. The remaining consideration will be settled upon completion of the transactions in 2012.

The major classes of assets and liabilities of the proposed disposal are as follows:

| | At 31 December<br>2011<br>RMB million |
|---|---|
| Property, plant and equipment | **101** |
| Prepaid lease payments | **8** |
| Inventories | **4** |
| Trade and other receivables | **8** |
| Cash and cash equivalents | **6** |
| Total assets classified as held for sale | **127** |
| Trade and other payables (included deposit received of RMB42 million) | **76** |
| Total liabilities associated with assets classified as held for sale | **76** |

## 36. Trade and Other Payables

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Trade payables | **1,437** | 1,265 |
| Advances received from customers | **2,050** | 1,783 |
| Accrued charges and other payables | **685** | 526 |
| | **4,172** | 3,574 |

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

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Trade payables aged: | | |
| Within three months | **1,060** | 847 |
| 4 to 6 months | **191** | 175 |
| 7 to 9 months | **34** | 75 |
| 10 to 12 months | **13** | 26 |
| More than 1 year | **139** | 142 |
| | **1,437** | 1,265 |

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

## 37. Amounts Due to Related Companies

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Amounts due to non-controlling shareholders of subsidiaries with significant influence | **30** | 7 |
| Amounts due to companies controlled by a shareholder and director (note) | **7** | 24 |
| Amount due to a shareholder | **–** | 10 |
| | **37** | 41 |

Note: The related companies are controlled by Mr. Wang who is the shareholder and director of the Company.

## 37. Amounts Due to Related Companies *(continued)*

The amounts due to related companies of approximately RMB37 million (2010: RMB41 million) are unsecured, interest-free and repayable on demand.

Included in the amounts due to related companies are trade payables amounting to approximately RMB16 million (2010: RMB30 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Within three months | **9** | 23 |
| 4 to 6 months | **3** | 2 |
| 7 to 9 months | **–** | – |
| 10 to 12 months | **–** | – |
| More than one year | **4** | 5 |
| | **16** | 30 |

## 38. Bank and Other Loans

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Bank loans | | |
| Secured | **1,585** | 1,400 |
| Unsecured | **2,528** | 2,610 |
| | **4,113** | 4,010 |
| Other loans | | |
| Secured | **31** | 31 |
| Unsecured | **96** | 96 |
| | **127** | 127 |
| | **4,240** | 4,137 |
| The bank and other loans are repayable: | | |
| Within one year | **1,913** | 1,569 |
| More than one year, but not exceeding two years | **853** | 560 |
| More than two years, but not exceeding five years | **840** | 1,276 |
| More than five years | **634** | 732 |
| | **4,240** | 4,137 |
| Less: Amounts due within one year shown under current liabilities | **(1,913)** | (1,569) |
| Amounts due after one year | **2,327** | 2,568 |

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB803 million (2010: RMB1,159 million) and approximately RMB9 million (2010: RMB11 million) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by property, plant and equipment and rights to fee income of certain subsidiaries and jointly controlled entities as set out in Notes 52 and personal guarantee of Mr. Wang and his spouse as set out in Note 53.

## 38. Bank and Other Loans *(continued)*

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

**At 31 December 2011**

| | Maturity date | Effective interest rate per annum | Carrying amount RMB million |
|---|---|---|---|
| **Fixed-rate borrowings** | | | |
| 6.56%–8.8% unsecured RMB bank loan | 12/4/2012–26/10/2012 | 6.56% – 8.8% | 300 |
| 3.38%–5% unsecured RMB other loans | 17/06/2012 | 3.38% – 5% | 96 |
| Total fixed-rate borrowings | | | 396 |
| **Floating-rate borrowings** | | | |
| Unsecured RMB bank loan at PBOC base rate | 20/1/2012–27/7/2023 | 6.34% | 1,425 |
| Secured RMB bank loan at PBOC base rate | 28/8/2012–29/11/2021 | 6.19% | 1,576 |
| Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.2% | 30/11/2012–30/11/2013 | 2.45% | 803 |
| Secured HKD bank loan at 2.37% below Prime Rate | 11/7/2013–27/9/2022 | 2.37% | 9 |
| Secured RMB other loan at prevailing market rate | 15/12/2014–12/6/2017 | 2.22% | 31 |
| Total floating-rate borrowings | | | 3,844 |
| Total borrowings | | | 4,240 |

## 38. Bank and Other Loans *(continued)*

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

At 31 December 2010

| | Maturity date | Effective interest rate per annum | Carrying amount RMB million |
|---|---|---|---|
| **Fixed-rate borrowings** | | | |
| 4.78% unsecured RMB bank loan | 10/1/2011–29/9/2011 | 4.83% | 676 |
| 3.38%–5% unsecured RMB other loans | 17/06/2011–17/06/2012 | 3.38% – 5% | 96 |
| Total fixed-rate borrowings | | | 772 |
| **Floating-rate borrowings** | | | |
| Unsecured RMB bank loan at PBOC base rate | 1/3/2011–15/12/2020 | 5.4% | 775 |
| Secured RMB bank loan at PBOC base rate | 31/7/2011–20/12/2020 | 5.6% | 1,389 |
| Unsecured USD bank loan at LIBOR plus 1.5%–2.2% | 11/6/2011–30/11/2013 | 2.42% | 1,159 |
| Secured HKD bank loan at 2.5%–2.95% below Prime Rate | 11/7/2013–27/9/2022 | 2.7% | 11 |
| Secured RMB other loan at prevailing market rate | 15/12/2014–12/6/2017 | 2.23% | 31 |
| Total floating-rate borrowings | | | 3,365 |
| Total borrowings | | | 4,137 |

## 39. 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 granted an approval to wholly-owned subsidiary of the Company, 新奧(中國)燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited) ("Xinao (China)") to issue short-term debentures with a maximum limit of RMB1,600 million up to 12 August 2011. The balance as at 31 December 2010 represented the short-term debenture to third party with face value of RMB800 million. The short-term debentures were unsecured, carried interest at 3.27% per annum and were repaid on 5 August 2011.

Pursuant to the approval [2011] No. CP278 issued by NAFMII dated 6 December 2011, NAFMII granted an approval to Xinao (China) to issue short-term debentures with a maximum limit of RMB2,500 million up to 6 December 2013. The balance as at 31 December 2011 represented the short-term debentures to third party with face value of RMB1,300 million. The short-term debentures are unsecured, carry interest at 5.9% per annum and are repayable on 19 December 2012.

## 39. Short-Term Debentures *(continued)*

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

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| Short-term debentures issued during the year and repayable within one year: | | |
| Principal | **1,300** | 800 |
| Less: Issue costs | **(2)** | – |
| | **1,298** | 800 |
| Interest payable | **2** | 10 |
| | **1,300** | 810 |

## 40. Financial Guarantee Liability

As at 31 December 2011, the Group had outstanding guarantees issued to banks to secure loan facilities granted to a jointly controlled entity and an associate to the extent of approximately RMB95 million (2010: RMB45 million) for loans with maturity from one to four years, 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 2011 is approximately RMB9 million (2010: RMB6 million).

## 41. Deferred Income

| | **Subsidies received from customers** RMB million (note a) | **Connection fee received from customers** RMB million (note b) | **Total** RMB million |
|---|---|---|---|
| GROSS | | | |
| At 1 January 2010 | 20 | 287 | 307 |
| Additions | – | 259 | 259 |
| At 31 December 2010 and 1 January 2011 | 20 | 546 | 566 |
| Additions | 16 | 265 | 281 |
| At 31 December 2011 | 36 | 811 | 847 |
| RECOGNITION | | | |
| At 1 January 2010 | 3 | 8 | 11 |
| Release to profit or loss | 3 | 21 | 24 |
| At 31 December 2010 and 1 January 2011 | 6 | 29 | 35 |
| Release to profit or loss | 4 | 32 | 36 |
| At 31 December 2011 | 10 | 61 | 71 |
| CARRYING VALUES | | | |
| At 31 December 2011 | 26 | 750 | 776 |
| At 31 December 2010 | 14 | 517 | 531 |

## 41. Deferred Income *(continued)*

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current liabilities | **44** | 29 |
| Non-current liabilities | **732** | 502 |
| | **776** | 531 |

Notes:

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. These 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 30 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets 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 release to the profit or loss over the estimated useful lives of the assets constructed.

## 42. Share Capital

| | 2011 Number of shares | 2010 Number of shares | 2011 HK$ million | 2010 HK$ million |
|---|---|---|---|---|
| Shares of HK$0.10 each | | | | |
| Authorised: | | | | |
| At beginning and end of the year | **3,000,000,000** | 3,000,000,000 | **300** | 300 |
| Issued and fully paid: | | | | |
| At beginning of the year | **1,050,149,397** | 1,050,149,397 | **105** | 105 |
| Issue of shares on exercise of share options | **1,000,000** | – | **–** | – |
| At end of the year | **1,051,149,397** | 1,050,149,397 | **105** | 105 |

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Presented in financial statements as: | | |
| At beginning of the year | **110** | 110 |
| Issue of shares on exercise of share options | **–** | – |
| At end of the year | **110** | 110 |

On 21 September 2011, 1,000,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects.

## 43. Corporate Bond

On 16 February 2011, pursuant to the approval [2011] No. 29 issued by National Development and Reform Commission ("NDRC"), NDRC approved Xinao (China) to issue a corporate bond of RMB500 million. The amount is unsecured and carries interest of 6.45% per annum and is repayable on 16 February 2018. The net proceeds, after deducting the issuance costs, amounted to RMB496 million.

According to the terms and conditions of the corporate bond, the Group may at its option to increase the coupon rate by 0% to 1% at the end of year five, that is 16 February 2016 by giving a 10-day notice to the bondholder before 16 February 2016. At the same time, the bondholder may at its option require the Company to redeem the bond at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bond will be subject to the increased interest rate until the maturity date. The put option is considered closely related to the host contract and is therefore not separately accounted for. The effective interest rate of the corporate bond is approximately 6.616% per annum after the adjustment for transaction costs.

## 44. Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of US$750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to US$735 million (equivalent to RMB4,765 million). The 2021 Senior Notes matures on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2021 Senior 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 applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums is the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equal to the Treasury Rate plus 25 basis points, over (B) the principal amount on redemption date.

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for. The effective interest rate is approximately 6.2756% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated as follows:

| | At 31 December 2011 RMB million |
|---|---|
| Nominal value of 2021 Senior Notes | **4,863** |
| Issue costs | **(98)** |
| Fair value at date of issuance | **4,765** |
| Effective interest recognised | **196** |
| Interest paid/payable | **(187)** |
| Exchange gain | **(138)** |
| Carrying amount at 31 December 2011 | **4,636** |
| Fair values of the 2021 Senior Notes* | **4,442** |

* The fair values of the 2021 Senior Notes are determined directly by references to the price quotations published by the Singapore Exchange Securities Trading Limited on 30 December 2011.

## 45. Guaranteed Notes

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Guaranteed notes | – | 1,316 |

On 5 August 2005, the Company issued guaranteed notes in the aggregate principal amount of US$200 million (equivalent to approximately RMB1,614 million) 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 the adjustment for transaction costs.

On 28 June 2011 (the "Redemption Date"), the Company redeemed the entire outstanding 2012 Guaranteed Notes in full at a redemption price equal to 100% of the principal amount outstanding thereof which was US$200 million (equivalent to approximately RMB1,294 million), plus the applicable premium of US$15 million (equivalent to approximately RMB95 million) and accrued and unpaid interest of US$6 million (equivalent to approximately RMB38 million) as of the Redemption Date. The premium of approximately RMB95 million was expensed and included in "other gains and losses" in the consolidated statement of comprehensive income (Note 9).

## 46. Share Options

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.

During the year ended 31 December 2011, two employees who were the Grantees of the share options were appointed as Directors and two directors who were the Grantees of the share options retired from directorship. Accordingly, the share options granted to the directors and certain employees of the Company has changed to 17,860,000 and 14,630,000 share options, respectively as at 31 December 2011, after taking into consideration the share options exercised during the year.

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 ('000) | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Vesting period | Exercise period | Exercise price | Outstanding at 1.1.2011 | Granted during the year | Exercised during the year | Outstanding at 31.12.2011 |
| Tranche 1 | 14.6.2010 | 14.6.2010 to 13.12.2010 | 14.12.2010 to 13.6.2020 | HK$16.26 | 16,745 | – | (1,000) | 15,745 |
| Tranche 2 | 14.6.2010 | 14.6.2010 to 13.6.2012 | 14.6.2012 to 13.6.2020 | HK$16.26 | 16,745 | – | – | 16,745 |
| | | | | | 33,490 | – | (1,000) | 32,490 |
| Exercisable at the end of the year | | | | | | | | 15,745 |
| Weighted average exercise price | | | | | HK$16.26 | – | HK$16.26 | HK$16.26 |

| | | | | | Number of options ('000) | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Vesting period | Exercise period | Exercise price | 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 | – | 16,745 |
| Tranche 2 | 14.6.2010 | 14.6.2010 to 13.6.2012 | 14.6.2012 to 13.6.2020 | HK$16.26 | – | 16,745 | – | 16,745 |
| | | | | | – | 33,490 | – | 33,490 |
| Exercisable at the end of the year | | | | | | | | 16,745 |
| Weighted average exercise price | | | | | – | HK$16.26 | – | HK$16.26 |

## 46. Share Options *(continued)*

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.

During the year, the Group recognised share-based expenses of RMB46 million (2010: RMB101 million). The total fair value of the options calculated by using the binomial model was HK$193 million.

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.

## 47. Acquisition of Businesses

### a. Acquisition during the year ended 31 December 2011

On 15 April 2011, the Group acquired 90% of the registered capital of 江蘇華海管道燃氣有限責任公司 ("Jiangsu Huahai") at a cash consideration of RMB33 million. Jiangsu Huahai is the holding company a group of companies engaging in the sales of piped gas in Jiangsu province.

On 21 October 2011, the Group acquired 60% of the registered capital of 廣州市番禹煤氣有限公司 ("Guangzhou Panyu'') at a cash consideration of RMB333 million. Guangzhou Panyu is engaged in sales of piped gas.

Jiangsu Huahai and Guangzhou Panyu were acquired with the objective of significantly improving marketing coverage in Jiangsu and Guangzhou and obtaining contribution arising from gas supply to industrial centre.

*Consideration transferred*

| | **Jiangsu Huahai** RMB million | **Guangzhou Panyu** RMB million |
|---|---|---|
| Cash consideration paid | 33 | 333 |

## 47. Acquisition of Businesses *(continued)*

### a. Acquisition during the year ended 31 December 2011 *(continued)*

*Consideration transferred (continued)*

Acquisition-related costs amounting to RMB121,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in consolidated statement of comprehensive income in the current year.

