

---

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

**If you are in any doubt** as to any aspect of this document, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** or otherwise transferred all your shares in **Zhongyu Gas Holdings Limited**, you should at once hand this Offer Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s) or to the licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Offer Document should be read in conjunction with the Forms of Acceptance, the contents of which form part of the terms of the Offers contained therein.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Offer Document and the accompanying Forms of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offer Document and the accompanying Forms of Acceptance.

These materials are not an offer for sale of shares in China Gas Holdings Limited in the United States. The China Gas Shares have not been registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and may not be sold in the United States absent registration or an exemption from registration under the Securities Act.

---



**CHINA GAS HOLDINGS LIMITED**

**中國燃氣控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 384)**

**Rich Legend International Limited**

*(Incorporated in the British Virgin Islands with limited liability)*

**OFFER DOCUMENT RELATING TO  
CONDITIONAL VOLUNTARY GENERAL OFFER BY  
MACQUARIE CAPITAL SECURITIES LIMITED  
ON BEHALF OF  
RICH LEGEND INTERNATIONAL LIMITED, A WHOLLY-OWNED SUBSIDIARY OF  
CHINA GAS HOLDINGS LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF  
ZHONGYU GAS HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY HELD BY  
RICH LEGEND INTERNATIONAL LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)  
AND  
TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE BONDS OF  
ZHONGYU GAS HOLDINGS LIMITED  
AND  
FOR THE CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
ZHONGYU GAS HOLDINGS LIMITED**

**Financial adviser to  
China Gas Holdings Limited and Rich Legend International Limited**



---

A letter from the China Gas Board is set out on pages 10 to 19 of this Offer Document. A letter from MCSL containing, among other things, details of the terms of the Offers is set out on pages 20 to 38 of this Offer Document.

The procedures for acceptance and other related information are set out in Appendix I to this Offer Document and in the accompanying Forms of Acceptance. Acceptances of the Share Offer, the Convertible Bond Offer and the Option Offer should be received by the Receiving Agent no later than 4:00 p.m. on 14 June 2010 (or such other time and/or date as the Offeror may determine and announce with the consent of the Executive). The Option Offer and the Convertible Bond Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

17 May 2010

\* *For identification purpose only*

---

## CONTENTS

---

	<i>Page</i>
<b>EXPECTED TIMETABLE</b> .....	1
<b>DEFINITIONS</b> .....	3
<b>LETTER FROM THE CHINA GAS BOARD</b> .....	10
<b>LETTER FROM MCSL</b> .....	20
<b>APPENDIX I – FURTHER TERMS OF THE OFFERS</b> .....	39
<b>APPENDIX II – FINANCIAL INFORMATION OF THE CHINA GAS GROUP</b> .....	53
<b>APPENDIX III – GENERAL INFORMATION RELATING TO THE CHINA GAS GROUP</b> .....	162

---

## EXPECTED TIMETABLE

---

**The timetable set out below is indicative and is subject to change. Any changes to the timetable will be announced by the Offeror. All time and date references contained in this Offer Document refer to Hong Kong time.**

Despatch date of this Offer Document and the commencement of the Offers (*Note 1*) . . . . . Monday, 17 May 2010

Latest date for Zhongyu to post the Response Document to the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders (*Note 2*) . . . . . Monday, 31 May 2010

Latest time and date for acceptance of the Offers (*Note 3*) . . . . . 4:00 p.m. on Monday, 14 June 2010

First Closing Date (*Note 3*) . . . . . Monday, 14 June 2010

Announcement of the result of the Offers, as at the First Closing Date, on the website of the Stock Exchange and the website of China Gas . . . . . by 7:00 p.m. on Monday, 14 June 2010

Latest date for posting of share certificates and cheques to the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders who accepted the Offers on or before the First Closing Date, assuming the Offers become or are declared unconditional on the First Closing Date (*Note 4*) . . . . . Thursday, 24 June 2010

Latest time and date for the Offers remaining open for acceptance assuming the Offers become or are declared unconditional on the First Closing Date (*Note 5*) . . . . . 4:00 p.m. on Monday, 28 June 2010

Latest date for posting of share certificates and cheques to the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders who accepted the Offers on Monday, 28 June 2010, being the latest date which the Offers remain open for acceptance assuming the Offers become or are declared unconditional on the First Closing Date (*Note 4*) . . . . . Thursday, 8 July 2010

Latest time by which the Offers can become or be declared unconditional as to acceptances (*Note 6*) . . . . . 7:00 p.m. on Friday, 16 July 2010

---

## EXPECTED TIMETABLE

---

*Notes:*

- (1) The Offers are made on Monday, 17 May 2010, namely the date of posting of this Offer Document, and are capable of being accepted on and from that date.
- (2) In accordance with the Takeovers Code, where the Response Document is posted after the date on which the Offer Document is posted, Zhongyu is required to post the Response Document to Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders within 14 days from the posting of the Offer Document, unless the Executive consents to a later date and the Offeror agrees to extend the First Closing Date by the number of days in respect of which the delay in the posting of the Response Document is agreed.
- (3) In accordance with the Takeovers Code, where the Response Document is posted after the date on which the Offer Document is posted, the Offers must remain open for acceptance at least 28 days following the date on which the Offer Document is posted. The Offeror has the right, subject to the Takeovers Code, to extend the Offers until such date as it may determine or as permitted by the Executive, in accordance with the Takeovers Code.
- (4) The consideration payable for the Zhongyu Shares, Convertible Bonds and the Share Options under the Offers will be posted by ordinary post to the Zhongyu Shareholders, the Zhongyu Bondholders or the Zhongyu Optionholders, respectively, accepting the Offers at their own risk, as soon as possible, but in any event within 10 days of the later of:  
(i) the date of receipt by the Receiving Agent of all the relevant documents to render the acceptance under the Offers complete and valid, and (ii) the date the Offers become, or are declared, unconditional in all respects.
- (5) In accordance with the Takeovers Code, where the Offers become or are declared unconditional in all respects, the Offers should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offers are closed to the Zhongyu Shareholders, the Zhongyu Bondholders and the Zhongyu Optionholders who have not accepted the Offers. The Offeror has the right, subject to the Takeovers Code, to extend the Offers until such date as it may determine or as permitted by the Executive, in accordance with the Takeovers Code. The Offeror will issue a press announcement in relation to any extension of the Offers, which will state the next closing date or, if the Offers have become or are at that time unconditional, that the Offers will remain open until further notice. **The Option Offer and the Convertible Bond Offer are subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.**
- (6) In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day this Offer Document was posted. Where a period laid down by the Takeovers Code ends on a day which is not a Business Day, the period is extended until the next Business Day. Accordingly, unless the Offers have previously become or are declared unconditional as to acceptances, the Offers will lapse after 7:00 p.m. on Friday, 16 July 2010, unless extended with the consent of the Executive.

**WARNING:**

**The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Zhongyu Shares are held by the public or if the Stock Exchange believes that:**

- **a false market exists or may exist in the trading of the Zhongyu Shares, or**
- **there are insufficient Zhongyu Shares in public hands to maintain an orderly market,**

**then the Stock Exchange will consider exercising its discretion to suspend dealings in the Zhongyu Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Zhongyu Shares and therefore, trading in the Zhongyu Shares may be suspended until a prescribed level of public float is attained.**

---

## DEFINITIONS

---

*In this Offer Document, unless the context otherwise requires, the following expressions have the following meanings:*

“acting in concert”	has the meaning ascribed to it in the Takeovers Code;
“associates”	has the meaning ascribed to it in the Listing Rules;
“Business Day”	means a day (other than Saturdays, Sundays and public holidays) on which banks are open for business in Hong Kong;
“Cayman Islands Companies Law”	means the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“CCASS”	means the Central Clearing and Settlement System established and operated by the HKSCC;
“China Gas”	means China Gas Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 384);
“China Gas Board”	means the board of directors of China Gas;
“China Gas Convertible Bonds”	means the convertible bonds with 1% per annum coupon due 29 June 2010 with an aggregate principal amount of US\$40,000,000 issued by China Gas in June 2005;
“China Gas Director(s)”	means the director(s) of China Gas for the time being;
“China Gas Group”	means China Gas and its subsidiaries;
“China Gas Shares”	means ordinary shares of HK\$0.01 each in the issued share capital of China Gas;
“China Gas Share Option Scheme”	means the share option scheme adopted by China Gas on 6 February 2003, as amended from time to time;
“CNG”	means compressed natural gas;
“Completion Date”	means the date on which the transfer of Zhongyu Shares to the Offeror, the acquisition of the Convertible Bonds by the Offeror and the cancellation of the Share Options are completed in full pursuant to the Takeovers Code and the terms of the Offers;
“Composite Document”	means the composite document originally intended to be issued jointly by China Gas and Zhongyu to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in connection with the Offers in accordance with the Takeovers Code containing, inter alia, details of the Offers, the terms and conditions of the Offers and the board circular of Zhongyu;