The fair value of assets and liabilities of Jiangsu Huahai and the provisional values of the assets and liabilities of Guangzhou Panyu at the date of acquisition are as follows:

| | **Jiangsu Huahai** RMB million | **Guangzhou Panyu** RMB million |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 1 | 11 |
| Trade and other receivables | 1 | 50 |
| Inventories | – | 11 |
| **Non-current assets** | | |
| Property, plant and equipment | 23 | 156 |
| Intangible assets – rights of operation | 27 | 355 |
| Intangible assets – customer base | – | 4 |
| Interest in an associate | – | 28 |
| Prepaid lease payments | 2 | 10 |
| **Current liabilities** | | |
| Trade and other payables | (17) | (55) |
| Bank loans – due within one year | – | (45) |
| **Non-current liabilities** | | |
| Deferred tax liabilities | (7) | (90) |
| Bank loans – due after one year | – | (58) |
| | 30 | 377 |

The fair value of intangible assets of Jiangsu Huahai is determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence. The value of assets and iabilities of Guangzhou Panyu are provisional and waiting for finalisation of the due diligence assessment by the management.

The fair value of the trade and other receivables amounted to approximately RMB51 million in aggregated which is estimated to be the same as the gross contractual amounts of these receivables. The Directors preliminarily considered that all acquired receivables will be recoverable.

*Non-controlling interests*

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

The non-controlling interest (10%) in Jiangsu Huahai and (40%) in Guangzhou Panyu recognised at the acquisition date was measured based on the proportionate share of the acquirees' net identifiable assets which amounted to approximately RMB1 million and approximately RMB44 million respectively.

## 47. Acquisition of Businesses *(continued)*

### a. Acquisition during the year ended 31 December 2011 *(continued)*

*Goodwill arising on acquisition*

| | Jiangsu Huahai RMB million | Guangzhou Panyu RMB million |
|---|---|---|
| Consideration transferred | 33 | 333 |
| Plus: Non-controlling interests | 1 | 44 |
| Less: Fair value of identified net assets acquired | (30) | (377) |
| Goodwill arising on acquisition | 4 | – |

Goodwill arose on the acquisition of Jiangsu Huahai is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

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

*Net cash outflow arising on acquisition*

| | Jiangsu Huahai RMB million | Guangzhou Panyu RMB million |
|---|---|---|
| Consideration paid in cash | (33) | (333) |
| Less: Cash and cash equivalent balances acquired | 1 | 11 |
| | (32) | (322) |

*Impact of acquisition on the results of the Group*

Included in the revenue and profit for the year is approximately RMB2 million and RMB0.3 million respectively attributable to the additional business generated by Jiangsu Huahai. Included in the revenue and profit for the year is approximately RMB67 million and RMB2 million, respectively attributable to Guangzhou Panyu.

Had the acquisition of Jiangsu Huahai and Guangzhou Panyu been effected at 1 January 2011, the revenue of the Group for the year would have been approximately RMB15,250 million, and the profit for the year would have been approximately RMB1,683 million. 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 2011, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Jiangsu Huahai and Guangzhou Panyu been acquired at the beginning of the current reporting period, the Directors have calculated depreciation and amortisation of property, plant and equipment and intangible asset 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.

## 47. Acquisition of Businesses *(continued)*

### b. Acquisition during the year ended 31 December 2010

On 11 February 2010, the Group acquired 100% of the registered capital of 廣州新奧燃氣有限公司 (formerly known as 廣州富都管道燃氣有限公司 ("Guangzhou Fudu")), at a total cash consideration of RMB268 million. 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 盤錦遼濱盛泰燃氣有限公司 ("Panjin Shengtai") at a cash consideration of approximately RMB13 million. 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.

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

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

| | **Guangzhou Fudu** RMB million | **Panjin Shengtai** RMB million |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 25 | 2 |
| Trade and other receivables | 55 | 2 |
| Inventories | 5 | – |
| **Non-current assets** | | |
| Property, plant and equipment | 47 | 5 |
| Intangible assets-rights of operation | 228 | 13 |
| Intangible assets-customer base | 4 | – |
| Prepaid lease payments | 2 | – |
| **Current liabilities** | | |
| Trade and other payables | (52) | (5) |
| Bank and other loans | (10) | – |
| **Non-current liabilities** | | |
| Deferred tax liabilities | (57) | (3) |
| | 247 | 14 |

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 approximately RMB57 million in aggregate acquired set out above included deposits and prepayments of RMB9 million. The fair value of the remaining trade and other receivables amounting to approximately RMB48 million in aggregate was estimated to be the same as the gross contractual amounts of these receivables. The Directors considered that all acquired receivables would be recoverable.

## 47. Acquisition of Businesses *(continued)*

### b. Acquisition during the year ended 31 December 2010 *(continued)*

*Goodwill arising on acquisition*

| | Guangzhou Fudu RMB million | Panjin Shengtai RMB million |
|---|---|---|
| Consideration transferred | 268 | 13 |
| Plus: non-controlling interests | – | 1 |
| Less: fair value of identified net assets acquired | (247) | (14) |
| Goodwill arising on acquisition | 21 | – |

*Non-controlling interests*

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 RMB892,000.

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 was expected to be deductible for tax purposes.

*Net cash outflow arising on acquisition*

| | Guangzhou Fudu RMB million | Panjin Shengtai RMB million |
|---|---|---|
| Consideration paid in cash during the year ended 31 December 2010 | (228) | (10) |
| Less: cash and cash equivalent balances acquired | 25 | 2 |
| | (203) | (8) |

*Impact of acquisition on the results of the Group*

Guangzhou Fudu contributed to a revenue and a profit of approximately RMB140 million and RMB14 million, respectively to the Group for the period from the acquisition to 31 December 2010. Panjin Shengtai contributed to a revenue and a loss of approximately RMB0.6 million and RMB2 million, respectively to the Group for the period from the acquisition to 31 December 2010.

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 approximately RMB11,367 million, and the profit for the year would have been approximately RMB1,402 million. 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 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.

## 48. Acquisition of Assets Through Acquistions 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 million. 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 were as follows:

| | RMB million |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 3 |
| Total consideration satisfied by cash paid in previous year | 3 |

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 million, which was paid in previous year. At the time of the acquisition, Shandong Qixing which previously engaged in sales of LPG had ceased its operations. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired were as follows:

| | RMB million |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 9 |
| Prepaid lease payments | 20 |
| Cash and cash equivalents | 5 |
| Trade and other payables | (2) |
| | 32 |
| Non-controlling interests | (3) |
| Total consideration satisfied by cash paid in previous year | 29 |

## 48. Acquisition of Assets Through Acquistions of Subsidiaries *(continued)*

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 million (approximately RMB65 million). At the time of the acquisition, Jiangsu Datong was still in development stage and was 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 were as follows:

| | RMB million |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 17 |
| Trade and other receivables | 4 |
| Cash and cash equivalents | 62 |
| | 83 |
| Non-controlling interests | (18) |
| Total consideration satisfied by cash paid during the year ended 31 December 2010 | 65 |

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 RMB96 million. At the time of the acquisition, Huizhou Xinxin had not yet commenced operations and 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 were as follows:

| | RMB million |
|---|---|
| Net assets acquired: | |
| Prepaid lease payments | 98 |
| | 98 |
| Non-controlling interests | (2) |
| Total consideration satisfied by cash paid during the year ended 31 December 2010 | 96 |

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 RMB32 million. 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 were as follows:

| | RMB million |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 19 |
| Intangible assets – rights of operation | 16 |
| | 35 |
| Non-controlling interests | (3) |
| Total consideration satisfied by cash paid during the year ended 31 December 2010 | 32 |

## 49. Derecognition/Deregistration/Disposal of Subsidiaries

a. On 31 March 2011, the Group entered into an equity transfer agreement with an independent third party (the “Seller”) to acquire 40% of equity interest in 河北中石油昆侖天然氣利用有限公司 (“Hebei Kunlun”) at a cash consideration of RMB76 million. At the same time, the Group agreed to transfer 100% of equity interest in a wholly owned subsidiary, 新奧鹿泉車用燃氣有限公司 (“Xinao Luquan”) to the Seller, for a cash consideration of RMB8 million.

The net assets of Xinao Luquan derecognised at the date of disposal were as follows:

| | RMB million |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 14 |
| Trade and other receivables | 4 |
| **Non-current asset** | |
| Property, plant and equipment | 8 |
| **Current liabilities** | |
| Trade and other payables | (6) |
| | 20 |

The carrying amount of the net assets of Xinao Luquan derecognised approximates the fair value of the business of Xinao Luquan. The disposal of Xinao Luquan is considered to be an exchange of assets for the acquisition of 40% of equity interest in Hebei Kunlun, and accordingly, the cost of acquisition of Hebei Kunlun is calculated as follows:

| | RMB million |
|---|---|
| Fair value of net assets of a subsidiary disposed of | 20 |
| Less: Proceeds from disposal (not yet received and included as other receivable at 31 December 2011) | (8) |
| | 12 |
| Cash consideration (out of which RMB50,000,000 are not yet paid and included in other payable at 31 December 2011) | 76 |
| Cost of acquisition of a jointly controlled entity | 88 |

## 49. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

a. *(continued)*

**Net cash outflow arising on acquisition of a jointly controlled entity (included in investments in jointly controlled entities in the consolidated statement of cash flows)**

| | RMB million |
|---|---|
| Consideration paid | (26) |
| Cash and cash equivalent disposed of | (14) |
| | (40) |

b. On 28 February 2010, a wholly owned subsidiary, 鄒平新奧燃氣有限公司 ("Zouping Xinao"), increased its registered capital of USD800,000 (approximately RMB5 million) at a total cash consideration of approximately RMB18 million 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 approximately RMB5.5 million and RMB12.5 million 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 million |
|---|---|
| Net assets derecognised: | |
| Property, plant and equipment | 40 |
| Interest in an associate | 8 |
| Prepaid lease payments | 2 |
| Inventories | 4 |
| Trade and other receivables | 1 |
| Cash and cash equivalents | 5 |
| Trade and other payables | (39) |
| Tax payable | (1) |
| Net amount derecognised attributable to the equity owners of the Group before capital injection | 20 |
| Capital injection by Shandong Shihua | 18 |
| Net amount derecognised including capital injection by Shandong Shihua | 38 |

## 49. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

b. *(continued)*

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

| | RMB million |
|---|---|
| Fair value of the residual interests in Zouping Xinao recognised as investment cost of a jointly controlled entity | 30 |
| Capital injection by Shandong Shihua | 18 |
| | 48 |
| Less: Net assets derecognised | (38) |
| Gain on derecognition of a subsidiary on loss of control to jointly controlled entity | 10 |

| | RMB million |
|---|---|
| Cash outflow arising on derecognition: | |
| Cash and cash equivalents disposed of | (5) |

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 losing control is lost was approximately RMB7 million.

c. On 13 November 2010, a wholly owned subsidiary, 淄博新奧燃氣有限公司 ("Zibo Xinao"), increased its registered capital of approximately RMB3 million at a total cash consideration of approximately RMB3 million 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 million |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 9 |
| Trade and other receivables | 4 |
| Cash and cash equivalents | 7 |
| Trade and other payables | (16) |
| Net amount derecognised attributable to the equity owners of the Group before capital injection | 4 |
| Capital injection by Shandong Shihua | 3 |
| Net amount derecognised including capital injection by Shandong Shihua | 7 |

## 49. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

c. *(continued)*

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

| | RMB million |
|---|---|
| Fair value of the residual interests in Zibo Xinao recognised as investment cost of a jointly controlled entity | 4 |
| Capital injection by Shandong Shihua | 3 |
| | 7 |
| Less: Net assets derecognised | (7) |
| Gain on derecognition of a subsidiary on loss of control to jointly controlled entity | – |

| | RMB million |
|---|---|
| Cash outflow arising on derecognition: | |
| Cash and cash equivalents disposed of | (7) |

The portion of that gain attributable to recognising the jointly controlled entity at fair value at the date when losing control was approximately RMB2 million.

d. 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 loss on disposal entity from the deregistration of these subsidiaries amounting to approximately RMB1 million was recognised to profit or loss during the year ended 31 December 2010.

## 50. Commitments

### a. Capital commitments

| | **2011 RMB million** | 2010 RMB million |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **124** | 86 |
| Capital commitment in respect of investments in joint ventures | **57** | 69 |

### b. Other commitments

As at 31 December 2011, the Group has commitment amounting to approximately RMB32 million (2010: RMB 21 million) in respect of acquisition of land use rights in the PRC.

## 50. Commitments *(continued)*

### c. Pre-conditional commitment

In the announcement dated 12 December 2011, China Petroleum & Chemical Corporation ("Sinopec") and the Company jointly announced the formation of a consortium and intend to, subject to the satisfaction of the pre-conditions as set out below, make a voluntary conditional cash offer (i) to acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") (other than those shares in China Gas already held by Sinopec or the Company or other parties acting in concert with Sinopec or the Company) at cash consideration of HK$3.50 per share and (ii) to acquire and cancel all outstanding share options in China Gas at cash consideration HK$0.90 to HK$2.79 per option share.

The following pre-conditions are expected to be satisfied or waived (where applicable) on or before the Long Stop Date as defined in the offer announcement dated 12 December 2011 (and subsequently extended) (the "Long Stop Date") made by Sinopec and the Company:

i. with respect to both Sinopec and the Company, the joint submission by both of them to, and acceptance by Ministry of Commerce of the PRC ("MOFCOM"), under the Anti Monopoly Law of the PRC in respect of the transaction and the clearance or deemed clearance (through the expiration of the relevant statutory time periods for review by MOFCOM) by MOFCOM under the Anti Monopoly Law of the PRC of the transaction, on terms reasonably acceptable to the both Sinopec and the Company;

ii. with respect to the Company:

   (a) the grant of approval of the transaction (including the signing of the consortium agreement dated 12 December 2011 entered into between Sinopec and the Company) as a "very substantial acquisition" pursuant to the Listing Rules at the extraordinary general meeting of the Company;

   (b) the clearance of any necessary PRC national security review in connection with the transaction if required under applicable laws, on terms reasonably acceptable to the Company;

iii. with respect to Sinopec, the obtaining of approvals or authorisations of, the making of the necessary filings and registrations with, and notifications to, the National Development and Reform Commission of the PRC, MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and the State Administration of Foreign Exchange of the PRC, in each case, of the PRC in connection with the transaction, on terms reasonably acceptable to Sinopec;

iv. the obtaining of all other approvals necessary in connection with the transaction that are either to be submitted to the relevant authority(ties) by Sinopec and the Company jointly or separately, which may be required as a result of or in connection with or otherwise arising from any changes in applicable laws and regulations that come into effect after the date of the announcement, on terms reasonably acceptable to the Sinopec and the Company; and

v. that sufficient access to conduct due diligence on China Gas is given by China Gas to Sinopec and the Company for assessing whether the completion of the transaction would result in any event of default or other event giving the lenders of China Gas a right to accelerate the repayment of any obligations prior to the stated maturity date arising from any financing documentations to which any member of the China Gas is a party and no lender of China Gas indicating on or prior to the Long Stop Date that it will exercise such rights to accelerate repayment or claim an event of default.

Neither Sinopec nor the Company may waive the above pre-conditions except with respect to pre-condition v above. If the pre-conditions are not satisfied on or before the Long Stop Date and the Sinopec and the Company have not extended the Long Stop Date to a later date, the transaction will not be implemented.

As stated in the announcement dated 12 December 2011, with respect of the Company, assuming that all the outstanding options are exercised before the close of the Offer and the share offer is accepted in full, the financial resources required by the Company in order to satisfy its obligations in respect of full acceptance of the Offer amount to approximately HK$9,185 million (RMB7,446 million).

## 51. 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:

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Within one year | 27 | 16 |
| In the second to fifth year inclusive | 53 | 41 |
| Over five years | 56 | 58 |
| | 136 | 115 |

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 5.15% (2010: 5.0%) 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:

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Within one year | 5 | 5 |
| In the second to fifth year inclusive | 9 | 7 |
| Over five years | 1 | 1 |
| | 15 | 13 |

## 52. 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:

| | 2011<br>RMB million | 2010<br>RMB million |
|---|---|---|
| Carrying amount of: | | |
| Property, plant and equipment | 94 | 49 |
| Restricted bank deposits | 162 | 70 |

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 RMB1,520 million (2010: RMB1,560 million) granted to the Group and RMB1,273 million (2010: RMB1,389 million) of which is utilised up to 31 December 2011.

## 53. Related Party Transactions

Apart from the related party balances as stated in Notes 25, 26, 27 and 37, the Group had the following transactions with certain related parties:

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| **Nature of transaction** | | |
| Associates: | | |
| – Sales of gas to | **16** | 7 |
| – Sales of materials to | **11** | 4 |
| – Purchase of gas from | **46** | 39 |
| – Purchase of materials from | **3** | 3 |
| – Provision of gas transportation services to | **1** | 8 |
| – Provision of gas connection services to | **1** | – |
| Jointly controlled entities: | | |
| – Sales of gas to | **342** | 267 |
| – Sales of materials to | **136** | 102 |
| – Purchase of gas from | **319** | 244 |
| – Provision of gas transportation services to | **249** | 181 |
| – Loan interest received from | **1** | – |
| – Payment made on behalf of the Group | **2** | 2 |
| – Provision of gas connection services to | **42** | 36 |
| – Provision of supporting services by | **16** | 8 |

## 53. Related Party Transactions *(continued)*

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| **Nature of transaction** | | |
| Companies controlled by Mr. Wang: | | |
| – Provision of gas supporting services by | 2 | – |
| – Sales of shares | 20 | – |
| – Sales of gas to | 6 | 5 |
| – Purchase of land from | – | 33 |
| – Purchase of property from | 20 | 50 |
| – Purchase of materials from | 1 | 2 |
| – Purchase of vehicles from | – | 3 |
| – Purchase of materials – dimethyl ether (“DME”) from | – | 10 |
| – Provision of gas connection service to | 2 | – |
| – Provision of construction service by | 2 | 29 |
| – Provision of property management services by | 6 | 5 |
| – Lease of premises to | 1 | 1 |
| – Lease of premises from | 3 | 3 |
| – Provision of supporting services by | 31 | 29 |
| – Provision of maritime transportation services by | 16 | 17 |
| Non-controlling shareholders of subsidiaries with significant influence: | | |
| – Provision of gas connection service to | 8 | 2 |
| – Purchase of land from | 8 | 13 |
| – Provision of construction service by | 5 | 2 |
| – Lease of premises from | 2 | 1 |
| – Lease of land from | – | 1 |
| – Provision of transportation services by | 2 | 1 |
| – Purchase of gas from | 2 | 3 |
| – Provision of supporting services by | 3 | – |

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB2,250 million (2010: RMB670 million) and non-controlling shareholders of a subsidiary with significant influence have provided their personal guarantees to the extent of RMB216 million (2010: Nil) to certain banks for banking facilities granted to the Group as at 31 December 2011.

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 million (2010: RMB100 million) granted to the Group and RMB95 million (2010: RMB100 million) of which is utilised up to 31 December 2011.

### Compensation of key management personnel

The remuneration of directors who are also the members of key management personnel during the year was disclosed in Note 12.

## 54. 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 operating and reportable segment under HKFRS 8 are gas connection, sales of piped gas, vehicle refuelling stations, wholesale of gas, distributions of bottled LPG, sales of gas appliances and sales of material. Segment profit reviewed by CEO represents the gross profit earned by each segment. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4.

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:

**2011**

| | Gas connection RMB million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distribution of bottled LPG RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | **3,415** | **7,980** | **1,620** | **1,172** | **192** | **97** | **592** | **15,068** |
| Segment profit before depreciation and amortisation | **2,254** | **1,504** | **339** | **116** | **17** | **25** | **35** | **4,290** |
| Depreciation and amortisation | **(127)** | **(217)** | **(28)** | **(10)** | **(4)** | **(2)** | **–** | **(388)** |
| Segment profit | **2,127** | **1,287** | **311** | **106** | **13** | **23** | **35** | **3,902** |

**2010**

| | Gas connection RMB million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distribution of bottled LPG RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 2,635 | 5,728 | 1,209 | 905 | 240 | 84 | 414 | 11,215 |
| Segment profit before depreciation and amortisation | 1,667 | 1,276 | 233 | 113 | 12 | 22 | 34 | 3,357 |
| Depreciation and amortisation | (81) | (224) | (22) | (12) | (4) | (2) | – | (345) |
| Segment profit | 1,586 | 1,052 | 211 | 101 | 8 | 20 | 34 | 3,012 |

## 54. Segment Information *(continued)*

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

**2011**

| | Gas connection RMB million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distribution of bottled LPG RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Segment assets | **2,857** | **10,484** | **596** | **279** | **105** | **195** | **161** | **14,677** |
| Interests in associates | | | | | | | | **694** |
| Interests in jointly controlled entities | | | | | | | | **1,733** |
| Unallocated corporate assets | | | | | | | | **9,784** |
| Consolidated total assets | | | | | | | | **26,888** |
| Liabilities: | | | | | | | | |
| Segment liabilities | **3,959** | **1,330** | **99** | **78** | **14** | **70** | **200** | **5,750** |
| Bank and other loans | | | | | | | | **4,240** |
| Short-term debentures | | | | | | | | **1,300** |
| Corporate bond | | | | | | | | **496** |
| Senior notes | | | | | | | | **4,636** |
| Unallocated corporate liabilities | | | | | | | | **1,626** |
| Consolidated total liabilities | | | | | | | | **18,048** |

**2010**

| | Gas connection RMB million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distribution of bottled LPG RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Segment assets | 2,281 | 8,851 | 485 | 192 | 102 | 144 | 84 | 12,139 |
| Interests in associates | | | | | | | | 488 |
| Interests in jointly controlled entities | | | | | | | | 1,361 |
| Unallocated corporate assets | | | | | | | | 5,652 |
| Consolidated total assets | | | | | | | | 19,640 |
| Liabilities: | | | | | | | | |
| Segment liabilities | 3,261 | 879 | 93 | 101 | 13 | 78 | 164 | 4,589 |
| Bank and other loans | | | | | | | | 4,137 |
| Short-term debentures | | | | | | | | 810 |
| Guaranteed notes | | | | | | | | 1,316 |
| Unallocated corporate liabilities | | | | | | | | 1,248 |
| Consolidated total liabilities | | | | | | | | 12,100 |

## 54. Segment Information *(continued)*

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, bank and other loans, short-term debentures, corporate bond, senior notes, guaranteed notes, financial guarantee liability 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 million | Sales of piped gas RMB million | Vehicle gas refuelling stations RMB million | Wholesale of gas RMB million | Distribution of bottled LPG RMB million | Sales of gas appliances RMB million | Sales of material RMB million | Consolidation RMB million |
|---|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | |
| **2011** | | | | | | | | |
| Additions to non-current assets (note b) | **267** | **2,356** | **217** | **11** | **–** | **42** | **3** | **2,896** |
| Depreciation and amortisation | **127** | **217** | **28** | **10** | **4** | **2** | **–** | **388** |
| 2010 | | | | | | | | |
| Additions to non-current assets (note b) | 201 | 2,045 | 190 | 17 | 19 | 1 | 1 | 2,474 |
| Depreciation and amortisation | 81 | 224 | 22 | 12 | 4 | 2 | - | 345 |

| | Additions to non-current assets (note b) | | Depreciation and amortisation | |
|---|---|---|---|---|
| | **2011 RMB million** | 2010 RMB million | **2011 RMB million** | 2010 RMB million |
| Segment total | **2,896** | 2,474 | **388** | 345 |
| Adjustments (note a) | **483** | 353 | **131** | 96 |
| Total | **3,379** | 2,827 | **519** | 441 |

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.

## 55. Retirement Benefits Scheme

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| Retirement benefit contribution made during the year | **87** | 39 |

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Group 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 Group 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.

## 56. Event after the Reporting Period

On 9 February 2012, the Company early repaid its outstanding unsecured USD bank loan under a term loan facility agreement dated 9 November 2009 of US$128 million (equivalent to RMB803 million), plus the accrued interest of US$0.9 million (equivalent to RMB5 million).

## 57. Statement of Financial Position of the Company

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| **Non-current Assets** | | |
| Interests in subsidiaries | **1,891** | 1,888 |
| Investment in an associate | **44** | 44 |
| | **1,935** | 1,932 |
| **Current Assets** | | |
| Other receivables | **1** | – |
| Amounts due from subsidiaries | **1,838** | 1,847 |
| Restricted bank deposits | **2,520** | – |
| Cash and cash equivalents | **40** | 35 |
| | **4,399** | 1,882 |
| **Current Liabilities** | | |
| Other payables and accrued expenses | **96** | 39 |
| Amounts due to subsidiaries | **51** | 51 |
| Bank loans – due after one year | **236** | 215 |
| | **383** | 305 |
| **Net Current Assets** | **4,016** | 1,577 |
| **Total Assets less Current Liabilities** | **5,951** | 3,509 |

## 57. Statement of Financial Position of the Company *(continued)*

| | 2011 RMB million | 2010 RMB million |
|---|---|---|
| **Capital and Reserves** | | |
| Share capital | **110** | 110 |
| Reserves | **638** | 1,139 |
| **Total Equity** | **748** | 1,249 |
| **Non-current Liabilities** | | |
| Bank loans – due after one year | **567** | 944 |
| Senior notes | **4,636** | – |
| Guaranteed notes | **–** | 1,316 |
| | **5,203** | 2,260 |
| | **5,951** | 3,509 |

## 58. 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 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| ENN Gas Investment Group Limited ("ENN") | British Virgin Island | US$1,000 | **100.00%** | 100.00% | Investment holding |
| 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 |
| 長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited* ("Changsha Xinao") | PRC | RMB120,000,000 | **55.00%** | 55.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited* | PRC | US$600,000 | **60.00%** | 60.00% | Sales of piped gas |
| 常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited* | PRC | US$5,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure |

## 58. 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 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited# | PRC | RMB7,000,000 | **100.00%** | 100.00% | Sales of piped gas and gas appliances |
| 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 |
| 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 |
| 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 |
| 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 |
| 新奧能源物流有限公司 Xinao Energy Logistics Company Limited# | PRC | US$12,400,000 | **100.00%** | 100.00% | Transportation of oil products and gas |
| 新奧能源貿易有限公司 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 |
| 新奧財務有限責任公司 Xinao Finance Company Limited | PRC | RMB500,000,000 | **97.00%** | – | Provision of financial services |

## 58. 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 |
|---|---|---|---|---|---|
| | | | **2011** | 2010 | |
| 新奥燃氣發展有限公司<br>Xinao Gas Development Company Limited# | PRC | US$6,000,000 | **100.00%** | 100.00% | Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas |
| 新奥燃氣工程有限公司<br>Xinao Gas Engineering Company Limited# | PRC | US$7,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 新奥(中國)燃氣投資有限公司<br>Xinao (China)# | PRC | US$231,778,124 | **100.00%** | 100.00% | Investment holding |
| 湘潭新奥燃氣發展有限公司<br>Xiangtan Xinao Gas Development Company Limited* | PRC | RMB30,000,000 | **85.00%** | 85.00% | Sales of piped gas and gas appliances |
| 湛江新奥燃氣有限公司<br>Zhanjiang Xinao Gas Company Limited* | PRC | RMB85,000,000 | **90.00%** | 90.00% | Investment in gas pipeline infrastructure and sales of piped gas |

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 2011 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 RMB1,300 million, in which the Group has no interest.