---

## DEFINITIONS

---

“Concert Parties”	means parties acting in concert (within the meaning of the Takeovers Code) with the Offeror and/or China Gas;
“Conditions”	means the conditions of the Offers, as set out under the paragraph headed “Conditions of the Offers” contained in the letter from MCSL included in this Offer Document;
“Consent(s)”	means any consent, approval, authorisation, qualification, waiver, permit, grant, franchise, concession, agreement, licence, exemption or order of, registration, certificate, declaration or permission from, or filing with, or report or notice to, any Relevant Authority(ies), including those required under or in relation to any concession rights or licences granted by the Relevant Authority(ies) to the Zhongyu Group to carry out its operations, whether under applicable laws or regulations, any agreement or arrangement with such Relevant Authority(ies), or otherwise;
“Convertible Bond Offer”	means the voluntary conditional cash and securities exchange offer by MCSL on behalf of the Offeror to acquire all the outstanding Convertible Bonds at the Convertible Bond Offer Consideration, which is made subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects;
“Convertible Bond Offer Consideration”	means the payment of HK\$19,480.0170 in cash and 16,898.3280 new China Gas Shares for each US\$10,000 nominal amount of the Convertible Bonds;
“Convertible Bonds”	means the convertible bonds with a current outstanding nominal amount of US\$20,000,000 issued by Zhongyu to the Zhongyu Bondholders on 25 June 2007 (and as amended pursuant to an amendment agreement dated 25 March 2009);
“Enlarged Group”	means China Gas and its subsidiaries (which will include the Zhongyu Group) following completion of the Offers;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“First Closing Date”	means the first closing date of the Offers or any subsequent closing date as may be announced by the Offeror and approved by the Executive, being Monday, 14 June 2010;
“Forms of Acceptance”	means the <b>WHITE</b> Form of Acceptance, the <b>YELLOW</b> Form of Acceptance and the <b>PINK</b> Form of Acceptance;

---

## DEFINITIONS

---

“FPO”	means the Financial Services and Markets Act 2000 (Finance Promotion) Order 2005;
“FSA”	means UK Financial Services Authority;
“FSMA”	means the Financial Services and Market Act 2000;
“GEM”	means the Growth Enterprise Market of the Stock Exchange;
“Hezhong”	means Hezhong Investment Holding Company Limited, a company incorporated in the British Virgin Islands with limited liability and the controlling shareholder of Zhongyu, in which Mr. Wang and Mr. Hao own 60% and 40% of its issued share capital, respectively;
“HK\$”	means Hong Kong dollar(s), the lawful currency of Hong Kong;
“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Irrevocable Undertaking”	means the irrevocable undertaking dated 17 January 2010 given by Hezhong and each of the Management Owners in favour of China Gas and the Offeror;
“Joint Announcement”	means the joint announcement issued jointly by China Gas and Zhongyu on the Joint Announcement Date in connection with the Offers;
“Joint Announcement Date”	means 26 January 2010, being the date on which the Joint Announcement was published;
“Last Trading Date”	means 15 January 2010, being the last trading day prior to the suspension of trading in the Zhongyu Shares and the China Gas Shares before the publication of the Joint Announcement;
“Latest Practicable Date”	means 14 May 2010, being the latest practicable date prior to the printing of this Offer Document for ascertaining certain information referred to in this Offer Document;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange or the Rules Governing the Listing of Securities on the GEM, as the case may be;

---

## DEFINITIONS

---

“Long Stop Date”	means, in relation to the Irrevocable Undertaking, the date which is 365 days after the date of the Irrevocable Undertaking, unless the date is extended by China Gas with the consent of Hezhong;
“Macquarie”	means Macquarie Capital (Hong Kong) Limited, a licensed corporation under the SFO licensed to conduct type 6 (advising on corporate finance) regulated activity, which is the financial adviser to China Gas and the Offeror in connection with the Offers;
“Management Owners”	means Mr. Wang and Mr. Hao, each being a Zhongyu Director, who own 60% and 40% respectively and together collectively own all of the issued share capital of Hezhong;
“MCSL”	means Macquarie Capital Securities Limited, a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities;
“Mr. Hao”	means Mr. Hao Yu, a Zhongyu Director and the beneficial owner of 40% of the issued share capital of Hezhong;
“Mr. Wang”	means Mr. Wang Wenliang, a Zhongyu Director and the beneficial owner of 60% of the issued share capital of Hezhong;
“Offer Document”	means this offer document which is issued by China Gas and the Offeror to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in connection with the Offers in accordance with the Takeovers Code;
“Offer Period”	has the meaning ascribed to it in the Takeovers Code;
“Offeror”	means Rich Legend International Limited, an investment holding company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of China Gas;
“Offeror Director(s)”	means the director(s) of the Offeror for the time being;
“Offers”	means the Share Offer, the Convertible Bond Offer and the Option Offer;
“Option Offer”	means the voluntary conditional cash and securities exchange offer by MCSL on behalf of the Offeror for cancellation of the Share Options at the Option Offer Consideration, which is made subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects;

---

## DEFINITIONS

---

“Option Offer Consideration”	means (i) the amount of HK\$0.0202 in cash and the allotment and the issue of 0.0175 new China Gas Share per Zhongyu Share which may be subscribed for under the Share Options at an exercise price of HK\$0.80, (ii) the amount of HK\$0.0664 in cash and the allotment and issue of 0.0576 new China Gas Share per Zhongyu Share which may be subscribed for under the Share Options at an exercise price of HK\$0.56, and (iii) the amount of HK\$0.1146 in cash and the allotment and issue of 0.0994 new China Gas Share per Zhongyu Share which may be subscribed for under the Share Options at an exercise price of HK\$0.31, for each Share Option accepted under the Option Offer;
“Partners Capital”	means Partners Capital International Limited, a licensed corporation under the SFO licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the independent financial adviser to the Zhongyu Independent Board Committee in relation to the Offers;
“PINK Form of Acceptance”	means the pink form of acceptance in respect of the cancellation of the outstanding Share Options acceded to the Option Offer;
“PRC”	means the People’s Republic of China which, for the purposes of this Offer Document, excludes Hong Kong, Taiwan and Macau;
“PRC Anti-trust Clearance”	means the submission of the formal notification and any related filings pursuant to the Anti-Monopoly Laws of the PRC to the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC, in connection with the Offers, and the obtaining of clearance or deemed clearance from the Anti-Monopoly Bureau in respect of such filings;
“Receiving Agent”	means Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong, being the receiving agent for receiving and processing acceptances of the Offers;
“Registrar”	means Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of Zhongyu;
“Relevant Authority(ies)”	means any government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution;
“Relevant Period”	means the period from 26 July 2009, being the date falling on the six months before the Joint Announcement Date, up to and including the Latest Practicable Date;

---

## DEFINITIONS

---

“Request”	means the request made by China Gas and the Offeror to the Executive on 16 April 2010 for confirmation of, and consent to, their ability to invoke Conditions (C), (G) and/or (H) to the Offers as set out on pages 28 to 29 under the section headed “Conditions of the Offers” so as not to proceed with the Offers;
“Response Document”	means the response document in respect of the Offers to be issued by Zhongyu to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in accordance with the Takeovers Code;
“Review Application”	means the application made by China Gas and the Offeror to the Takeovers Panel on 6 May 2010 for review of the Executive’s ruling on the Request;
“RMB”	means Renminbi, the lawful currency of the PRC;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share Offer”	means the voluntary conditional cash and securities exchange offer by MCSL on behalf of the Offeror at the Share Offer Consideration to acquire all of the issued shares in the share capital of Zhongyu other than those Zhongyu Shares already held by the Offeror and the Concert Parties;
“Share Offer Consideration”	means (i) the amount of HK\$0.1743 in cash, and (ii) the allotment and issue of 0.1512 new China Gas Share for each Zhongyu Share accepted under the Share Offer;
“Share Option Scheme”	means the share option scheme adopted by Zhongyu on 24 October 2003, as amended from time to time;
“Share Options”	means the outstanding options granted pursuant to the Share Option Scheme and “Share Option” shall be construed accordingly;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it in the Listing Rules;
“Takeovers Code”	means the Codes on Takeovers and Mergers and Share Repurchases published by the SFC;

---

## DEFINITIONS

---

“Takeovers Panel”	means the Takeovers and Mergers Panel, which is a committee of the SFC established under section 8(1) of the SFO;
“Unconditional Date”	means the date on which the Offers become or are declared unconditional in all respects;
“WHITE Form of Acceptance”	means the white form of acceptance and transfer in respect of the Zhongyu Shares acceded to the Share Offer;
“YELLOW Form of Acceptance”	means the yellow form of acceptance and transfer in respect of outstanding Convertible Bonds acceded to the Convertible Bond Offer;
“Zhongyu”	means Zhongyu Gas Holdings Limited, a limited company incorporated in the Cayman Islands with limited liability whose shares are listed on GEM (Stock Code: 8070);
“Zhongyu Board”	means the board of directors of Zhongyu;
“Zhongyu Director(s)”	means the director(s) of Zhongyu for the time being;
“Zhongyu Group”	means Zhongyu and its subsidiaries;
“Zhongyu Independent Board Committee”	means the independent committee of the Zhongyu Board comprising Mr. Xu Yongxuan, a non-executive Zhongyu Director, and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, all of whom are independent non-executive Zhongyu Directors, who have been appointed to make recommendations to the Zhongyu Shareholders, the Zhongyu Optionholders and the Zhongyu Bondholders in respect of the Offers;
“Zhongyu Optionholders”	means registered holders for the time being of the Share Options;
“Zhongyu Shareholders”	means registered holders for the time being of the Zhongyu Shares;
“Zhongyu Shares”	means ordinary shares of HK\$0.01 each in the issued share capital of Zhongyu; and
“%”	means per cent.