* Sino-foreign equity joint venture

\# Wholly foreign owned enterprise

# Report on Review of Interim Financial Information

Deloitte.
德勤

**TO THE BOARD OF DIRECTORS OF ENN ENERGY HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 10 to 39, which comprises the condensed consolidated statement of financial position of ENN Energy Holdings Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion 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.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
26 August 2011

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

| | NOTES | Six months ended 30 June 2011 RMB'000 (unaudited) | 2010 RMB'000 (unaudited) (restated) |
|---|---|---|---|
| Revenue | 4 | **7,202,237** | 5,043,719 |
| Cost of sales | | **(5,310,988)** | (3,622,591) |
| Gross profit | | **1,891,249** | 1,421,128 |
| Other income | 5 | **84,047** | 61,020 |
| Other gains and losses | 6 | **(20,202)** | (5,222) |
| Distribution and selling expenses | | **(126,301)** | (90,677) |
| Administrative expenses | | **(607,219)** | (482,214) |
| Share of results of associates | | **12,560** | 6,713 |
| Share of results of jointly controlled entities | | **171,659** | 138,720 |
| Finance costs | 7 | **(238,151)** | (150,627) |
| Profit before tax | 8 | **1,167,642** | 898,841 |
| Income tax expense | 9 | **(326,820)** | (203,744) |
| Profit and total comprehensive income for the period | | **840,822** | 695,097 |
| Profit and total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **628,835** | 533,761 |
| Non-controlling interests | | **211,987** | 161,336 |
| | | **840,822** | 695,097 |
| Earnings per share | 11 | | |
| Basic | | **59.88 cents** | 50.83 cents |
| Diluted | | **59.30 cents** | 50.82 cents |

# Condensed Consolidated Statement of Financial Position

At 30 June 2011

| | NOTES | At 30 June 2011 RMB'000 (unaudited) | At 31 December 2010 RMB'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **11,556,774** | 10,800,123 |
| Prepaid lease payments | 12 | **675,838** | 658,096 |
| Investment properties | 12 | **53,845** | 53,845 |
| Goodwill | | **195,343** | 191,841 |
| Intangible assets | | **713,311** | 702,352 |
| Interests in associates | | **561,013** | 487,683 |
| Interests in jointly controlled entities | 13 | **1,622,754** | 1,361,265 |
| Available-for-sale financial assets | | **14,433** | 14,433 |
| Loan receivable | | **3,000** | 6,000 |
| Other receivables | 16 | **71,957** | 72,439 |
| Amounts due from associates | | **21,215** | 20,700 |
| Amounts due from related companies | | **13,930** | 20,489 |
| Deferred tax assets | 9 | **157,771** | 130,954 |
| Deposits paid for investments | | **40,800** | 30,000 |
| Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights | | **4,867** | 5,376 |
| Restricted bank deposits | 17 | **5,315** | 5,305 |
| | | **15,712,166** | 14,560,901 |
| **Current assets** | | | |
| Inventories | | **281,499** | 249,019 |
| Trade and other receivables | 16 | **1,884,086** | 1,356,055 |
| Prepaid lease payments | 12 | **13,263** | 12,576 |
| Amounts due from customers for contract work | | **294,507** | 306,913 |
| Amounts due from associates | 14 | **12,852** | 11,501 |
| Amounts due from jointly controlled entities | 15 | **439,434** | 213,585 |
| Amounts due from related companies | | **19,847** | 12,808 |
| Restricted bank deposits | 17 | **42,701** | 64,891 |
| Cash and cash equivalents | | **5,657,083** | 2,851,300 |
| | | **8,645,272** | 5,078,648 |

# Condensed Consolidated Statement of Financial Position

At 30 June 2011

| | NOTES | **At 30 June 2011 RMB'000 (unaudited)** | At 31 December 2010 RMB'000 (audited) |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 18 | **4,021,507** | 3,572,688 |
| Amounts due to customers for contract work | | **713,849** | 664,839 |
| Amounts due to associates | 14 | **90,803** | 69,297 |
| Amounts due to jointly controlled entities | 15 | **574,279** | 554,223 |
| Amounts due to related companies | | **36,069** | 41,137 |
| Taxation payables | | **238,239** | 172,288 |
| Bank and other loans – due within one year | 19 | **1,261,941** | 1,568,742 |
| Short-term debentures | 20 | **823,580** | 810,607 |
| Financial guarantee liability | | **4,757** | 5,544 |
| Deferred income | 21 | **35,762** | 29,109 |
| | | **7,800,786** | 7,488,474 |
| **Net current assets (liabilities)** | | **844,486** | (2,409,826) |
| **Total assets less current liabilities** | | **16,556,652** | 12,151,075 |
| **Capital and reserves** | | | |
| Share capital | | **109,879** | 109,879 |
| Reserves | | **6,276,467** | 5,921,570 |
| Equity attributable to owners of the Company | | **6,386,346** | 6,031,449 |
| Non-controlling interests | | **1,574,182** | 1,508,402 |
| **Total equity** | | **7,960,528** | 7,539,851 |
| **Non-current liabilities** | | | |
| Bank and other loans – due after one year | 19 | **2,469,022** | 2,567,632 |
| Corporate bond | 22 | **495,881** | – |
| Guaranteed notes | 23 | **–** | 1,315,932 |
| Senior notes | 24 | **4,788,137** | – |
| Deferred tax liabilities | 9 | **240,427** | 225,034 |
| Deferred income | 21 | **602,657** | 502,626 |
| | | **8,596,124** | 4,611,224 |
| | | **16,556,652** | 12,151,075 |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

**Six months ended 30 June 2011 (unaudited)**

| | Equity attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (note c) | Share option reserve RMB'000 | Statutory surplus reserve fund RMB'000 (note a) | Designated safety fund reserve RMB'000 (note b) | Accumulated profits RMB'000 | Total RMB'000 | Equity attributable to non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2011 | **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** |
| Profit for the period and total comprehensive income for the period | – | – | – | – | – | – | 628,835 | 628,835 | 211,987 | 840,822 |
| Recognition of equity settled share-based payment | – | – | – | 23,080 | – | – | – | 23,080 | – | 23,080 |
| Acquisition of subsidiaries (Note 26) | – | – | – | – | – | – | – | – | 1,046 | 1,046 |
| Capital contribution from non-controlling shareholder of a subsidiary | – | – | – | – | – | – | – | – | 3,400 | 3,400 |
| Dividend recognised as distribution (Note 10) | – | – | – | – | – | – | (297,018) | (297,018) | – | (297,018) |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | – | – | – | (150,653) | (150,653) |
| Transfer to statutory surplus reserve fund | – | – | – | – | 11,268 | – | (11,268) | – | – | – |
| Transfer to designated safety fund reserve | – | – | – | – | – | 6,626 | (6,626) | – | – | – |
| At 30 June 2011 | **109,879** | **2,184,461** | **(17,838)** | **124,393** | **379,511** | **32,592** | **3,573,348** | **6,386,346** | **1,574,182** | **7,960,528** |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

**Six months ended 30 June 2010 (unaudited)**

| | Equity attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (note c) | Share option reserve RMB'000 | Statutory surplus reserve fund RMB'000 (note a) | Property revaluation reserve RMB'000 | Designated safety fund reserve RMB'000 (note b) | Accumulated profits RMB'000 | Total RMB'000 | Equity attributable to non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2010 | 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 |
| Effect of changes in accounting policy (Note 2) | – | – | – | – | – | (55,302) | – | 10,148 | (45,154) | (6,561) | (51,715) |
| At 1 January 2010 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 for the period and total comprehensive income for the period (restated) | – | – | – | – | – | – | – | 533,761 | 533,761 | 161,336 | 695,097 |
| Recognition of equity settled share-based payment | – | – | – | 8,282 | – | – | – | – | 8,282 | – | 8,282 |
| Acquisition of additional interests in subsidiaries | – | – | 2,085 | – | – | – | – | – | 2,085 | (6,701) | (4,616) |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | 27,359 | 27,359 |
| Capital contribution from non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | 2,955 | 2,955 |
| Dividend recognised as distribution (Note 10) | – | – | – | – | – | – | – | (200,158) | (200,158) | – | (200,158) |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | – | – | – | – | (101,420) | (101,420) |
| Transfer to statutory surplus reserve fund | – | – | – | – | 28,176 | – | – | (28,176) | – | – | – |
| Transfer to designated safety fund reserve | – | – | – | – | – | – | 3,479 | (3,479) | – | – | – |
| At 30 June 2010 | 109,879 | 2,184,461 | (16,289) | 8,282 | 335,616 | – | 17,655 | 2,821,037 | 5,460,641 | 1,393,400 | 6,854,041 |

Notes:

a. In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserve fund retained by the 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 at 30 June 2011 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 RMB19,005,000.

   The amount at 30 June 2010 represented the difference between the paid-up capital of the subsidiaries acquired and the nominal value of the Company's shares of RMB1,167,000 mentioned above 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 RMB17,456,000.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

| | NOTES | Six months ended 30 June 2011 RMB'000 (unaudited) | 2010 RMB'000 (unaudited) |
|---|---|---|---|
| Net cash from operating activities | | **1,050,874** | 957,175 |
| Investing activities | | | |
| Deferred income received | | **122,310** | 130,866 |
| Purchase of property, plant and equipment | | **(981,901)** | (804,306) |
| Increase in prepaid lease payments | | **(23,681)** | (32,382) |
| Deposits paid for investments | | **(10,800)** | (113,075) |
| Refund of deposits paid for investments | | **–** | 3,200 |
| Net cash outflow on acquisition of subsidiaries | 26 | **(31,385)** | (239,527) |
| Investments in jointly controlled entities | | **(168,497)** | (33,000) |
| Investments in associates | | **(64,300)** | (15,000) |
| Decrease in restricted bank deposits | | **22,180** | 38,989 |
| Advance to trust fund | | **–** | (300,000) |
| Return of loan receivable | | **–** | 3,000 |
| Other investing activities | | **29,597** | 15,147 |
| Net cash used in investing activities | | **(1,106,477)** | (1,346,088) |
| Financing activities | | | |
| Interest paid on bank and other loans and short term debentures | | **(117,665)** | (121,499) |
| Interest paid on guaranteed notes | | **(87,549)** | (49,886) |
| Repayment of guaranteed notes, including premium | | **(1,389,349)** | – |
| Dividends paid to non-controlling shareholders | | **(150,653)** | (101,420) |
| Dividends paid to owners of the Company | | **(297,018)** | – |
| New bank loans raised | | **2,210,000** | 1,470,896 |
| Repayment of bank loans | | **(2,615,411)** | (1,041,076) |
| Proceeds from issue of senior notes | 24 | **4,863,375** | – |
| Expenses from issue of senior notes | 24 | **(66,114)** | – |
| Proceeds from issue of corporate bond | 22 | **500,000** | – |
| Expenses from issue of corporate bond | 22 | **(4,535)** | – |
| Amount advanced from jointly controlled entities | | **18,288** | 32,405 |
| Amount repaid to jointly controlled entities | | **(45,098)** | (5,488) |
| Other financing activities | | **43,115** | (16,643) |
| Net cash from financing activities | | **2,861,386** | 167,289 |
| Increase (decrease) in cash and cash equivalents | | **2,805,783** | (221,624) |
| Cash and cash equivalents at the beginning of the period | | **2,851,300** | 2,712,661 |
| Cash and cash equivalents at the end of the period | | **5,657,083** | 2,491,037 |

## 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2. Change in Accounting Policy

During the year ended 31 December 2010, the Group changed its accounting policy to state the land and buildings held for use in production or supply of goods or services 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. The change in accounting policy has also resulted in the adjustments to the equity items as at 1 January 2010, details of which are set out in the Group's annual financial statements for the year ended 31 December 2010.

As a result, the comparative financial information for the six months ended 30 June 2010 was restated accordingly and summarised below:

| | Six months ended 30 June 2010 (originally stated) RMB'000 | Adjustments arising from change in accounting policy RMB'000 | Six months ended 30 June 2010 (as restated) RMB'000 |
|---|---|---|---|
| Cost of sales/net impact on profit attributable to the owners of the Company | 3,623,029 | (438) | 3,622,591 |

The change in accounting policy has resulted in an increase in the profit of the Group for the six months ended 30 June 2011 by RMB438,000 and the increase in the basic and diluted earnings per share of the Group by RMB0.04 cents and RMB0.04 cents, respectively.

## 3. Principal Accounting Policies

The condensed 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 appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA.

The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in and/or disclosures set out in the condensed consolidated financial statements.

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

| | |
|---|---|
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[1] |
| HKFRS 9 | Financial Instruments[2] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[4] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[3] |
| HKAS 19 (Revised 2011) | Employee Benefits[2] |
| HKAS 27 (Revised 2011) | Separate Financial Statements[2] |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 January 2012

4 Effective for annual periods beginning on or after 1 July 2012

The directors of the Company (the "Directors") are in the process of assessing the financial impact of these new or revised standards and amendments on the Group.

## 4. 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.

During the six months ended 30 June 2011, the Group identified two new reportable operating segments, namely sales of material and wholesale of gas, which are separated from the gas connection and sales of piped gas segments, respectively, reported in the prior period. Accordingly, the segment information reported for the prior period has been restated to reflect the newly reportable segment as a separate segment as well as the effect of change in accounting policy set out in Note 2.

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

**Six months ended 30 June 2011 (unaudited)**

| | 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 | Sales of material RMB'000 | Wholesale of gas RMB'000 | Consolidation RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 1,580,137 | 3,863,147 | 102,289 | 42,527 | 741,362 | 287,859 | 584,916 | 7,202,237 |
| Segment profit before depreciation and amortisation | 995,486 | 806,857 | 4,206 | 15,930 | 162,768 | 25,514 | 65,855 | 2,076,616 |
| Depreciation and amortisation | (27,538) | (136,715) | (2,429) | (1,099) | (12,157) | – | (5,429) | (185,367) |
| Segment profit | 967,948 | 670,142 | 1,777 | 14,831 | 150,611 | 25,514 | 60,426 | 1,891,249 |
| Other income | | | | | | | | 84,047 |
| Other gains and losses | | | | | | | | (20,202) |
| Distribution and selling expenses | | | | | | | | (126,301) |
| Administrative expenses | | | | | | | | (607,219) |
| Share of results of associates | | | | | | | | 12,560 |
| Share of results of jointly controlled entities | | | | | | | | 171,659 |
| Finance costs | | | | | | | | (238,151) |
| Profit before tax | | | | | | | | 1,167,642 |
| Income tax expense | | | | | | | | (326,820) |
| Profit for the period | | | | | | | | 840,822 |

## 4. Segment Information *(continued)*

**Six months ended 30 June 2010 (unaudited) (restated)**

| | 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 | Sales of material RMB'000 | Wholesale of gas RMB'000 | Consolidation RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 1,135,882 | 2,651,542 | 146,515 | 28,231 | 555,467 | 136,739 | 389,343 | 5,043,719 |
| Segment profit before depreciation and amortisation | 692,246 | 683,711 | 7,221 | 13,544 | 121,203 | 20,654 | 45,789 | 1,584,368 |
| Depreciation and amortisation | (24,846) | (120,475) | (2,075) | (902) | (9,993) | – | (4,949) | (163,240) |
| Segment profit | 667,400 | 563,236 | 5,146 | 12,642 | 111,210 | 20,654 | 40,840 | 1,421,128 |
| Other income | | | | | | | | 61,020 |
| Other gains and losses | | | | | | | | (5,222) |
| Distribution and selling expenses | | | | | | | | (90,677) |
| Administrative expenses | | | | | | | | (482,214) |
| Share of results of associates | | | | | | | | 6,713 |
| Share of results of jointly controlled entities | | | | | | | | 138,720 |
| Finance costs | | | | | | | | (150,627) |
| Profit before tax | | | | | | | | 898,841 |
| Income tax expense | | | | | | | | (203,744) |
| Profit for the period | | | | | | | | 695,097 |

Segment profit represents the gross profit earned by each segment without allocation of other income, other gains and losses, distribution and selling expenses, administrative expenses, share of results of associates and jointly controlled entities, and finance costs. This is the measure reported to the CEO for the purposes of resource allocation and performance assessment.

## 4. Segment Information *(continued)*

The following is an analysis of the Group's assets by reportable and operating segments:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Gas connection | **2,484,454** | 2,280,384 |
| Sales of piped gas | **9,368,457** | 8,851,397 |
| Distributions of bottled LPG | **149,314** | 101,922 |
| Sales of gas appliances | **237,460** | 144,473 |
| Vehicle gas refuelling stations | **563,361** | 485,072 |
| Sales of material | **177,821** | 84,053 |
| Wholesale of gas | **233,923** | 191,508 |
| Segment assets | **13,214,790** | 12,138,809 |
| Unallocated corporate assets | **11,142,648** | 7,500,740 |
| Total assets | **24,357,438** | 19,639,549 |

## 5. Other Income

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Other income includes: | | |
| Incentive subsidies (Note) | **32,837** | 19,774 |
| Interest income | **13,509** | 13,437 |
| Rental income from investment properties, net | **1,360** | 1,762 |
| Repairs and maintenance income | **1,108** | 1,927 |

Note: The amount represents incentives received from the government for sales of gas and provision of connection service and refunds of various taxes as incentives received from the government authorities in various cities of the PRC. These incentive subsidies were recorded in the period when the relevant approval was obtained.

## 6. Other Gains and Losses

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Impairment loss (recognised) reversed on: | | |
| – Trade receivables | **(8,214)** | (15,905) |
| – Other receivables | **26,585** | (1,009) |
| Gain (loss) on disposal of | | |
| – Prepaid lease payments | **–** | 3,658 |
| – Property, plant and equipment | **(2,858)** | (14,660) |
| Gain of derecognition of a subsidiary to jointly controlled entity | **–** | 9,633 |
| Early redemption premium of guaranteed notes (Note 23) | **(95,029)** | – |
| Gain on foreign exchange, net | **59,314** | 13,061 |
| | **(20,202)** | (5,222) |

## 7. Finance Costs

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Interest on: | | |
| Bank and other loans wholly repayable within five years | **76,434** | 72,162 |
| Bank loans not wholly repayable within five years | **53,239** | 37,267 |
| Guaranteed notes | **54,868** | 49,886 |
| Short-term debentures | **12,972** | 12,496 |
| Senior notes | **37,370** | – |
| Corporate bond | **11,825** | – |
| | **246,708** | 171,811 |
| Less: Amount capitalised under construction in progress | **(8,557)** | (21,184) |
| | **238,151** | 150,627 |

## 8. Profit Before Tax

| | Six months ended 30 June 2011 RMB'000 | 2010 RMB'000 (restated) |
|---|---|---|
| Profit before tax has been arrived at after charging: | | |
| Share-based payment expenses (included in administrative expenses) | **23,080** | 8,282 |
| Depreciation and amortisation: | | |
| – property, plant and equipment | **231,214** | 206,536 |
| – intangible assets | **16,522** | 15,162 |
| Total depreciation and amortisation (Note) | **247,736** | 221,698 |
| Release of prepaid lease payments | **6,578** | 7,249 |
| Research and development expenses (included in administrative expenses) | **1,506** | 1,294 |

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

| | Six months ended 30 June 2011 RMB'000 | 2010 RMB'000 (restated) |
|---|---|---|
| Depreciation and amortisation included in: | | |
| Cost of sales | **185,367** | 163,240 |
| Administrative expenses | **62,369** | 58,458 |
| | **247,736** | 221,698 |

## 9. Income Tax Expense

| | Six months ended 30 June 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| PRC Enterprise Income Tax | **345,114** | 264,119 |
| Deferred taxation | **(18,294)** | (60,375) |
| | **326,820** | 203,744 |

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2011 (six months ended 30 June 2010: 25%).

## 9. Income Tax Expense *(continued)*

The Group's effective income tax rate for the six months ended 30 June 2011 is 28.0% (six months ended 30 June 2010: 22.7%) as a result of the transition from preferential tax rate to a new tax rate in certain subsidiaries of the Group. During the six months ended 30 June 2011, the rates applicable to these subsidiaries range from 24% to 25% (six months ended 30 June 2010: 22% to 25%) and the reduced tax rates range from 12% to 12.5% (six months ended 30 June 2010: 11% to 12.5%). In addition, during the six months ended 30 June 2011, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB294,136,000 (six months ended 30 June 2010: RMB176,032,000) due to the uncertainty of future profit streams.

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

The deferred taxation balances are as follows:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Deferred tax assets | **157,771** | 130,954 |
| Deferred tax liabilities | **(240,427)** | (225,034) |
| | **(82,656)** | (94,080) |

The movements of deferred taxation for the period are as follows:

| | Attributable to | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 2011 | 4,990 | 142,150 | 43,985 | 36,893 | (132,700) | (1,238) | 94,080 |
| Acquisition of a business | – | 6,870 | – | – | – | – | 6,870 |
| (Credit) charge to profit or loss | – | (3,392) | 1,059 | 11,264 | (26,769) | (456) | (18,294) |
| At 30 June 2011 | 4,990 | 145,628 | 45,044 | 48,157 | (159,469) | (1,694) | 82,656 |

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 profits of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

## 10. Dividend

The final dividend in respect of fiscal year 2010 of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share (six months ended 30 June 2010: final dividend in respect of 2009 of HK$21.65 cents (equivalent to approximately RMB19.06 cents) per share) amounting to approximately RMB247,588,000 (six months ended 30 June 2010: RMB200,158,000) were declared on 25 March 2011 and were paid on 22 June 2011.

The special dividend in respect of fiscal year 2010 of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share (six months ended 30 June 2010: nil) amounting to approximately RMB49,430,000 (six months ended 30 June 2010: nil) were declared on 25 March 2011 and were paid on 22 June 2011.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

## 11. 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | | (restated) |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share and diluted earnings per share | **628,835** | 533,761 |

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,050,149,397** | 1,050,149,397 |
| Effect of dilutive potential ordinary shares arising from share options | **10,232,587** | 99,022 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,060,381,984** | 1,050,248,419 |

## 12. Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties

During the six months ended 30 June 2011, the Group acquired property, plant and equipment and prepaid lease payments amounting to approximately RMB981,901,000 and RMB23,681,000 (six months ended 30 June 2010: RMB804,306,000 and RMB32,382,000) respectively.

In addition, through acquisition of a business, the Group's property, plant and equipment and prepaid lease payments increased by approximately RMB23,061,000 and RMB1,627,000 respectively (six months ended 30 June 2010: RMB99,643,000 and RMB119,271,000 respectively) during the period.

No revaluation on investment properties was carried out during the period. The valuation at 31 December 2010 was carried out by Knight Frank Petty Limited, on an open market value basis. The Directors consider that the carrying amounts of the investment properties at 30 June 2011 were not significantly different from their fair values on 31 December 2010.

## 13. Interests in Jointly Controlled Entities

During the six months ended 30 June 2011, the Group made additional capital contribution by the proportion of ownership interest held in a jointly controlled entity, 南昌中石油昆侖新奧天然氣利用有限公司 amounting to RMB14,500,000, and made capital contribution to three newly set up jointly controlled entities, namely 杭州蕭山環能實業有限公司, 唐山新奧永順清潔能源有限公司, 河南京寶新奧新能源有限公司 amounting to RMB114,000,000. In addition, the Group acquired 40% of equity interest in 河北中石油昆侖天然氣利用有限公司 ("Hebei Kunlun") at a total consideration of RMB88,000,000, which included a net cash payments of RMB68,000,000 and the entire interest in a subsidiary with the fair value of RMB20,000,000 (Note 27).

The Group hold 40% of equity interest in Hebei Kunlun and controls 40% of the voting power in the general meeting. Under the joint venture agreement, all financial and operational decisions must be approved by more than two-third of the directors of Hebei Kunlun, therefore Hebei Kunlun is classified as a jointly controlled entity.

## 14. Amounts Due from/to Associates

Included in the amounts due from/to associates are trade receivables amounting to RMB9,700,000 (31 December 2010: RMB8,438,000) and trade payables amounting to RMB2,516,000 (31 December 2010: RMB1,699,000) and the aged analysis is as follows:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Trade receivables due from associates | | |
| 0-3 months | **1,714** | 3,716 |
| 4-6 months | **1,666** | 735 |
| 7-9 months | **1,604** | 671 |
| 10-12 months | **694** | 49 |
| More than 1 year | **4,022** | 3,267 |
| | **9,700** | 8,438 |

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Trade payables due to associates | | |
| 0-3 months | **1,332** | 1,513 |
| 4-6 months | **79** | 30 |
| 7-9 months | **970** | 24 |
| 10-12 months | **–** | 33 |
| More than 1 year | **135** | 99 |
| | **2,516** | 1,699 |

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

## 15. Amounts Due from/to Jointly Controlled Entities

Included in the amounts due from/to jointly controlled entities are trade receivables amounting to RMB165,536,000 (31 December 2010: RMB94,578,000) and trade payables amounting to RMB160,410,000 (31 December 2010: RMB140,817,000) and the aged analysis is as follow:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Trade receivables due from jointly controlled entities | | |
| 0-3 months | **85,251** | 57,971 |
| 4-6 months | **23,149** | 12,824 |
| 7-9 months | **15,787** | 10,069 |
| 10-12 months | **4,081** | 1,990 |
| More than 1 year | **37,268** | 11,724 |
| | **165,536** | 94,578 |

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Trade payables due to jointly controlled entities | | |
| 0-3 months | **31,446** | 121,851 |
| 4-6 months | **40,589** | 12,602 |
| 7-9 months | **85,594** | 2,940 |
| 10-12 months | **27** | 460 |
| More than 1 year | **2,754** | 2,964 |
| | **160,410** | 140,817 |

Owing the strategic relationship with the jointly controlled entities, there is no formal credit policy applied to trade receivable balances by the Group, and in the opinion of the Directors, the trade receivable balances are not overdue.

## 16. Trade and Other Receivables

The following is an aged analysis, net of impairment, presented based on invoice date at the end of the reporting period:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| 0-3 months | **500,245** | 378,052 |
| 4-6 months | **47,541** | 50,346 |
| 7-9 months | **24,417** | 16,018 |
| 10-12 months | **1,913** | 13,206 |
| More than 1 year | **2,408** | 6,831 |
| Total trade receivables (Note) | **576,524** | 464,453 |
| Other receivables | **301,762** | 259,443 |
| Notes receivable | **257,964** | 78,992 |
| Advance to suppliers, deposits and prepayments | **819,793** | 625,606 |
| | **1,956,043** | 1,428,494 |
| Analysed for reporting purpose as: | | |
| Current portion | **1,884,086** | 1,356,055 |
| Non-current portion | **71,957** | 72,439 |
| | **1,956,043** | 1,428,494 |

Note:

The Group allows an average credit period ranging from 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days.

Movements in impairment on trade and other receivables are as follows:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Balance at beginning of the period/year | **105,466** | 125,093 |
| Impairment losses recognised | **15,583** | 39,268 |
| Amounts recovered | **(33,954)** | (56,061) |
| Amounts written off as uncollectible | **(2,619)** | (2,834) |
| Balance at end of the period/year | **84,476** | 105,466 |

## 17. Restricted Bank Deposits

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, 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 operations.

The restricted bank deposits carry fixed interest rate range from 0.36% to 0.50% 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.

## 18. Trade and Other Payables

The following is an aged analysis, presented based on invoice date at the end of the reporting period:

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| 0-3 months | **997,430** | 844,645 |
| 4-6 months | **241,909** | 174,909 |
| 7-9 months | **110,628** | 74,996 |
| 10-12 months | **22,570** | 26,436 |
| More than 1 year | **110,833** | 142,321 |
| Total trade payables | **1,483,370** | 1,263,307 |
| Advances received from customers | **1,951,693** | 1,783,137 |
| Accrued charges and other payables | **586,444** | 526,244 |
| | **4,021,507** | 3,572,688 |

## 19. Bank and Other Loans

During the period, the Group obtained new bank loans in the amount of RMB2,210,000,000 (six months ended 30 June 2010: RMB1,470,896,000) and made repayments in the amount of RMB2,615,411,000 (six months ended 30 June 2010: RMB1,041,076,000). The loans bear interest at the range from 2.83% to 6.80% per annum (31 December 2010: 2.83% to 5.85% per annum). These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2011, certain assets of the Group with aggregate carrying value of RMB53,337,000 (31 December 2010: RMB63,409,000) were pledged as security for bank and other loans, bills facilities and contracts granted to the Group, associates and jointly controlled entities.

## 20. Short-term Debentures

The balance at 30 June 2011 represents the short-term debenture issued to third party with face value of RMB800,000,000 and the accrued interests of RMB23,580,000. The amount was unsecured and carries interest at 3.27% per annum and was repaid on 5 August 2011.

## 21. Deferred Income

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Balance at beginning of the period/year | **531,735** | 296,415 |
| Additions | **122,310** | 259,070 |
| Release to profit or loss | **(15,626)** | (23,750) |
| Balance at end of the period/year | **638,419** | 531,735 |
| Analysed for the reporting purpose as: | | |
| Current portion | **35,762** | 29,109 |
| Non-current portion | **602,657** | 502,626 |
| Total | **638,419** | 531,735 |

Note:

Deferred income 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, and the connection fee received by the Group's subsidiaries from its customers for the construction cost of the Group's main gas pipelines.

## 22. Corporate Bond

On 16 February 2011, pursuant to the approval [2011] No. 29 issued by National Development and Reform Commission ("NDRC"), NDRC approved a wholly-owned subsidiary of the Company, 新奧（中國）燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited) to issue a corporate bond of RMB500,000,000. The amount is unsecured and carries interest of 6.45% per annum and is repayable on 16 February 2018. The net proceeds, after deducting the issuance costs, amounted to RMB495,465,000.

According to the terms and conditions of the corporate bond, the Group may at its option to increase the coupon rate by 0% to 1% at the end of year five, that is 16 February 2016 by giving the notice to bondholder 10 days before 16 February 2016. At the same time, the bondholder may at its option require the Company to redeem the bond at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bond will be subject to the increased interest rate until the maturity date. The put option is considered closely related to the host contract and is therefore not separately accounted for. The effective interest rate of the corporate bond is approximately 6.616% per annum after adjusted for transaction costs.

The corporate bond recognised in the condensed consolidated statement of financial position is calculated as follows:

| | **At 30 June 2011 RMB'000** |
|---|---|
| Nominal value of corporate bond | 500,000 |
| Issue costs | (4,535) |
| Fair value at date of issuance | 495,465 |
| Amortisation of issue costs | 416 |
| Carrying amount at 30 June 2011 | 495,881 |

## 23. Guaranteeed Notes

The balance at 31 December 2010 represented the guaranteed notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,614,040,000) (the "2012 Guaranteed Notes") 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 are due in August 2012.

On 28 June 2011 (the "Redemption Date"), the Company redeemed the entire outstanding 2012 Guaranteed Notes in full at a redemption price equal to 100% of the principal amount outstanding thereof which was US$200,000,000 (equivalent to approximately RMB1,294,320,000), plus the applicable premium of US$14,684,000 (equivalent to approximately RMB95,029,000) and accrued and unpaid interest of US$5,895,000 (equivalent to approximately RMB38,178,000) as of the Redemption Date. The premium of approximately RMB95,029,000 was recognised as "other gains and losses" in the condensed consolidated statement of comprehensive income (Note 6).