In the event of inconsistency, the English text of this Offer Document shall prevail over the Chinese text.

---

LETTER FROM THE CHINA GAS BOARD

---



**CHINA GAS HOLDINGS LIMITED**

**中國燃氣控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 384)**

*Executive Directors:*

Mr. Li Xiao Yun (*Chairman*)  
Mr. Xu Ying (*Vice-Chairman*)  
Mr. Liu Ming Hui (*Managing Director*)  
Mr. Zhu Wei Wei  
Mr. Ma Jin Long

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Non-executive Directors:*

Mr. Feng Zhuo Zhi  
Mr. Joe Yamagata  
Mr. R.K. Goel  
Mr. Moon Duk Kyu  
Mr. Mulham Al Jarf

*Head office and principal place  
of business in Hong Kong:*

16/F AXA Centre  
151 Gloucester Road  
Wanchai  
Hong Kong

*Independent non-executive Directors:*

Mr. Zhao Yu Hua  
Dr. Mao Er Wan  
Ms. Wong Sin Yue Cynthia

17 May 2010

*To the Zhongyu Shareholders, the Zhongyu Bondholders and the Zhongyu Optionholders*

Dear Sir or Madam,

**OFFER DOCUMENT RELATING TO  
CONDITIONAL VOLUNTARY GENERAL OFFER BY  
MACQUARIE CAPITAL SECURITIES LIMITED  
ON BEHALF OF  
RICH LEGEND INTERNATIONAL LIMITED, A WHOLLY-OWNED SUBSIDIARY OF CHINA  
GAS HOLDINGS LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF  
ZHONGYU GAS HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY HELD BY  
RICH LEGEND INTERNATIONAL LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)  
AND  
TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE BONDS OF  
ZHONGYU GAS HOLDINGS LIMITED  
AND  
FOR THE CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
ZHONGYU GAS HOLDINGS LIMITED**

**1. INTRODUCTION**

On 26 January 2010, we jointly announced with the Offeror and Zhongyu that a voluntary conditional cash and securities exchange offer was intended to be made by the Offeror (i) to acquire all of the issued shares in the share capital of Zhongyu (other than those shares already held by the Offeror and the Concert Parties); (ii) for the acquisition of all the outstanding Convertible Bonds; and (iii) for the cancellation of all the outstanding Share Options. The Offers will be made by MCSL on behalf of the Offeror.

\* *For identification purpose only*

---

## LETTER FROM THE CHINA GAS BOARD

---

On 1 March 2010, a joint announcement was issued by China Gas, the Offeror and Zhongyu stating that an application had been made for the consent of the Executive to extend the deadline for the despatch of the Composite Document from 2 March 2010 to no later than 16 April 2010.

With effect from 9.30 a.m. on 22 March 2010, trading in the Zhongyu Shares was suspended. On 31 March 2010, an announcement was issued by Zhongyu stating its inability to announce its annual results and distribute its annual report for the year ended 31 December 2009 by 31 March 2010 as required under the Listing Rules, as the senior management of some of the major PRC subsidiaries of Zhongyu had not provided Zhongyu's auditors with responses to the auditor's questions for the purpose of finalising the audit.

On 16 April 2010, China Gas and the Offeror made the Request to the Executive.

On 20 April 2010, the Executive indicated that it would not consent to the Request and issued its formal ruling to this effect on the Request on 28 April 2010.

On 21 April 2010, an announcement was issued by China Gas and the Offeror stating, amongst other things, that China Gas and the Offeror intended to issue a separate Offer Document in place of the Composite Document, for the reasons stated in the announcement.

On 23 April 2010, a further announcement was issued by Zhongyu stating that, among other things, no progress had been made in relation to the completion of its audit for the year ended 31 December 2009 and the publication by Zhongyu of its audited financial statements for such period in accordance with the Listing Rules.

On 6 May 2010, China Gas and the Offeror made the Review Application to the Takeovers Panel for review of the Executive's ruling on the Request.

On 7 May 2010, an announcement was issued by China Gas and the Offeror stating that an application had been made to the Executive for, and the Executive had granted, a further extension of the deadline to despatch the Offer Document to 17 May 2010.

On 13 May 2010, the Takeovers Panel upheld the Executive's ruling on the Request as stated above.

As at the Latest Practicable Date, trading in the Zhongyu Shares remained suspended.

Full details of the Offers are set out in the letter from MCSL contained in pages 20 to 38 of this Offer Document of which this letter forms part. Terms defined in the Offer Document have the same meanings when used in this letter.

Pursuant to the Takeovers Code, the Zhongyu Board had on 3 February 2010 announced that the Zhongyu Independent Board Committee has appointed Partners Capital as the independent financial adviser to advise the Zhongyu Independent Board Committee in respect of the Offers pursuant to Rule 2.1 of the Takeovers Code. Zhongyu is required to despatch the Response Document to the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders containing, among other things, the advice of the Independent Financial Adviser and the views of the Zhongyu Independent Board Committee in respect of the Offers within 14 days after the posting of this Offer Document, unless the Executive consents to a later date and the Offeror agrees to extend the First Closing Date by the number of days in respect of which the delay in the posting of the Response Document is agreed.

---

## LETTER FROM THE CHINA GAS BOARD

---

### 2. INFORMATION ON CHINA GAS AND THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands on 10 December 2009 and is a direct wholly-owned subsidiary of China Gas. The Offeror Directors are Mr. Xu Ying, Mr. Liu Ming Hui and Mr. Zhu Wei Wei, who are also China Gas Directors. The main business of the Offeror is investment holding.

China Gas was incorporated in Bermuda on 22 August 1995 as an exempted company with limited liability under Bermuda law. China Gas was listed on the Main Board of the Stock Exchange on 20 October 1995, trading under the stock code 384. China Gas is a natural gas services operator and is principally engaged in the investment, operation and management of city gas pipeline infrastructure, distribution of natural gas and liquefied petroleum gas to residential, commercial and industrial users, construction and operation of oil stations and gas stations, and development and application of natural gas and liquefied petroleum gas related technologies in the PRC.

#### Shareholding structure of the Offeror

The Offeror is a direct wholly-owned subsidiary of China Gas as at the Latest Practicable Date.

#### Shareholding structure of China Gas

The shareholding structure of China Gas (i) as at the Latest Practicable Date; and (ii) immediately following the completion of the Offers is as follows:

Name of China Gas Shareholder	As at the Latest Practicable Date		Immediately following completion of the Offers (assuming minimum acceptances) <sup>(1)</sup>		Immediately following completion of the Offers (assuming full acceptances) <sup>(2)</sup>	
	<i>No. of</i>	<i>Approx. %</i>	<i>No. of</i>	<i>Approx. %</i>	<i>No. of</i>	<i>Approx. %</i>
	<i>China Gas</i>	<i>of issued</i>	<i>China Gas</i>	<i>of issued</i>	<i>China Gas</i>	<i>of issued</i>
	<i>Shares held</i>	<i>China Gas Shares</i>	<i>Shares held</i>	<i>China Gas Shares</i>	<i>Shares held</i>	<i>China Gas Shares</i>
Hai Xia Finance Holdings Limited	346,000,003	10.29	346,000,003	9.85	346,000,003	9.35
Liu Ming Hui	273,124,000	8.13	273,124,000	7.78	273,124,000	7.38
Oman Oil Company, S.A.O.C.	237,567,060	7.07	237,567,060	6.77	237,567,060	6.42
China Petroleum & Chemical Corporation	210,000,000	6.25	210,000,000	5.98	210,000,000	5.67
GAIL (India) Limited	210,000,000	6.25	210,000,000	5.98	210,000,000	5.67
Hezhong <sup>(3)</sup>	-	-	142,998,238	4.07	142,998,238	3.87
Mr. Wang <sup>(3)</sup>	-	-	176,299	0.01	1,170,343	0.03
Mr. Hao <sup>(3)</sup>	-	-	-	-	4,078,559	0.11
Public Shareholders	2,084,745,088	62.01	2,091,104,001	59.56	2,276,225,977	61.50
<b>Total</b>	<b>3,361,436,151</b>	<b>100.00</b>	<b>3,510,969,601</b>	<b>100.00</b>	<b>3,701,164,180</b>	<b>100.00</b>

---

## LETTER FROM THE CHINA GAS BOARD

---

*Note:*

- (1) Assuming that (i) each of Hezhong and the Management Owners agrees to accept the Offers as provided in the Irrevocable Undertaking in full, (ii) neither the Option Offer nor the Convertible Bond Offer has been accepted, and (iii) that the Offeror and the Concert Parties will hold 50.1% of Zhongyu Shares in issue following the Completion Date.
- (2) Assuming that (i) each of Hezhong and the Management Owners agrees to accept the Offers as provided in the Irrevocable Undertaking in full, (ii) none of the Share Options are exercised and none of the Convertible Bonds are converted into Zhongyu Shares, and (iii) that the Offers are accepted in full.
- (3) Each of Hezhong and the Management Owners has, under the Irrevocable Undertaking, undertaken in favour of China Gas and the Offeror not to dispose the China Gas Shares held by them at anytime from the Completion Date until the expiry of 12 months therefrom.

### **3. FINANCIAL INFORMATION AND TRADING PROSPECTS OF THE CHINA GAS GROUP**

Based on audited financial statements of the China Gas Group as set out in its annual report for the year ended 31 March 2009, the consolidated net asset value of China Gas was approximately HK\$4,017,271,000 as at 31 March 2009. Based on audited financial statements of the China Gas Group as set out in its annual reports for the years ended 31 March 2008 and 2009, (i) China Gas recorded profit before taxation of approximately HK\$205,431,000 and profit after taxation of approximately HK\$133,959,000, for the year ended 31 March 2009; and (ii) profit before taxation of approximately HK\$201,349,000 and profit after taxation of approximately HK\$187,571,000, for the year ended 31 March 2008. Based on unaudited financial statements of the China Gas Group as set out in its interim report for 2009/10, China Gas recorded profit before taxation of approximately HK\$541,171,000, and profit after taxation of approximately HK\$490,778,000 for the six months ended 30 September 2009.

Further details of the financial information relating to the China Gas Group can be found in Appendix II to this Offer Document.

China Gas Group is principally engaged in the investment in and operation and management of city gas pipeline infrastructure and sale and distribution of natural gas and liquefied petroleum gas in the PRC while Zhongyu Group is a vertically integrated gas operator from upstream resource development to downstream distribution in the PRC. The China Gas Group will continue to seek investment opportunities of city gas projects across mid and large cities in the PRC where reasonable return can be expected. In view of the PRC government's endeavours to launch clean energy policies, the China Gas Group expects to see more city gas users switching to natural gas. The China Gas Group also intends to strengthen its business cooperation with upstream suppliers and fully utilise its existing terminal loading and storage capacities and distribution network so as to expand its liquefied petroleum gas wholesale and retail business, and expects its liquefied petroleum gas business to generate sustainable revenue and profit growth to the China Gas Group.

---

## LETTER FROM THE CHINA GAS BOARD

---

As mentioned in the paragraph below headed “Reasons for the Offers”, the completion of the Offers will help China Gas Group gain access into the Henan province in the PRC. The Offers also allow China Gas Group to further consolidate and build up its market share in the natural gas business in the PRC. It is the intention of China Gas and the Offeror that both China Gas Group and Zhongyu Group will continue their existing businesses in energy related business and will look for opportunities for further expansion in order to achieve the ultimate goal of becoming a leading energy corporation in the PRC.

#### **4. REASONS FOR THE OFFERS**

Zhongyu is a vertically integrated gas operator from upstream resource development to downstream distribution in the PRC.

Zhongyu Group’s upstream business includes exploration, exploitation and development of coalbed methane. Zhongyu entered into the coalbed methane market in 2007 via a joint venture. As at 30 September 2009, Zhongyu Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia and Henan Province, in the PRC to explore, exploit, develop and produce coalbed methane.

Zhongyu Group’s downstream business includes sales of piped gas, natural gas from CNG filling stations for vehicles and bottled liquefied petroleum gas. Further, Zhongyu Group is also principally involved in the development and construction of gas pipeline network.

As at 30 September 2009, Zhongyu secured eleven gas-piped projects, three in Shandong Province, PRC, eight in Henan Province, PRC. The cities in which the Zhongyu Group’s gas projects operate currently have a total connectable urban population of approximately 3,084,000. It is estimated that there are approximately 881,000 connectable residential households in such cities. As at 30 September 2009, Zhongyu has an accumulated number of residential households of 282,813 and an accumulated number of industrial/commercial customers of 1,195. The Zhongyu Group’s penetration rate reached 32% as of 30 September 2009.

The Offeror believes there are commercial reasons for a merger between China Gas and Zhongyu as set out below:

#### **Entry into the natural gas market in Henan province, PRC**

As at 30 September 2009, China Gas’s city piped gas projects covers 18 provinces, autonomous regions and directly administered cities which does not include the Henan province, PRC, whereas Zhongyu currently operates eight downstream natural gas distribution projects and CNG vehicle refilling stations in such province and has a market presence within the province. The completion of the Offers will enable the China Gas Group to gain entry into the Henan market through Zhongyu.

---

## LETTER FROM THE CHINA GAS BOARD

---

### **Expansion of China Gas Group's business in Shandong province, PRC**

The completion of the Offers will enable China Gas Group to expand its business in Shandong province through Zhongyu, which is currently operating three downstream natural gas distribution projects. This will enable the Enlarged Group to expand its market share in the province and result in higher penetration rate following completion of the Offers.

### **Management efficiency and business synergy**

The completion of the Offers will enable the integration of the business of Zhongyu Group with China Gas Group, both of which currently operate under similar business models, and will provide business synergy opportunities, due to cost-efficiency and economies of scale. In particular, the completion of the Offers will strengthen the management of the Enlarged Group, which will be able to leverage on the China Gas Group's existing management experience in the industry. The integration will also provide opportunities for resource sharing and result in greater management efficiency within the Enlarged Group.

### **Possible synergy in the coalbed methane business**

The completion of the Offers may provide China Gas Group with access to supply of coalbed methane in areas where Zhongyu Group is currently engaged in the exploration, exploitation and development of coalbed methane.

This will compliment the Enlarged Group's natural gas business as coalbed methane is an alternative natural resource to natural gas.

### **Uncertainty regarding Zhongyu's trading suspension**

As stated above, trading in the Zhongyu Shares has been suspended since 22 March 2010. In view of such continuing and prolonged suspension, the reasons for which are disclosed in Zhongyu's announcements dated 23 March 2010 and 31 March 2010, and the uncertainty over the timing and prospects of the resumption of trading in Zhongyu's Shares, it is uncertain whether, and to what extent, any or all of the objectives as stated above can be realised.

For example, in view of the apparent lack of control by the Zhongyu Board over the senior management and employees of key PRC subsidiaries of Zhongyu, including those in Henan province, which is a target growth market for China Gas, and Zhongyu's inability to secure their cooperation, the prospects of China Gas' ability to successfully implement its strategy and business plans in relation to the combined business of the enlarged group following completion of the Offers are put into doubt.

Further, the aims of management efficiency and business synergy between the China Gas Group and the Zhongyu Group may be challenging to realise without the full cooperation of the relevant senior management of subsidiaries of Zhongyu.

---

## LETTER FROM THE CHINA GAS BOARD

---

### **5. CHINA GAS'S AND THE OFFEROR'S INTENTIONS IN RELATION TO ZHONGYU AND THE ENLARGED GROUP**

China Gas and the Offeror intend to continue with the existing business of China Gas Group, as well as with the existing business of the Zhongyu Group, following completion of the Offers. Neither China Gas nor the Offeror intends to make any changes to the current business operations of Zhongyu Group following completion of the Offers. China Gas and the Offeror do not have any plans for the redeployment of the fixed assets of Zhongyu. It is also the intention of China Gas and the Offeror that there will not be any material changes in the management or employees of Zhongyu Group as a result of the Offers.

China Gas and the Offeror intend to nominate additional Zhongyu Director(s) to the Zhongyu Board following completion of the Offers. Any changes to the Zhongyu Board will be made in compliance with the Takeovers Code, the Listing Rules and the constitutional documents of Zhongyu. Further announcement(s) will be made upon the appointment of new Zhongyu Director(s) accordingly.

Subject to market conditions, China Gas and the Offeror will explore various opportunities to further develop and expand the businesses of China Gas Group and Zhongyu Group, including but not limited to the possibility of undertaking new investments and/or conducting fund raising exercises to increase capital.

There is no certainty that trading in the Zhongyu Shares will resume at any time up to and following completion of the Offers in light of the lack of progress in addressing the reasons for the prolonged continued suspension. The continued listing of Zhongyu is important to China Gas and the Offeror to its serving as a platform for further public capital raising to support the business carried on by it following completion of the Offers.

In view of the underlying issues which have caused the suspension in trading of Zhongyu Shares as described above, and the potential consequences arising therefrom, it is uncertain whether, and to what extent, any or all of the future plans which China Gas and the Offeror have in respect of the Enlarged Group following completion of the Offers can be realised.