## 24. Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of US$750,000,000 (equivalent to approximately RMB4,863,375,000) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to US$739,804,000 (equivalent to RMB4,797,261,000). The 2021 Senior Notes matures on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2021 Senior 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 applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums is the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equal to the Treasury Rate plus 25 basis points, over (B) the principal amount on redemption date.

As the estimated fair value the early redemption right is insignificant at initial recognition and at 30 June 2011, the embedded derivative is not separately accounted for. The effective interest rate is approximately 6.1843% per annum after adjusted for transaction costs.

The 2021 Senior Notes recognised in the condensed consolidated statement of financial position are calculated as follows:

| | **At 30 June 2011 RMB'000** |
|---|---|
| Nominal value of 2021 Senior Notes | 4,863,375 |
| Issue costs | (66,114) |
| Fair value at date of issuance | 4,797,261 |
| Amortisation of issue costs | 551 |
| Exchange gain | (9,675) |
| Carrying amount at 30 June 2011 | 4,788,137 |
| Fair values of the 2021 Senior Notes* | 4,996,641 |

* The fair values of the 2021 Senior Notes are determined directly by references to the price quotations published by the Singapore Exchange Securities Trading Limited on 29 June 2011, the last dealing date for the purpose of this report.

## 25. Share Options

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$0.10 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 for a total of 18,680,000 shares in the Company.

During the six months ended 30 June 2011, two employees who were the Grantees of the share options were appointed as Directors and two directors who were the Grantees of the share options retired from directorship. Accordingly, the share options granted to the Directors and certain employees of the Group has changed to 17,860,000 and 15,630,000 share options, respectively as at 30 June 2011.

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 six months ended 30 June 2011:

| | | | | | Number of options | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Vesting period | Exercise period | Exercise price | Outstanding at 1.1.2011 | Granted during the period | Exercised during the period | Outstanding at 30.6.2011 |
| 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 period | | | | | | | | 16,745,000 |
| Weighted average exercise price | | | | | HK$16.26 | – | – | HK$16.26 |

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.

During the six months ended 30 June 2011, the Group recognised share-based expenses of RMB23,080,000 (six months ended 30 June 2010: RMB8,282,000). The total fair value of the options calculated by using the binomial model was HK$193,297,000.

## 26. Acquisitions of Business

On 15 April 2011, the Group acquired 90% of the registered capital of 江蘇華海管道燃氣有限責任公司 ("Jiangsu Huahai") at a total cash consideration of RMB32,625,000. Jiangsu Huahai is a group of companies engaging in the sales of piped gas in Jiangsu province and was acquired with the objective of significantly improving marketing coverage in Jiangsu and obtaining contribution arising from gas supply to industrial centre.

**Consideration transferred**

| | RMB'000 |
|---|---|
| Cash consideration paid | 32,625 |

Acquisition-related costs amounting to RMB121,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in condensed consolidated statement of comprehensive income in the current period.

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

| | RMB'000 |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 1,240 |
| Trade and other receivables | 1,210 |
| Inventories | 29 |
| **Non-current assets** | |
| Property, plant and equipment | 23,061 |
| Intangible assets-rights of operation | 27,480 |
| Prepaid lease payments | 1,627 |
| **Current liabilities** | |
| Trade and other payables | (17,608) |
| **Non-current liabilities** | |
| Deferred tax liabilities | (6,870) |
| | 30,169 |

## 26. Acquisition of Business *(continued)*

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 fair value of the trade and other receivables amounted to RMB1,210,000 in aggregated which is estimated to be the same as the gross contractual amounts of these receivables. The Directors preliminarily considered that all acquired receivables will be recoverable.

**Non-controlling interests**

In the current period, the Group has elected to measure non-controlling interests at the proportionate share of the acquirees' net identified assets at the respective acquisition date.

The non-controlling interest (10%) in Jiangsu Huahai recognised at the acquisition date was measured based on the proportionate share of the acquirees' net identifiable assets which amounted to RMB1,046,000.

**Goodwill arising on acquisition**

| | RMB'000 |
|---|---|
| Consideration transferred | 32,625 |
| Plus: Non-controlling interests | 1,046 |
| Less: Fair value of identified net assets acquired | (30,169) |
| Goodwill arising on acquisition | 3,502 |

Goodwill arose on the acquisition of Jiangsu Huahai is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

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

**Net cash outflow arising on acquisition**

| | RMB'000 |
|---|---|
| Consideration paid in cash | (32,625) |
| Less: Cash and cash equivalent balances acquired | 1,240 |
| | (31,385) |

## 26. Acquisition of Business *(continued)*

**Impact of acquisition on the results of the Group**

Included in the profit for the interim period is RMB112,000 attributable to the additional business generated by Jiangsu Huahai. Revenue for the period includes RMB2,064,000 generated from Jiangsu Huahai.

Had the acquisition of Jiangsu Huahai been effected at 1 January 2011, the revenue of the Group for the six months ended 30 June 2011 would have been RMB7,205,300,000, and the profit for the period would have been RMB841,686,000. 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 2011, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Jiangsu Huahai been acquired at the beginning of the current reporting period, the Directors have calculated depreciation and amortisation of property, plant and equipment and intangible asset 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.

## 27. Disposal of a Subsidiary and Acquisition of a Jointly Controlled Entity

On 31 March 2011, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to acquire 40% of equity interest in Hebei Kunlun at a cash consideration of RMB76,000,000. At the same time, the Group agreed to transfer 100% of equity interest in a wholly owned subsidiary, 新奥鹿泉車用燃氣有限公司 ("Xinao Luquan") to the Seller, for a cash consideration of RMB8,000,000.

The net assets of Xinao Luquan derecognised at the date of disposal were as follows:

| | RMB'000 |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 13,997 |
| Trade and other receivables | 4,365 |
| **Non-current asset** | |
| Property, plant and equipment | 8,385 |
| **Current liabilities** | |
| Trade and other payables | (6,747) |
| | 20,000 |

## 27. Disposal of a Subsidiary and Acquisition of a Jointly Controlled Entity *(continued)*

The carrying amount of the net assets of Xinao Luquan derecognised approximates the fair value of the business of Xinao Luquan. The disposal of Xinao Luquan is considered to be an exchange of assets for the acquisition of 40% of equity interest in Hebei Kunlun, and accordingly, the cost of acquisition of Hebei Kunlun is calculated as follows:

| | **RMB'000** |
|---|---|
| Fair value of net assets of a subsidiary disposed of | 20,000 |
| Less: Proceeds from disposal (not yet received and included as other receivable at 30 June 2011) | (8,000) |
| | 12,000 |
| Cash consideration (out of which RMB50,000,000 are not yet paid and included in other payable at 30 June 2011) | 76,000 |
| Cost of acquisition of a jointly controlled entity | 88,000 |

**Net cash outflow arising on acquisition of a jointly controlled entity**

| | **RMB'000** |
|---|---|
| Consideration paid | 26,000 |
| Cash and cash equivalent disposed of | 13,997 |
| | 39,997 |

## 28. Commitments

**(a) Capital commitments**

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant or equipment contracted for but not provided | **94,915** | 85,563 |

**(b) Other commitments**

| | **At 30 June 2011 RMB'000** | At 31 December 2010 RMB'000 |
|---|---|---|
| Capital commitment in respect of investments in associates or jointly controlled entities | **96,546** | 68,564 |

In addition to above, at 30 June 2011, the Group has commitment amounting to RMB13,788,000 (31 December 2010: RMB20,876,000) in respect of acquisition of land use rights in the PRC.

## 29. Related Party Transactions

The Group has entered into the following transactions with its related parties during the period:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Associates** | | |
| – Sales of gas to | **9,093** | 351 |
| – Sales of materials to | **2,700** | 415 |
| – Provision of gas transportation services to | **197** | 4,135 |
| – Purchase of materials from | **1,357** | 1,928 |
| – Purchase of gas from | **17,952** | 19,246 |
| – Provision of gas transportation services by | **19** | – |
| **Jointly controlled entities** | | |
| – Sales of gas to | **143,085** | 132,735 |
| – Sales of materials to | **44,201** | 27,283 |
| – Purchase of gas from | **132,274** | 113,194 |
| – Provision of gas transportation services to | **127,765** | 90,234 |
| – Loan interest received from | **–** | 420 |
| – Payments made on behalf of the Group | **182** | 191 |
| – Provision of supporting services | **16,553** | 298 |
| – Provision of construction services | **20,925** | 14,445 |
| – Provision of car rental services | **125** | – |
| **Companies controlled by Mr. Wang Yu Suo ("Mr. Wang") a controlling shareholder and director of the Company** | | |
| – Sales of gas to | **3,713** | 2,164 |
| – Purchase of materials used in production | | |
| – Dimethyl Methyl Ether from | **–** | 10,355 |
| – Purchase of materials from | **112** | 2,084 |
| – Provision of gas connection services to | **1,268** | – |
| – Provision for property management services by | **2,824** | 1,722 |
| – Provision for property management services to | **218** | 218 |
| – Provision of maritime transportation services by | **8,400** | 4,304 |
| – Purchase of land use rights from | **–** | 37,000 |
| – Purchase of equipment and supporting services from | **–** | 14,956 |
| – Lease of premises to | **520** | 520 |
| – Lease of premises from | **1,298** | 1,298 |
| – Provision of supporting services by | **10,162** | 9,331 |
| – Payment on behalf by | **–** | 351 |

## 29. Related Party Transactions *(continued)*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Non-controlling shareholders of subsidiaries** | | |
| – Provision of gas construction services to | **4,580** | – |
| – Provision of construction services by | **2,442** | 587 |
| – Payment on behalf by | **–** | 236 |
| – Loan advance to | **–** | 1,979 |
| – Lease of premises from | **30** | 30 |
| – Lease of land from | **1,200** | – |
| – Provision of transportation services by | **970** | 425 |
| – Purchase of gas from | **169** | 1,564 |
| – Sales of gas to | **–** | 405 |

The Company issued the 2021 Senior Notes on 13 May 2011. The terms and conditions of the 2021 Senior Notes require Mr. Wang to retain control over the Company throughout the term of the 2021 Senior Notes failing which the Company would be require to repurchase all outstanding notes at purchase price equal to 101% of their principal amount plus accrued and unpaid interest at such repurchase date. In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB340,000,000 (31 December 2010: RMB670,000,000).

A jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounted to RMB95,000,000 (31 December 2010: RMB100,000,000) granted to the Group. Such banking facilities have not been utilised as at 30 June 2011.

The Group has provided guarantees to associates amounting to RMB102,000,000 (31 December 2010: RMB87,000,000) and to jointly controlled entities amounting to RMB135,000,000 (31 December 2010: RMB142,000,000).

The compensation to key management personnel during the period is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **4,929** | 3,560 |
| Post-employment benefits | **26** | 35 |
| Share-based payments | **14,031** | 3,662 |
| | **18,986** | 7,257 |

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

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

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

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

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

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

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

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

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

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

**Amendment to HKAS 17 Lease**

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

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

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

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

| | As at 31 December 2009 (Originally stated) | 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<br>RMB'000 | 2009<br>RMB'000<br>(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<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Interest on: | | |
| Bank and other loans wholly repayable within five years | **76,234** | 150,320 |
| Bank loans not wholly repayable within five years | **142,548** | 98,570 |
| Guaranteed notes | **103,916** | 105,920 |
| Short-term debentures | **27,104** | 14,357 |
| Discounted bills | **–** | 631 |
| | **349,802** | 369,798 |
| Less: Amount capitalised under construction in progress (note) | **(38,951)** | (41,349) |
| | **310,851** | 328,449 |

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

## 12. Profit Before Tax

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

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

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

## 13. Remuneration of Directors and Employees

### (a) Directors' emoluments

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

**2010**

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

2009

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

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

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

### (b) Five highest paid individuals

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

## 14. Income Tax Expense

| | **2010** | 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 |
| 東莞新奥莞樟燃氣有限公司 (Dongguan Xinao Guanzhang Gas Company Limited) | Incorporated | The PRC | **25% (note a)** | 25% (note a) | Investment in gas pipeline infrastructure and sales of piped gas |
| 東莞長安新奥燃氣有限公司 (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 |
| 上海新奥九環車用能源股份有限公司 (Shanghai Xinao Jiuhuan Vehicle Gas Joint-stock Company Limited) | Incorporated | The PRC | **54.57% (note b)** | 54.57% (note b) | Sales of LPG |
| 上海九環汽車天然氣發展有限公司 (Shanghai Jiuhuan Vehicle Natural Gas Development Company Limited) | Incorporated | The PRC | **40% (note c)** | 40% (note c) | Sales of compressed natural gas ("CNG") |
| 上海九環交通大眾油汽供應有限公司 (Shanghai Jiuhuan Public Transportation Gas Supplies Company Limited) | Incorporated | The PRC | **47.29%** | 47.29% | Sales of LPG |

## 22. Interests in Associates *(continued)*

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

Notes:

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

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

(c) The Group holds direct interest of 40% and indirect effective interest of 16.37% through another associate in the registered capital of Shanghai Jiuhuan Vehicle Natural Gas Development Company Limited. The Directors consider that the Group can only exercise significant influence over the entity and it is therefore classified as an associate of the Group.

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

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

## 22. Interests in Associates *(continued)*

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

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

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

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

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

## 23. Interests in Jointly Controlled Entities

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

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

Details of the Group's jointly controlled entities as at 31 December 2009 and 31 December 2010 are as follows:

| Name of company | Form of business structure | Place of establishment/ operation | Proportion of nominal value of registered capital held by the Group 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 濱州新奧燃氣工程有限公司 (Binzhou Xinao Gas Engineering Company Limited) ("Binzhou Xinao") | Incorporated | The PRC | **60% (notes a and b)** | – | Investment in gas pipeline infrastructure |
| 長沙新奧燃氣發展有限公司 (Changsha Xinao Gas Development Limited) | Incorporated | The PRC | **55% (note b)** | 55% (note b) | Sales of piped gas |
| 長沙新奧遠大能源服務有限公司 (Changsha Xinao Yuanda Energy Service Company Limited) | Incorporated | The PRC | **60% (note b)** | – | Energy contract management, energy saving technology service, technology consulting, transfer and training |
| 德化廣安天然氣有限公司 (Dehua Guangan Natural Gas Limited) | Incorporated | The PRC | **51% (note b)** | 51% (note b) | Sales of piped gas |
| 東莞新奧燃氣有限公司 (Dongguan Xinao Gas Company Limited) ("Dongguan Xinao") | Incorporated | The PRC | **55% (note b)** | 55% (note b) | Investment in gas pipeline infrastructure and sales of piped gas and LPG |
| 海寧市新欣天燃氣有限公司 (Haining City Xinxin Natural Gas Company Limited) | Incorporated | The PRC | **40% (note e)** | – | Sales of piped gas |
| 合肥新奥中汽能源發展有限公司 (Hefei Xinao Zhongqi Energy Development Company Limited) | Incorporated | The PRC | **51% (note b)** | 51% (note b) | Production, processing and operation of clean energy fuels like vehicle fuels, natural gas, LPG, directly lather and methanol. Fitting of vehicle fuel appliances, construction and operation of CNG supply facilities, operation of vehicle repair |
| 湖州新奧燃氣有限公司 (Huzhou Xinao Gas Company Limited) | Incorporated | The PRC | **50%** | 50% | Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas station |
| 湖州新奧燃氣發展有限公司 (Huzhou Xinao Gas Development Company Limited) | Incorporated | The PRC | **50%** | 50% | Sales of piped gas |
| 金華市高亞天然氣有限公司 (Jinhua City Gaoya Natural Gas Company Limited) | Incorporated | The PRC | **25% (note f)** | – | Construction and operation of CNG supply facilities and sales of vehicle fuel gas |
| 開封新奧銀海車用燃氣有限公司 (Kaifeng Xinao Yinhai Gas For Vehicle Company Limited) | Incorporated | The PRC | **49%** | 49% | Sale of gas appliances |

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

| Name of company | Form of business structure | Place of establishment/ operation | Proportion of nominal value of registered capital held by the Group 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 鹿泉富新燃氣有限公司 (Luquan Fuxin Gas Company Limited) | Incorporated | The PRC | **49%** | 49% | Investment in gas pipeline infrastructure and sales of piped gas |
| 南昌中石油昆侖新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, 海寧新奧燃氣發展有限公司 (Haining Xinao Gas Development Company Limited). Under the joint venture agreement, all financial and operational decisions must be approved by all shareholders, therefore, Haining Xinxin is classified as a jointly controlled entity of the Group.

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

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

The movement of goodwill is set out below:

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

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

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

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

## 24. Available for Sale Financial Assets

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

The above unlisted investment represents investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

## 25. Loan Receivable

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

During the year ended 31 December 2008, the Group granted a loan amounting to RMB15,000,000 to an independent third party to the Group. The amount is interest bearing at the People's Bank of China ("PBOC") base rate plus 1%, repayable on equal instalment starting from 31 March 2009 and up to 31 March 2013.

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

## 26. Amounts Due From/to Jointly Controlled Entities

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

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

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

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

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

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

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

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

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

## 27. Inventories

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

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

## 28. Trade and Other Receivables

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

## 28. Trade and Other Receivables *(continued)*

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

Notes:

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

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

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

The Group allows an average credit period of 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period:

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

The following is an aged analysis of notes receivable:

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

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB454,589,000 (31 December 2009: RMB398,402,000 and 1 January 2010: RMB401,498,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 67 days (2009: 71 days).

## 28. Trade and Other Receivables *(continued)*

**Aged analysis of trade receivables which are past due but not impaired**

Except for certain trade receivable past due beyond one year, the Group has fully provided for all receivables over one year because historical experience is that receivables that are past due beyond one year are generally not recoverable. No impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers. The overdue receivables with aged over one year have been recovered by the Group after the end of the reporting period.

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

**Movements in the impairment on trade receivables**

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

All trade receivables are assessed not to be impaired individually and therefore, they are subsequently assessed for impairment on a collective basis. The Group does not hold any collateral over these balances.

**Movements in the impairment on other receivables**

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

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

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

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

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

## 30. Amounts Due From/to Associates

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

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

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

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

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

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

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

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

## 31. Amounts Due From Related Companies

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

Analysed for reporting purposes as:

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

Notes:

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

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

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

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

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

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

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

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

## 32. Restricted Bank Deposits

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

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

## 33. Cash and Cash Equivalents

Cash and cash equivalents includes bank balances with original maturities less than three months carrying interest at market rates which range from 0.36% to 2.25% (31 December 2009: 0.36% to 1.71% and 1 January 2009: 0.72% to 3.06%) per annum as at 31 December 2010. The bank balances denominated in RMB are deposited with banks in the PRC.

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

## 34. Trade and Other Payables

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

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

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

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

## 35. Amounts Due to Related Companies

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

Note:

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

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

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

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

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

## 36. Bank and Other Loans

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

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

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

## 36. Bank and Other Loans *(continued)*

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

**At 31 December 2010**

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

## 36. Bank and Other Loans *(continued)*

At 31 December 2009

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

## 36. Bank and Other Loans *(continued)*

At 1 January 2009

| | Maturity date | Effective interest rate per annum | Carryin amount RMB'000 |
|---|---|---|---|
| **Fixed-rate borrowings** | | | |
| 7.12% secured RMB bank loan | 6/5/2009 | 7.12% | 79,300 |
| 5.86% – 7.47% unsecured RMB bank loan | 30/4/2009 – 2/10/2009 | 7.03% | 207,872 |
| 3.38% – 5% unsecured RMB other loans | 12/6/2017 | 3.38% – 5% | 96,493 |
| Total fixed-rate borrowings | | | 383,665 |
| **Floating-rate borrowings** | | | |
| Unsecured RMB bank loan at PBOC base rate | 10/1/2009-15/12/2020 | 7.37% | 1,199,000 |
| Secured RMB bank loan at PBOC base rate | 2/4/2009-20/12/2020 | 8.38% | 1,643,000 |
| Unsecured USD bank loan at LIBOR plus 1.5% | 15/6/2009-15/12/2009 | 5.98% | 34,174 |
| Secured HKD bank loan of HKD125,000,000 at Hong Kong Inter Bank Offer Rate plus 0.75%-1.15% | 12/6/2009 | 2.58% | 110,236 |
| Secured HKD bank loan at 2.5%-2.95% below Prime Rate | 11/7/2013-27/9/2022 | 3.50% | 15,550 |
| Secured RMB other loan at prevailing market rate | 15/12/2014-12/6/2017 | 3.48% | 40,545 |
| Total floating-rate borrowings | | | 3,042,505 |
| Total borrowings | | | 3,426,170 |

## 37. Short-Term Debentures

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

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

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

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

## 37. Short-Term Debentures *(continued)*

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

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

## 38. Financial Guarantee Liability

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

## 39. Deferred Income

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

## 39. Deferred Income *(continued)*

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

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

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

## 40. Share Capital

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

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

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

## 41. Guaranteed Notes

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

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

The guaranteed notes are denominated in US dollars at fixed interest rate of 7.375% per annum and due in August 2012.

According to the terms and conditions of the guaranteed notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest to such redemption date. The early redemption right is considered closely related to the guaranteed note and is therefore not separately accounted for. The effective interest rate is approximately 7.92% per annum after adjusted for transaction costs.

## 42. Deferred Taxation

| | **31 December 2010 RMB'000** | 31 December 2009 RMB'000 (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 | Outstanding at 1.1.2010 | Granted during the year | Exercised during the year | Outstanding at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|
| | | | | | Number of options | | | |
| 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 | Outstanding at 1.1.2009 | Exercised during the year | Outstanding at 31.12.2009 |
|---|---|---|---|---|---|---|
| | | | | Number of options | | |
| 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 長沙新奥熱力有限公司 (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 懷化新奧燃氣有限公司 (Huaihua Xinao Gas Company Limited) ("Huaihua Xinao") at a cash consideration of approximately RMB31,730,000. Huaihua Xinao is engaged in gas pipeline infrastructure and sales of gas equipment and appliances. Huaihua Xinao had not yet commenced operation as at acquisition date. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

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

## 47. Derecognition/Deregistration/Disposal of Subsidiaries

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

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

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

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

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

(a) *(continued)*

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

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

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

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

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

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

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

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

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

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

(b) *(continued)*

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

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

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

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

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

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

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

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

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

## 48. Commitments

**(a) Capital commitments**

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

**(b) Other commitments**

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

## 49. Lease Commitments

### The Group as lessee

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

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

Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

### The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields of 5.0% (2009: 4.8%) on an ongoing basis. All of the properties held have committed tenants for terms ranging from one to seven years.