### **6. FINANCIAL EFFECTS OF THE OFFERS**

Immediately following completion of the Offers, Zhongyu will become a subsidiary of the Offeror and the results of the Zhongyu Group will be consolidated into the accounts of the China Gas Group.

The following sets out the financial effects on China Gas Group as a result of the Offers:

---

## LETTER FROM THE CHINA GAS BOARD

---

### **Cash position**

As at 31 March 2009, China Gas Group had bank balances and cash of approximately HK\$2,048,698,000. Taking into account the fact that the bank balances and cash will be reduced by up to a maximum of HK\$407,904,275, being the maximum amount of cash required as consideration payable to Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in connection with the Offers (assuming (i) all the Share Options are exercised in full prior to the First Closing Date; (ii) all the holders of Zhongyu Shares, including those who have subscribed for Zhongyu Shares as a result of the exercise of the Share Options accede to the Share Offer; and (iii) all the Zhongyu Bondholders accede to the Convertible Bond Offer, and excluding the Zhongyu Shares not already held by the Offeror and the Concert Parties) as stated in page 28 of this Offer Document, the China Gas Board anticipates that the consolidation of accounts of the China Gas Group and the Zhongyu Group following completion of the Offers will have a negative effect on the bank balances and cash.

### **Net asset value**

As at 31 March 2009, the audited consolidated net asset value of China Gas Group was approximately HK\$4,017,271,000. The China Gas Board anticipates that the consolidation of accounts of the China Gas Group and the Zhongyu Group following completion of the Offers will have a positive effect on the net asset value.

### **Profit after taxation**

As at 31 March 2009, the audited consolidated profit after taxation of the China Gas Group was HK\$133,959,000. The China Gas Board anticipates that the consolidation of accounts of the China Gas Group and the Zhongyu Group following completion of the Offers will have no material effect on profit after taxation.

The above statements made in relation to the financial effects on the China Gas Group as a result of the Offers should not be interpreted to mean that profit of the China Gas Group following completion of the Offers will necessarily be greater than those based on the audited financial statements of the China Gas Group as set out in its annual report for the year ended 31 March 2009.

Further, in addition to China Gas's 114 city piped-gas projects (with exclusive concession rights) secured across 18 provinces, autonomous regions and directly administered cities as stated in its interim report for the half year ended 30 September 2009, the natural gas business of China Gas Group will expand into Henan province and gain increased coverage within Shandong province upon completion of the Offers. Apart from such increased business activities, it is not envisaged that there will be any material changes or effects to the existing business of the China Gas Group.

## **7. COMPULSORY ACQUISITION**

The Offeror does not intend to avail itself of any powers of compulsory acquisition.

---

## LETTER FROM THE CHINA GAS BOARD

---

### 8. MAINTAINING THE LISTING STATUS OF THE ZHONGYU GROUP

The Offeror intends for Zhongyu to remain listed on the Stock Exchange. The Offeror Directors and the new Zhongyu Director(s) to be appointed to the Zhongyu Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Zhongyu Shares.

**The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Zhongyu Shares are held by the public or if the Stock Exchange believes that:**

- **a false market exists or may exist in the trading of the Zhongyu Shares, or**
- **there are insufficient Zhongyu Shares in public hands to maintain an orderly market,**

**then the Stock Exchange will consider exercising its discretion to suspend dealings in the Zhongyu Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Zhongyu Shares and therefore, trading in the Zhongyu Shares may be suspended until a prescribed level of public float is attained.**

### 9. ADDITIONAL INFORMATION

#### 9.1 The Convertible Bonds

Pursuant to the terms and conditions of the Convertible Bonds, should there be a change of control (whereby, amongst other things, any person or persons acting together, other than Hezhong, acquires more than 50% voting rights in the issued share capital of Zhongyu), the Zhongyu Bondholders will have the right to require Zhongyu to redeem in whole or in part such outstanding Convertible Bonds on the fourteenth day after the expiry of the 30 day period following such change of control becoming effective or following the date upon which notice thereof is given to the Zhongyu Bondholders by Zhongyu, as the case may be. Zhongyu shall then be obliged to pay the Zhongyu Bondholders an early redemption amount (representing a gross yield of 6.23% per annum, calculated on a semi-annual basis, for each US\$10,000 principal amount as per the formula set out in the terms and conditions of the Convertible Bonds).

To the extent the Offers become unconditional giving rise to a change in control of Zhongyu as described above, in the event any Zhongyu Bondholder who did not accept the Convertible Bond Offer exercises his right to require Zhongyu to redeem his outstanding Convertible Bonds, Zhongyu may be required to redeem the outstanding Convertible Bonds from such Zhongyu Bondholder at the early redemption amount as described above.

Pursuant to the terms and conditions of the Convertible Bonds, the early redemption amount is dependent on the date fixed for redemption, which is in turn dependent on the date on which the Offers become or are declared unconditional in all respects as described above. For illustration purposes only, assuming the Offers become or are declared unconditional in

---

## LETTER FROM THE CHINA GAS BOARD

---

all respects resulting in a change of control as described above as at the First Closing Date, the date fixed for redemption is 18 July 2010, and based on an exchange rate of US\$1.00 to HK\$7.7625, the early redemption amount is HK\$91,088.62 for each US\$10,000 principal amount as per the formula set out in the terms and conditions of the Convertible Bonds.

### 9.2 Other Additional Information

In considering what action to take in connection with the Offers, Zhongyu Shareholders, Zhongyu Optionholders and Zhongyu Bondholders should consider their own tax position and, if they are in doubt, they should consult their own professional advisers.

In making their decision, the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders must rely on their own examination of the Offeror, China Gas, Zhongyu and the terms of the Offers, including the merits and risks involved. The contents of this Offer Document, including any general advice or recommendation contained herein together with the Forms of Acceptance are not to be construed as any legal or business advice. Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders should consult their own professional advisers for professional advice.

Notwithstanding the recent developments relating to the continued suspension in the trading of the Zhongyu Shares, the China Gas Board believes that the terms of the Offers and the transactions contemplated thereunder are fair and reasonable and in the interests of the shareholders of China Gas as a whole.

The Offers together constitute a discloseable transaction for China Gas under the Listing rules. An application will be made to the Stock Exchange for the granting of the listing of, and permission to deal in, the new China Gas Shares to be issued in connection with the Offers.

The new China Gas Shares to be issued in connection with the Offers shall rank pari passu with all other China Gas Shares in issue as at the date of allotment and issue.

Your attention is drawn to the information set out in the letter from MCSL, which immediately follows this letter on pages 20 to 38 of this Offer Document, as well as the additional information set out in the appendices which form part of this Offer Document.

Yours faithfully,  
For and on behalf of  
**China Gas Holdings Limited**  
**Liu Ming Hui**  
*Managing Director*

---

LETTER FROM MCSL

---



Level 18, One International Finance Centre,  
1 Harbour View Street,  
Central,  
Hong Kong

17 May 2010

*To the Zhongyu Shareholders, the Zhongyu Bondholders and the Zhongyu Optionholders*

Dear Sir or Madam,

**CONDITIONAL VOLUNTARY GENERAL OFFER BY  
MACQUARIE CAPITAL SECURITIES LIMITED  
ON BEHALF OF  
RICH LEGEND INTERNATIONAL LIMITED, A WHOLLY-OWNED SUBSIDIARY  
OF CHINA GAS HOLDINGS LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF  
ZHONGYU GAS HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY HELD BY  
RICH LEGEND INTERNATIONAL LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)  
AND  
TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE BONDS OF  
ZHONGYU GAS HOLDINGS LIMITED  
AND  
FOR THE CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
ZHONGYU GAS HOLDINGS LIMITED**

**1. INTRODUCTION**

On 26 January 2010, China Gas, the Offeror and Zhongyu jointly announced that a voluntary conditional cash and securities exchange offer was intended to be made by the Offeror (i) to acquire all of the issued shares in the share capital of Zhongyu (other than those Zhongyu Shares already held by the Offeror and the Concert Parties); (ii) for the acquisition of all the outstanding Convertible Bonds; and (iii) for the cancellation of all the outstanding Share Options. The Offers will be made by MCSL on behalf of the Offeror.

On 1 March 2010, a joint announcement was issued by China Gas, the Offeror and Zhongyu stating that an application had been made for the consent of the Executive to extend the deadline for the despatch of the Composite Document from 2 March 2010 to no later than 16 April 2010.

---

## LETTER FROM MCSL

---

With effect from 9.30 a.m. on 22 March 2010, trading in the Zhongyu Shares was suspended. On 31 March 2010, an announcement was issued by Zhongyu stating its inability to announce its annual results and distribute its annual report for the year ended 31 December 2009 by 31 March 2010 as required under the Listing Rules, as the senior management of some of the major PRC subsidiaries of Zhongyu had not provided Zhongyu's auditors with responses to the auditor's questions for the purpose of finalising the audit.

On 16 April 2010, China Gas and the Offeror made the Request to the Executive.

On 20 April 2010, the Executive indicated that it would not consent to the Request and issued its formal ruling to this effect on the Request on 28 April 2010.

On 21 April 2010, an announcement was issued by China Gas and the Offeror stating, amongst other things, that China Gas and the Offeror intended to issue a separate Offer Document in place of the Composite Document, for the reasons stated in the announcement.

On 23 April 2010, a further announcement was issued by Zhongyu stating that, among other things, no progress had been made in relation to the completion of its audit for the year ended 31 December 2009 and the publication by Zhongyu of its audited financial statements for such period in accordance with the Listing Rules.

On 6 May 2010, China Gas and the Offeror made the Review Application to the Takeovers Panel for review of the Executive's ruling on the Request.

On 7 May 2010, an announcement was issued by China Gas and the Offeror stating that an application had been made to the Executive for, and the Executive had granted, a further extension of the deadline to despatch the Offer Document to 17 May 2010.

On 13 May 2010, the Takeovers Panel upheld the Executive's ruling on the Request as stated above.

As at the Latest Practicable Date, trading in the Zhongyu Shares remained suspended.

Terms defined in the Offer Document have the same meanings when used in this letter.

This letter sets out details of the principal terms of the Offers together with information relating to China Gas. Further details of the terms of the Offers are set out under the paragraph headed "Further Terms of the Offers" below, and details of the procedures for acceptance of the Offers are set out in Appendix I to this Offer Document and in the accompanying Forms of Acceptance.

Pursuant to the Takeovers Code, the Zhongyu Board had on 3 February 2010 announced that the Zhongyu Independent Board Committee has appointed Partners Capital as the independent financial adviser to advise the Zhongyu Independent Board Committee in respect of the Offers pursuant to Rule 2.1 of the Takeovers Code. Zhongyu is required to despatch the Response Document to the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders containing, among other things, the advice of the Independent Financial Adviser and the views of the Zhongyu Independent Board Committee in respect of the offers within 14 days after the posting of this Offer Document, unless the Executive consents to a later date and the Offeror agrees to extend the First Closing Date by the number of days in respect of which the delay in the posting of the Response Document is agreed.

---

## LETTER FROM MCSL

---

### 2. THE OFFERS

#### 2.1 Consideration for the Offers

The Offers will be made on the following basis:

The Share Offer:

**For each Zhongyu Share . . . . .HK\$0.1743 in cash and  
0.1512 new China Gas Share**

The Convertible Bond Offer:

**For each US\$10,000 nominal amount  
of the outstanding Convertible Bonds . . . . .HK\$19,480.0170 in cash and  
16,898.3280 new China Gas Shares**

The Option Offer:

(A) In respect of the Share Options with exercise price of HK\$0.80

**For each Zhongyu Share which may  
be subscribed . . . . .HK\$0.0202 in cash and  
0.0175 new China Gas Share**

(B) In respect of the Share Options with exercise price of HK\$0.56

**For each Zhongyu Share which may  
be subscribed . . . . .HK\$0.0664 in cash and  
0.0576 new China Gas Share**

(C) In respect of the Share Options with exercise price of HK\$0.31

**For each Zhongyu Share which may  
be subscribed . . . . .HK\$0.1146 in cash and  
0.0994 new China Gas Share**

The Share Offer values each Zhongyu Share at HK\$0.9046, based on the closing price of each China Gas Share of HK\$4.83 on the Last Trading Date multiplied by 0.1512 new China Gas Share being offered for each Zhongyu Share, plus the cash amount of HK\$0.1743 being offered for each Zhongyu Share.

The consideration payable under the Convertible Bond Offer and the Option Offer are derived from the consideration payable under the Share Offer, and the consideration payable under each of the Offers has equal value on a per share basis based on the closing price for each China Gas Share of HK\$4.83 on the Last Trading Date and all bear the same proportions as between the cash and scrip components.

---

## LETTER FROM MCSL

---

As at the Latest Practicable Date, there are 1,974,007,684 Zhongyu Shares in issue, outstanding Convertible Bonds with an aggregate nominal amount of US\$20,000,000 which may be converted into 223,522,857 Zhongyu Shares and Share Options involving 142,712,000 Zhongyu Shares outstanding. As jointly announced by China Gas, the Offeror and Zhongyu on 25 February 2010 and announced by Zhongyu on 18 March 2010, since the commencement of the Offer Period, 4,506,000 Zhongyu Shares have been issued pursuant to the exercise of Share Options under the Share Option Scheme. Other than the above, Zhongyu has no other Zhongyu Shares, Convertible Bonds, Share Options, options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Zhongyu Shares.

The China Gas Shares will be issued free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends declared, and will rank *pari passu* with the existing China Gas Shares. There will be no restrictions on the transfer of the China Gas Shares to be issued under the Offers, other than in respect of Hezhong and the Management Owners who have granted a non-disposal undertaking in favour of China Gas and the Offeror under the Irrevocable Undertaking. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the new China Gas Shares to be issued in connection with the Offers.

### **2.2 Fractions**

Fractions of new China Gas Shares will not be issued to accepting Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders. Fractional entitlements to new China Gas Shares will be aggregated and sold in the market with the proceeds distributed *pro rata* to the Zhongyu Shareholders, the Zhongyu Bondholders and the Zhongyu Optionholders entitled to them. However, individual entitlements of less than HK\$100 will not be paid to such Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders but will be retained for the benefit of China Gas.

For illustration purposes, for every board lot of 2,000 Zhongyu Shares acceded to the Share Offer by a Zhongyu Shareholder, that Zhongyu Shareholder would be entitled to receive a total amount of HK\$348.60 in cash and 302 new China Gas Shares (rounded down to the nearest China Gas Share and subject to fractional entitlements as described above) under the Share Offer.

The China Gas Shares are traded in board lots of 2,000 China Gas Shares. A matching service for a limited period of one month from the completion of the Offers will be arranged for odd lots of China Gas Shares to be held by the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders who have acceded to the Share Offer, Convertible Bond Offer and Option Offer respectively, as a result of completion of the Offers. Subject to the above, it is not proposed that any arrangements be made for the trading of odd lots of China Gas Shares following completion of the Offers.

For this purpose, Quam Securities Company Limited, whose address is at Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong (contact person: Ho Sui Keung Eric; telephone number +852 2847 2203) has been appointed by China Gas and the Offeror as the designated broker to match sales and purchases of odd lot holdings of China Gas

---

## LETTER FROM MCSL

---

Shares in the market, on a best efforts basis, from 9.30 a.m. to 4.00 p.m. on a Business Day during the period of 15 June 2010 to 14 July 2010 to enable Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders who have acceded to the Share Offer, Convertible Bond Offer and Option Offer respectively, to dispose of their odd lots or to top up their odd lots to a whole board lot of 2,000 China Gas Shares. Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders should note that the matching of odd lots is not guaranteed.

Holders of the China Gas Shares in odd lots who wish to take advantage of this facility either to dispose of their odd lots of the China Gas Shares or to top up their odd lots to a full new board lot may directly or through their broker contact Quam Securities Company Limited of Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong at the abovementioned contact details during the aforesaid period.

### 2.3 Comparisons of value

The value which the Share Offer attributes to each Zhongyu Share under the Share Offer represents:

	Share price of Zhongyu HK\$	Premium/ (Discount) of the Share Offer Consideration to the share price %
Closing price on the Latest Practicable Date	N/A*	N/A*
Closing price on the Last Trading Date	0.89	1.64%
Average closing price for the last 5 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	0.91	(0.59)%
Average closing price for the last 10 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	0.89	1.64%
Average closing price for the last 30 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	0.80	13.07%
Average closing price for the last 60 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	0.75	20.61%

\* *Trading in the Zhongyu Shares has been suspended since 22 March 2010*

---

## LETTER FROM MCSL

---

The total outstanding nominal value of the Convertible Bonds is US\$20,000,000. The Convertible Bond Offer Consideration for each US\$10,000 nominal amount of the Convertible Bonds represents the ascribed value of HK\$0.9046 for each Zhongyu Share payable in respect of the number of Zhongyu Shares that would be issued upon the conversion of each US\$10,000 nominal amount of the Convertible Bonds based on the current conversion price of HK\$0.70 per Zhongyu Share and an exchange rate of US\$1.00 to HK\$7.8233 for the purpose of such conversion.

The Option Offer Consideration represents the difference between the exercise price for each Zhongyu Share under the Share Options and the ascribed value of the Share Offer Consideration of HK\$0.9046 for each Zhongyu Share which may be subscribed thereunder.

Please also refer to the paragraph headed "Market Prices" in Appendix III to this Offer Document for further information on the market prices of the Zhongyu Shares.

### **2.4 Highest and lowest prices**

During the Relevant Period, the highest closing price of the China Gas Shares as quoted on the Stock Exchange was HK\$4.99 per China Gas Share on 13 January 2010, and the lowest closing price of the China Gas Shares as quoted on the Stock Exchange was HK\$2.00 per China Gas Share on 27 July 2009.

The highest and lowest closing prices of Zhongyu Shares during the Relevant Period were HK\$0.940 per Zhongyu Share on 12 January 2010 and HK\$0.455 per Zhongyu Share on 2 September 2009 respectively.