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

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

## 50. Pledge of Assets

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

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

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

## 51. Related Party Transactions

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

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

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 北京新奧燃氣有限公司 Beijing Xinao Gas Company Limited* | PRC | US$1,195,600 | **95.00%** | 95.00% | Sales of piped gas and bottled LPG |
| 北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited# | PRC | US$23,800,000 | **100.00%** | 100.00% | Retail of gas pipelines, related materials and equipment |
| 北京新奧京昌燃氣有限公司 Beijing Xinao Jingchang Gas Company Limited* | PRC | RMB9,900,000 | **80.00%** | 80.00% | Sales of piped gas |
| 北京新奧京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited* | PRC | RMB9,900,000 | **90.00%** | 90.00% | Sales of piped gas |
| 蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited* | PRC | RMB110,000,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure |
| 蚌埠新奧燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited* | PRC | US$600,000 | **70.00%** | 70.00% | Sales of piped gas and bottled LPG |
| 蚌埠新奧清潔能源發展有限公司 Bengbu Xinao Clean Energy Development Company Limited# | PRC | RMB50,000,000 | **100.00%** | 100.00% | Sales of gas and gas appliance; storage, transportation and sales of DME |
| 濱州新奧燃氣工程有限公司 Binzhou Xinao Gas Engineering Company Limited# | PRC | US$600,000 | **–** | 100.00% | Investment in gas pipeline infrastructure |
| 亳州新奧燃氣有限公司 Bozhou Xinao Gas Company Limited* | PRC | US$3,200,000 | **70.00%** | 70.00% | Sales of piped gas |
| 亳州新奧燃氣工程有限公司 Bozhou Xinao Gas Engineering Company Limited* | PRC | US$800,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure |
| 巢湖新奧燃氣有限公司 Chaohu Xinao Gas Company Limited# | PRC | US$5,784,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 巢湖新奧燃氣發展有限公司 Chaohu Xinao Gas Development Company Limited# | PRC | US$420,000 | **100.00%** | 100.00% | Sales of piped gas |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 巢湖新奧車用燃氣有限公司<br>Chaohu Xinao Vehicle Gas Company Limited# | PRC | US$540,000 | **100.00%** | 100.00% | Production and sales of gas for vehicle use |
| 長沙新奧燃氣有限公司<br>Changsha Xinao Gas Company Limited* ("Changsha Xinao") | PRC | RMB120,000,000 | **55.00%** | 55.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 長沙星沙新奧燃氣有限公司<br>Changsha Xingsha Xinao Gas Company Limited ("Xingsha Xinao") | PRC | RMB22,000,000 | **46.75%** | 46.75% | Investment in gas pipeline infrastructure and sales of piped gas |
| 長沙星沙新奧燃氣發展有限公司<br>Changsha Xingsha Xinao Gas Development Company Limited* ("Xingsha Xinao Development") | PRC | RMB8,000,000 | **46.75%** (note a) | 46.75% (note a) | Exploitation and sales of piped gas |
| 長沙新奧熱力有限公司<br>Changsha Xinao Heat Energy Company Limited* | PRC | RMB35,000,000 | **90.00%** (note a) | 90.00% (note a) | Sales of steam |
| 常州新奧燃氣發展有限公司<br>Changzhou Xinao Gas Development Company Limited* | PRC | US$600,000 | **60.00%** | 60.00% | Sales of piped gas |
| 常州新奧燃氣工程有限公司<br>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<br>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<br>Chuzhou Xinao Gas Engineering Company Limited* | PRC | US$600,000 | **93.00%** | 93.00% | Investment in gas pipeline infrastructure |
| 大連新奧燃氣發展有限公司<br>Dalian Xinao Gas Development Company Limited | PRC | RMB6,000,000 | **100.00%** | – | Distribution of bottled LPG |
| 封開新奧燃氣有限公司<br>Fengkai Xinao Gas Company Limited# | PRC | RMB12,000,000 | **100.00%** | – | Sales of piped gas |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 鳳陽新奧燃氣有限公司 Fengyang Xinao Gas Company Limited# | PRC | US$2,000,000 | **100.00%** | 100.00% | Sales of piped gas |
| 鳳陽新奧燃氣工程有限公司 Fengyang Xinao Gas Engineering Company Limited# | PRC | US$600,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 福州新奧清潔能源有限公司 Fuzhou Xinao Clean Energy Limited# | PRC | US$12,000,000 | **–** | 100.00% | Sales of CNG, LPG and LNG |
| 廣州新奧燃氣有限公司 Guangzhou Xinao Gas Company Limited# | PRC | RMB100,000,000 | **100.00%** | – | Sales of piped gas |
| 廣州市都成運輸有限公司 Guangzhou Ducheng Transportation Company Limited# | PRC | RMB500,000 | **100.00%** | – | Sales of piped gas |
| 廣寧新奧燃氣有限公司 Guangning Xinao Gas Company Limited# | PRC | RMB10,000,000 | **100.00%** | – | Sales of piped gas |
| 固鎮新奧燃氣有限公司 Guzhen Xinao Gas Company Limited# | PRC | RMB4,500,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 固鎮新奧燃氣發展有限公司 Guzhen Xinao Gas Development Company Limited# | PRC | RMB15,000,000 | **100.00%** | 100.00% | Sales of piped gas and gas appliance |
| 貴港新奧燃氣有限公司 Guigang Xinao Gas Company Limited# | PRC | US$3,500,000 | **100.00%** | 100.00% | Sales of piped gas |
| 貴港新奧燃氣工程有限公司 Guigang Xinao Gas Engineering Company Limited# | PRC | US$500,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 桂林新奧燃氣有限公司 Guilin Xinao Gas Company Limited* | PRC | US$6,000,000 | **60.00%** | 60.00% | Sales of piped gas |
| 桂林新奧燃氣發展有限公司 Guilin Xinao Gas Development Company Limited* | PRC | US$120,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 廣州富城管道燃氣有限公司 Guangzhou Fucheng Piped Gas Company Limited* | PRC | RMB2,000,000 | **90.00%** | 90.00% | Sales of piped gas |
| 邯鄲新奧邯運車用燃氣有限公司 HanDan Xinao Hanyun Vehicle Gas Company Limited* | PRC | RMB30,000,000 | **51.00%** | 51.00% | Construction and operation of vehicle gas refuelling stations |
| 海安新奧燃氣有限公司 Haian Xinao Gas Company Limited# | PRC | US$1,200,000 | **100.00%** | 100.00% | Sales of piped gas |
| 海寧新奧燃氣有限公司 Haining Xinao Gas Company Limited* | PRC | US$5,000,000 | **80.00%** | 80.00% | Investment in gas pipeline infrastructure |
| 海寧新奧燃氣發展有限公司 Haining Xinao Gas Development Company Limited* | PRC | US$800,000 | **86.00%** | 86.00% | Sales of piped gas |
| 海鹽新奧燃氣有限公司 Haiyan Xinao Gas Company Limited# | PRC | US$9,000,000 | **100.00%** | 100.00% | Sales of piped gas and gas appliances |
| 杭州蕭山管道燃氣發展有限公司 Hangzhou Xiaoshan Piped Gas Development Company Limited* | PRC | RMB10,000,000 | **95.00%** | 95.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 衡水新奧車用燃氣有限公司 Hengshui Xinao Vehicle Gas Company Limited* | PRC | RMB16,000,000 | **80.00%** | 80.00% | Construction and operation of vehicle gas refuelling stations |
| 懷集新奧燃氣有限公司 Huaiji Xinao Gas Company Limited# | PRC | RMB10,000,000 | **100.00%** | – | Sales of piped gas |
| 葫蘆島新奧燃氣有限公司 Huludao Xinao Gas Company Limited* | PRC | US$1,207,700 | **90.00%** | 90.00% | Sales of piped gas |
| 葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited* | PRC | US$1,200,000 | **90.00%** | 90.00% | Investment in gas pipeline infrastructure |
| 葫蘆島新奧清潔能源有限公司 Huludao Xinao Clean Energy Company Limited* | PRC | US$6,800,000 | **90.00%** | – | Investment in gas pipeline infrastructure and sales of piped gas |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 湖南新奧燃氣儲配有限公司 Hunan Xinao Gas Storage Company Limited | PRC | RMB53,000,000 | **74.50%** | 74.50% | Design and installation of gas equipment |
| 湖南新奧清潔能源有限公司 Hunan Xinao Clean Energy Company Limited# | PRC | US$3,000,000 | **100.00%** | 100.00% | Construction and operation of vehicle gas refuelling stations |
| 湖南銀通科技有限責任公司 Hunan Yintong Technology Company Limited* | PRC | RMB9,803,900 | **51.00%** | 51.00% | Research and development, production and sales of IC card metre and software system |
| 淮安新奧燃氣有限公司 Huaian Xinao Gas Company Limited* | PRC | RMB35,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas and bottled LPG |
| 淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited# | PRC | RMB7,000,000 | **100.00%** | 100.00% | Sales of piped gas and gas appliances |
| 淮安新奧淮陰車用燃氣有限公司 Huaian Xinao Huaiyin Vehicle Gas Company Limited# | PRC | US$1,000,000 | **100.00%** | 100.00% | Technology research and development and promotion of compressed natural gas ("CNG") |
| 淮安新奧清河車用燃氣有限公司 Huaian Xinao Qinghe Gas Vehicle Company Limited# | PRC | US$1,000,000 | **100.00%** | 100.00% | Sales of CNG for vehicle use and related equipment; construction and operation of vehicle gas refuelling stations |
| 淮安新奧清浦車用燃氣有限公司 Huaian Xinao Qingpu Vehicle Gas Company Limited# | PRC | US$1,000,000 | **100.00%** | 100.00% | Technology research and development and promotion of compressed natural gas ("CNG") |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 惠安縣燃氣有限公司 Huian County Gas Company Limited* | PRC | RMB20,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 惠安新奧燃氣有限公司 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 |
|---|---|---|---|---|---|
| 連雲港新奥燃氣工程有限公司 Lianyungang Xinao Gas Engineering Company Limited* | PRC | RMB10,000,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure |
| 連州新奥燃氣有限公司 Lianzhou Xinao Gas Company Limited# | PRC | RMB10,000,000 | **100.00%** | – | Sales of piped gas |
| 聊城新奥燃氣有限公司 Liaocheng Xinao Gas Company Limited* | PRC | US$1,933,200 | **90.00%** | 90.00% | Sales of piped gas |
| 聊城新奥燃氣工程有限公司 Liaocheng Xinao Gas Engineering Company Limited* | PRC | US$1,200,000 | **93.00%** | 93.00% | Investment in gas pipeline infrastructure |
| 凌海盛泰燃氣有限公司 Linghai Shengtai Gas Company Limited# | PRC | RMB5,000,000 | **80.00%** | – | Sales of piped gas |
| 龍游新奥燃氣有限公司* Longyou Xinao Gas Company Limited | PRC | US$3,000,000 | **90.00%** | 90.00% | Investment in gas pipeline infrastructure |
| 六安新奥燃氣有限公司 Luan Xinao Gas Company Limited# | PRC | RMB20,000,000 | **100.00%** | 100.00% | Sales of piped gas |
| 六安新奥燃氣工程有限公司 Luan Xinao Gas Engineering Company Limited# | PRC | US$800,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 羅定市新奥燃氣有限公司 Luoding City Xinao Gas Company Limited# | PRC | RMB12,000,000 | **100.00%** | – | Sales of piped gas |
| 鹿泉新奥車用燃氣有限公司 Luquan Xinao Vehicle Gas Company Limited# | PRC | US$880,000 | **100.00%** | 100.00% | Production and sales of compressed natural gas |
| 灤縣新奥燃氣有限公司 Luanxian Xinao Gas Company Limited | PRC | RMB5,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 洛陽市明炬燃氣工程有限責任公司 Luoyang City Mingju Gas Engineering Company Limited | PRC | RMB5,005,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 洛陽市通奧管道燃氣器具有限公司 Luoyang City Tongao Piped Gas Appliance Company Limited | PRC | RMB786,000 | – | 70.00% | Production and sales of gas appliances |
| 洛陽市中天燃氣工程設計有限公司 Luoyang City Zhongtian Gas Engineering Design Company Limited | PRC | RMB1,000,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure |
| 洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited* | PRC | RMB160,000,000 | **70.00%** | 70.00% | Sales of natural gas, LPG and coal gas |
| 洛陽新奧液化氣有限公司 Luoyang Xinao Liquefied Gas Limited# | PRC | RMB16,090,000 | **100.00%** | 100.00% | Sales of liquefied gas and gas appliances of piped gas |
| 南安新奧燃氣有限公司 Nanan Xinao Gas Company Limited* ("Nanan Xinao") | PRC | RMB10,000,000 | **42.00% (note c)** | 42.00% (note c) | Investment in gas pipeline infrastructure |
| 南安市燃氣有限公司 Nanan City Gas Company Limited ("Nanan City Gas") | PRC | RMB30,000,000 | **42.00% (note b)** | 42.00% (note b) | Investment in gas pipeline infrastructure and sales of piped gas |
| 南昌新奧清潔能源有限公司 Nanchang Xinao Clean Energy Company Limited# | PRC | US$7,500,000 | **100.00%** | 100.00% | Provision of energy solutions |
| 南昌新奧燃氣有限公司 Nanchang Xinao Gas Company Limited# | PRC | US$3,500,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 南寧新奧清潔能源有限公司 NanNing Xinao Clean Energy Company Limited* | PRC | RMB10,000,000 | **85.00%** | 85.00% | Construction and operation of vehicle gas refuelling stations; production and sales of clean energy |
| 南通新奧燃氣工程有限公司 Nantong Xinao Gas Engineering Company Limited* | PRC | US$800,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 南通新奧車用燃氣發展有限公司 Nantong Xinao Vehicle Gas Development Company Limited# | PRC | US$5,000,000 | **100.00%** | 100.00% | Construction and operation of vehicle gas refuelling stations |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 盤錦遼濱盛泰燃氣有限公司 Panjin Liaobing Shengtai Gas Company Limited# | PRC | RMB20,000,000 | **80.00%** | – | Sales of piped gas |
| 盤山盛泰燃氣有限公司 Panjin Shengtai Gas Company Limited# | PRC | RMB5,000,000 | **76.00%** | – | Sales of piped gas |
| 青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited* | PRC | RMB20,000,000 | **90.00%** | 90.00% | Sales of piped gas |
| 青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited* | PRC | US$5,000,000 | **90.00%** | 90.00% | Sales of piped gas |
| 青島新奧膠城燃氣工程有限公司 Qingdao Xinao Jiaocheng Gas Engineering Company Limited# | PRC | HK$4,500,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 青島新奧膠南燃氣有限公司 Qingdao Xinao Jiaonan Gas Company Limited# | PRC | US$4,400,000 | **90.00%** | 90.00% | Sales of piped gas |
| 青島新奧膠南燃氣工程有限公司 Qingdao Xinao Jiaonan Gas Engineering Company Limited# | PRC | US$1,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited* | PRC | US$1,610,000 | **90.00%** | 90.00% | Sales of piped gas |
| 青島新奧新城燃氣工程有限公司 Qingdao Xinao Xincheng Gas Engineering Company Limited* | PRC | US$800,000 | **93.00%** | 93.00% | Investment in gas pipeline infrastructure |
| 青島新奧燃氣設施開發有限公司 Qingdao Xinao Gas Equipment Development Company Limited* | PRC | US$600,000 | **93.00%** | 93.00% | Investment in gas pipeline infrastructure |
| 青島新奧紅島燃氣有限公司# Qingdao Xinao Hongdao Gas Company Limited | PRC | RMB5,000,000 | **100.00%** | – | Production, maintenance and technology consulting services for gas equipment and facilities |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 衢州新奧燃氣有限公司 Quzhou Xinao Gas Company Limited* | PRC | RMB50,000,000 | **90.00%** | 90.00% | Investment in gas pipeline infrastructure |
| 衢州新奧燃氣發展有限公司 Quzhou Xinao Gas Development Company Limited* | PRC | US$600,000 | **90.00%** | 90.00% | Sales of piped gas |
| 泉州市燃氣有限公司 Quanzhou City Gas Company Limited* ("Quanzhou City Gas") | PRC | RMB450,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 泉州市泉港新奧燃氣有限公司 Quanzhou Quangang Xinao Gas Company Limited* | PRC | RMB20,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure |
| 泉州市燃氣輸配有限公司 Quanzhou Gas Transmission Company Limited* | PRC | RMB30,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure |
| 全椒新奧燃氣有限公司 Quanjiao Xinao Gas Company Limited# | PRC | US$1,590,000 | **100.00%** | 100.00% | Sales of piped gas and gas appliances |
| 全椒新奧燃氣工程有限公司 Quanjiao Xinao Gas Engineering Company Limited# | PRC | US$500,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 日照新奧燃氣有限公司 Rizhao Xinao Gas Company Limited* | PRC | US$5,600,000 | **80.00%** | 80.00% | Sales of piped gas |
| 日照新奧燃氣工程有限公司 Rizhao Xinao Gas Engineering Company Limited* | PRC | US$1,210,000 | **86.00%** | 86.00% | Investment in gas pipeline infrastructure |
| 日照新奧實業有限公司 Rizhao Xinao Industry Company Limited# | PRC | RMB5,000,000 | **–** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 容城新奧燃氣有限公司 Rongcheng Xinao Gas Company Limited# | PRC | RMB5,350,000 | **100.00%** | 100.00% | Exploitation and sales of piped gas and gas appliance |
| 山東七星液化石油氣有限責任公司 Shandong Qixing Liquefied Petroleum Company Limited* | PRC | RMB40,000,000 | **80.00%** | – | Sales of LPG |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| 山西沁水新奧燃氣有限公司 Shanxi Qinshui Xinao Gas Company Limited# | PRC | RMB50,000,000 | **100.00%** | 100.00% | Production and sales of LNG |
| 商丘新奧燃氣有限公司 Shangqiu Xinao Gas Company Limited# | PRC | US$7,000,000 | **100.00%** | 100.00% | Sales of piped gas |
| 商丘新奧燃氣工程有限公司 Shangqiu Xinao Gas Engineering Company Limited# | PRC | US$3,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 汕頭新奧燃氣有限公司 Shantou Xinao Gas Company Limited* | PRC | RMB34,580,000 | **56.15%** | 51.00% | Sales of piped gas |
| 汕頭市新奧濠江燃氣有限公司 Shantou City Xinao Haojiang Gas Company Limited | PRC | RMB20,000,000 | **100.00%** | – | Investment in gas pipeline infrastructure and sales of piped gas |
| 石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited* | PRC | RMB300,000,000 | **65.00%** | 65.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 石家莊新奧車用燃氣有限公司 Shijiazhuang Xinao Vehicle Gas Company Limited* | PRC | RMB1,000,000 | **65.00%** | 65.00% | Production and sale of gas for vehicle use |
| 石獅新奧燃氣有限公司 Shishi Xinao Gas Company Limited | PRC | RMB10,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 石獅新奧燃氣發展有限公司 Shishi Xinao Gas Development Company Limited* | PRC | RMB10,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure |
| 四會新奧燃氣有限公司 Sihui Xinao Gas Company Limited# | PRC | RMB28,000,000 | **100.00%** | 100.00% | Sales of piped gas |
| 台州新奧燃氣有限公司 Taizhou Xinao Gas Company Limited* | PRC | US$2,500,000 | **80.00%** | 80.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 台州新奧燃氣工程有限公司 Taizhou Xinao Gas Engineering Company Limited* | PRC | US$2,500,000 | **80.00%** | 80.00% | Transmission of gas; design and installation of gas equipment |

## 55. Particular of Principal Subsidiaries *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by Company | | Principal activities |
|---|---|---|---|---|---|
| | | | **2010** | 2009 | |
| 泰興新奧燃氣有限公司<br>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<br>Taixing Xinao Gas Engineering Company Limited* | PRC | US$800,000 | **90.00%** | 90.00% | Investment in gas pipeline infrastructure |
| 唐海新奧車用燃氣有限公司<br>Tanghai Xinao Vehicle Gas Company Limited# | PRC | RMB10,000,000 | **100.00%** | – | Construction and operation of vehicle gas refuelling stations |
| 天津新奧燃氣有限公司<br>Tianjin Xinao Gas Company Limited# | PRC | RMB4,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 通遼新奧燃氣有限公司<br>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<br>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<br>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<br>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<br>Wenzhou Longwan Xinao Gas Company Limited# | PRC | US$9,500,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 湘潭新奧燃氣有限公司<br>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<br>Xinxiang Xinao Gas Company Limited* | PRC | US$10,000,000 | **95.00%** | 95.00% | Sales of piped gas and bottled LPG |
| 新鄉新奧燃氣工程有限公司<br>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 | | Principal activities |
|---|---|---|---|---|---|
| | | | **2010** | 2009 | |
| 株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Limited* | PRC | RMB135,000,000 | **55.00%** | 55.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 株州新奧燃氣工程技術服務有限公司 Zhuzhou Xinao Gas Engineering Technology Services Company Limited* | PRC | RMB8,000,000 | **55.00%** | 55.00% | Investment in gas pipeline infrastructure |
| 淄博新奧燃氣有限公司 (Zibo Xinao) | PRC | RMB5,370,000 | – | 100.00% | Operation of vehicle gas refuelling stations |
| 鄒平新奧燃氣有限公司 (Zouping Xinao) | PRC | RMB1,200,000 | – | 100.00% | Sales of piped gas |

Notes:

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

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

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

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

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for ENN, whose place of operation is the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities as at 31 December 2010 or at any time during the year except for Xinao (China) which has issued short-term debentures to third party debenture holders with face value of RMB800,000,000, in which the Group has no interest.

* Sino-foreign equity joint venture

# Wholly foreign owned enterprise

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