### **2.5 Consideration for the Zhongyu Shares, Convertible Bonds and the Share Options**

Based on the Share Offer Consideration and 1,974,007,684 Zhongyu Share in issue (representing the Zhongyu Shares not already held by the Offeror and the Concert Parties) as at the Latest Practicable Date, the maximum value of the Share Offer (assuming none of the Convertible Bonds are converted into Zhongyu Shares, no Share Options are exercised and the Share Offer is accepted in full and there is no change in the share capital of Zhongyu) is approximately HK\$1,785,679,451.

Based on the Convertible Bond Offer Consideration, being the ascribed value of HK\$0.9046 for each Zhongyu Share payable in respect of the number of Zhongyu Shares that would be issued upon the conversion of each US\$10,000 of the nominal amount of the Convertible Bonds based on the conversion price (as at the Latest Practicable Date) of HK\$0.70 per Zhongyu Share and an exchange rate of US\$1.00 to HK\$7.8233 for the purpose of such conversion, in respect of 223,522,857 Zhongyu Shares which may be issued upon full conversion of the Convertible Bonds outstanding as at the Latest Practicable Date, the maximum value of the Convertible Bond Offer (assuming no Convertible Bonds are converted into Zhongyu Shares or are otherwise redeemed prior to the First Closing Date and the Convertible Bond Offer is accepted in full) is approximately HK\$202,197,882.

---

## LETTER FROM MCSL

---

Based on the Option Offer Consideration of (i) HK\$0.0202 in cash and 0.0175 new China Gas Share per Zhongyu Share which may be subscribed under the Share Options with an exercise price of HK\$0.80, (ii) HK\$0.0664 in cash and 0.0576 new China Gas Share per Zhongyu Share which may be subscribed under the Share Options with an exercise price of HK\$0.56, and (iii) HK\$0.1146 in cash and 0.0994 new China Gas Share per Zhongyu Share which may be subscribed under the Share Options with an exercise price of HK\$0.31, and Share Options involving 142,712,000 Zhongyu Shares outstanding as at the Latest Practicable Date, the maximum value of the Option Offer (assuming no Share Options are exercised or otherwise cancelled prior to the First Closing Date and the Option Offer is accepted in full) is approximately HK\$44,639,978.

In the event all the Convertible Bonds are converted into Zhongyu Shares, all the Share Options are exercised in full by Zhongyu Optionholders prior to the First Closing Date and the Share Offer is accepted in full (including all Zhongyu Shares allotted and issued as a result of the exercise of the Share Options and the Convertible Bonds), the maximum value of the Share Offer will be increased to approximately HK\$2,116,974,031. In that case, no amount will be payable under the Convertible Bond Offer and the Option Offer and Zhongyu shall receive an aggregate subscription price of approximately HK\$156,466,000 and HK\$84,456,720 from the conversion of the Convertible Bonds and the exercise of the Share Options respectively.

Based on the Share Offer Consideration, the Convertible Bond Consideration and the Option Offer Consideration (and assuming that each of the Share Offer, Option Offer and Convertible Bond Offer is accepted in full), the maximum number of new China Gas Shares that may fall to be issued in connection with the Offers is 339,728,029. This represents approximately 10.11% of the 3,361,436,151 existing issued China Gas Shares as at the Latest Practicable Date, and approximately 9.18% of the enlarged issued share capital of 3,701,164,180 China Gas Shares immediately following the issue of the aforesaid number of new 339,728,029 China Gas Shares.

The consideration payable under the Offers was determined on the basis of the most recent published financial information of Zhongyu, China Gas's review of Zhongyu's business and potential synergies arising from the acquisition of control by China Gas.

### **2.6 Share Option Scheme**

As at the Latest Practicable Date, Zhongyu had Share Options entitling Zhongyu Optionholders to subscribe for up to an aggregate of 142,712,000 Zhongyu Shares at an exercise price of: (i) HK\$0.80, in respect of 48,400,000 Zhongyu Shares, (ii) HK\$0.56, in respect of 66,000,000 Zhongyu Shares, and (iii) HK\$0.31, in respect of 28,312,000 Zhongyu Shares. If the Share Options are exercised in full, Zhongyu will have to issue 142,712,000 Zhongyu Shares, representing approximately 6.74% of the enlarged issued share capital of Zhongyu (assuming no conversion of the Convertible Bonds).

---

## LETTER FROM MCSL

---

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Zhongyu Optionholders shall be entitled to exercise their Share Options at any time after the date on which the Share Offer becomes or is declared unconditional and up to the end of the Offer Period. Any Share Options outstanding thereafter will lapse automatically (to the extent not already exercised) at the end of the Offer Period, pursuant to the terms of the Share Option Scheme. Share Options that are duly tendered for cancellation under the Option Offer will be cancelled by Zhongyu in due course.

### **2.7 The Convertible Bonds**

Zhongyu has in issue Convertible Bonds with an outstanding nominal amount of US\$20,000,000 as at the Latest Practicable Date. The Convertible Bonds are convertible into Zhongyu Shares at a price of HK\$0.70 per Zhongyu Share and an exchange rate of US\$1.00 to HK\$7.8233, and if so converted would result in the aggregate of 223,522,857 new Zhongyu Shares being issued. Pursuant to the Convertible Bond Offer, China Gas will make a voluntary cash and securities exchange offer to acquire all of the Convertible Bonds.

The Convertible Bonds are not held by China Gas, the Offeror or parties acting or presumed to be acting in concert with any of them.

Pursuant to the terms and conditions of the Convertible Bonds, should there be a change of control (whereby, amongst other things, any person or persons acting together, other than Hezhong, acquires more than 50% voting rights in the issued share capital of Zhongyu), the Zhongyu Bondholders will have the right to require Zhongyu to redeem in whole or in part such outstanding Convertible Bonds on the fourteenth day after the expiry of the 30 day period following such change of control becoming effective or following the date upon which notice thereof is given to the Zhongyu Bondholders by Zhongyu, as the case may be. Zhongyu shall then be obliged to pay the Zhongyu Bondholders an early redemption amount (representing a gross yield of 6.23% per annum, calculated on a semi-annual basis, for each US\$10,000 principal amount as per the formula set out in the terms and conditions of the Convertible Bonds).

To the extent the Offers become unconditional giving rise to a change in control of Zhongyu as described above, in the event any Zhongyu Bondholder who did not accept the Convertible Bond Offer exercises his right to require Zhongyu to redeem his outstanding Convertible Bonds, Zhongyu may be required to redeem the outstanding Convertible Bonds from such Zhongyu Bondholder at the early redemption amount as described above.

Pursuant to the terms and conditions of the Convertible Bonds, the early redemption amount is dependent on the date fixed for redemption, which is in turn dependent on the date on which the Offers become or are declared unconditional in all respects as described above. For illustration purposes only, assuming the Offers become or are declared unconditional in all respects resulting in a change of control as described above as at the First Closing Date, the date fixed for redemption is 18 July 2010, and based on an exchange rate of US\$1.00 to HK\$7.7625, the early redemption amount is HK\$91,088.62 for each US\$10,000 principal amount as per the formula set out in the terms and conditions of the Convertible Bonds.

---

## LETTER FROM MCSL

---

### 2.8 Confirmation of Financial Resources

The maximum amount of aggregate cash consideration to be paid to Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in connection with the Offers (assuming (i) all the Share Options are exercised in full prior to the First Closing Date; (ii) all the holders of Zhongyu Shares, including those who have subscribed for Zhongyu Shares as a result of the exercise of the Share Options accede to the Share Offer; and (iii) all the Zhongyu Bondholders accede to the Convertible Bond Offer, and excluding the Zhongyu Shares not already held by the Offeror and the Concert Parties) is approximately HK\$407,904,275. It is presently intended that this amount will be funded by China Gas (through the Offeror) from funds made available from its internal resources.

The maximum cash requirement of HK\$407,904,275 is calculated by adding together (i) cash in the sum of HK\$344,069,539 required to satisfy acceptances under the Share Offer based on the number of total issued Zhongyu Shares as at the Latest Practicable Date; (ii) cash in the sum of HK\$38,960,034 required to satisfy acceptances for all Convertible Bonds outstanding as at the Latest Practicable Date under the Convertible Bond Offer; and (iii) cash in the sum of HK\$24,874,702 required to satisfy acceptances for Zhongyu Shares to be issued pursuant to the exercise of all Share Options outstanding as at the Latest Practicable Date.

Macquarie has been appointed as the financial adviser to China Gas and the Offeror in respect of the Offers. Macquarie is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offers as described above.

### 3. CONDITIONS OF THE OFFERS

The Offers will be conditional on the satisfaction or waiver of the following Conditions:

- (A) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Zhongyu Shares which would result in the Offeror and the Concert Parties holding more than 50% of the voting rights in Zhongyu;
- (B) the Stock Exchange granting the listing of and permission to deal (subject only to allotment and other procedural matters required under the Listing Rules) in the China Gas Shares to be issued as consideration under the Offers and the same not having been withdrawn;
- (C) the Zhongyu Shares remaining listed and traded on the Stock Exchange up to the First Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Zhongyu Shares as a result of the Offers and no indication being received on or before the First Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Zhongyu Shares on the Stock Exchange is or is likely to be withdrawn;

---

## LETTER FROM MCSL

---

- (D) (i) all Consents (including the PRC Anti-trust Clearance, if any) as are necessary for the acquisition of the Zhongyu Shares and in connection with, including, without limitation, any change in the direct or indirect shareholder(s) or ultimate controlling shareholder(s) of any member of the Zhongyu Group that has been granted the concession rights or licences to carry out its operations having been obtained in form and substance satisfactory to the Offeror and remaining in full force and effect without variation from all Relevant Authority(ies) and all conditions (if any) to such Consents having been fulfilled; (ii) each member of the Zhongyu Group possessing or having obtained all licences and permits from the Relevant Authority(ies) that are necessary to carry on its business; and (iii) all mandatory consents from third parties having been obtained for the acquisition of the Zhongyu Shares;
- (E) no event having occurred which would make the Offers or the acquisition of any of the Zhongyu Shares void, unenforceable, illegal or prohibit implementation of the Offers;
- (F) no Relevant Authority(ies) in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions or obligations with respect to the Offers (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers);
- (G) since 31 December 2008, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general affairs, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, current or future consolidated financial position, shareholders' equity or results of operations of Zhongyu or any member of the Zhongyu Group, whether or not arising in the ordinary course of business; and
- (H) no material breach of any covenants, representations and warranties given by Hezhong and each of the Management Owners in favour of the Offeror under the Irrevocable Undertaking.

The Offeror reserves the right to waive all or any of the Conditions to the Offers set out above (except for Conditions (A), (B) and (E) which may not be waived), in whole or in part.

In addition to the Conditions set out above, the Share Offer is made on the basis that acceptance of the Share Offer by any person will constitute a warranty by such person or persons to the Offeror that the Zhongyu Shares acquired under the Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights attaching thereto as at the date of the Offer Document or subsequently becoming attached to them, including the right to receive all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date of the Offer Document.

---

## LETTER FROM MCSL

---

In addition to the Conditions set out above, the Option Offer and the Convertible Bond Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

#### **4. IRREVOCABLE UNDERTAKING**

On 17 January 2010, Hezhong and each of the Management Owners executed an Irrevocable Undertaking in favour of China Gas and the Offeror, pursuant to which Hezhong and the Management Owners undertook to, within three business days following the despatch of the Offer Document, accept or procure to accept the Share Offer in respect of all of the Zhongyu Shares owned by them as at the date of the Irrevocable Undertaking, and any Zhongyu Shares of which they will become the legal or beneficial owners thereafter. As at the Latest Practicable Date, 945,755,542 Zhongyu Shares are held by Hezhong and 1,166,000 Zhongyu Shares are held by Mr. Wang, together representing approximately 47.97% of the issued share capital of Zhongyu.

The Irrevocable Undertaking given by Hezhong and the Management Owners also provides that unless and until the Share Offer lapses or is withdrawn without having become wholly unconditional, each of Hezhong and the Management Owners shall not, among other things, sell or transfer or otherwise dispose of or charge or pledge or otherwise encumber or grant any option or other right over or otherwise deal with all or any of the Zhongyu Shares or the Share Options held by the Management Owners or any interest in all or any thereof (whether conditionally or unconditionally), nor will it/he accept or undertake to accept any other offer or give any indication to any third party of an intention to accept any other offer in any respect of all or any of the Zhongyu Shares or the Share Options held by the Management Owners (whether conditionally or unconditionally) by whatever means, or vote in favour of (or undertake to vote in favour of) any resolution to approve a compromise or arrangement under the Cayman Islands Companies Law with the members and creditors of Zhongyu (or any amalgamation under the Cayman Islands Companies Law) and with any third party other than with the Offeror or its parent company, subsidiaries or fellow subsidiaries. The Irrevocable Undertaking given by Hezhong and the Management Owners also provide that each of the Management Owners shall undertake to procure the performance by Hezhong of its obligations under such Irrevocable Undertaking.

Assuming the Share Offer proceeds and based on the Share Offer Consideration, pursuant to the Irrevocable Undertaking, the Offeror shall acquire from Hezhong and the Management Owners an aggregate of 946,921,542 Zhongyu Shares held by them at a total consideration of approximately HK\$165,048,424.77 in cash and 143,174,537 China Gas Shares.

The Irrevocable Undertaking shall terminate if the Share Offer lapses or is withdrawn without having become wholly unconditional on or before the Long Stop Date.

As at the Latest Practicable Date, apart from the Irrevocable Undertaking, the Offeror and the Concert Parties have not received any irrevocable undertaking from any other Zhongyu Shareholders, Zhongyu Optionholders or Zhongyu Bondholders in connection with the Offers.

---

## LETTER FROM MCSL

---

### 5. NON-DISPOSAL UNDERTAKING

Pursuant to the Irrevocable Undertaking, each of Hezhong and the Management Owners has further undertaken in favour of China Gas and the Offeror that, among other things, it/he shall not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it/him will, without the prior written consent of China Gas and the Offeror, at any time from the Completion Date until the expiry of 12 months therefrom, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the China Gas Shares it/he receives pursuant to the Offers or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or offer or agree or announce any intention to do any of the foregoing.

### 6. FURTHER TERMS OF THE OFFERS

#### 6.1 Acceptance of the Offers

##### *The Share Offer*

To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.

The completed and signed **WHITE** Form of Acceptance should then be forwarded, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Zhongyu Shares in respect of which you intend to accept the Share Offer, by post or by hand to the Receiving Agent, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Share Offer**" on the envelope, as soon as practicable after receipt of this Offer Document and in any event no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may announce with the consent of the Executive.

##### *The Convertible Bond Offer*

To accept the Convertible Bond Offer, you should complete and sign the accompanying **YELLOW** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Convertible Bond Offer.

---

## LETTER FROM MCSL

---

The completed and signed **YELLOW** Form of Acceptance should then be forwarded, together with the relevant certificate(s) of the Convertible Bonds stating the nominal amount (which shall be in multiples of US\$10,000) of Convertible Bonds in respect of which you intend to accept the Convertible Bond Offer, by post or by hand to the Receiving Agent, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Convertible Bond Offer**" on the envelope, as soon as practicable after receipt of this Offer Document and in any event no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may announce with the consent of the Executive.

### *The Option Offer*

To accept the Option Offer, you should complete and sign the accompanying **PINK** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.

The completed and signed **PINK** Form of Acceptance should then be forwarded, together with the relevant certificate(s) of the Share Options stating the number of Share Options in respect of which you intend to accept the Option Offer, by post or by hand to the Receiving Agent, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Option Offer**" on the envelope, as soon as practicable after receipt of this Offer Document and in any event no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may announce with the consent of the Executive.

## **6.2 Acceptance period and revisions**

- (a) The Offeror has the right, subject to the Takeovers Code, to extend the Offers after the despatch of this Offer Document or to revise the terms of the Offers, and may introduce new conditions to be attached to any revision to any of the Offers or any subsequent revision thereof to the extent necessary to implement the revised Offers and subject to the consent of the Executive in accordance with the Takeovers Code.
- (b) Unless the Offers have previously been extended with the consent of the Executive in accordance with the Takeovers Code, all acceptances must be received by 4:00 p.m. on the First Closing Date in accordance with the instructions printed on the relevant Forms of Acceptance and the Offers will be closed at 4:00 p.m. on the First Closing Date.
- (c) If in the course of the Offers, the Offeror revises its terms, all the Zhongyu Shareholders, Zhongyu Bondholders and the Zhongyu Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the First Closing Date.

---

## LETTER FROM MCSL

---

- (d) If the Offers are extended or revised, the announcement of such extension or revision will state the next closing date or, if the Offers become or are declared unconditional as to acceptances, a statement may be made that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offers are closed to those Zhongyu Shareholders, Zhongyu Bondholders and those Zhongyu Optionholders who have not accepted the Offers and an announcement will be published.
- (e) If the closing date of the Offers is extended, any reference in this Offer Document and in the Forms of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers so extended.
- (f) The acceptance by or on behalf of (i) a Zhongyu Shareholder of the Share Offer, (ii) a Zhongyu Bondholder of the Convertible Bond Offer, or (iii) a Zhongyu Optionholder of the Option Offer, in its original and/or any previously revised form, shall be treated as an acceptance of the relevant Offer(s) as so revised.
- (g) Any acceptance of the relevant revised Offer(s) and/or any election pursuant thereto shall be irrevocable unless and until the accepting Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder becomes entitled to withdraw his/her/its acceptance under the paragraph headed "Right of Withdrawal" below and duly does so.

### 6.3 Settlement of consideration

Subject to the Offers becoming or being declared unconditional in all respects, settlement of consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within ten days of the date of receipt of a complete and valid acceptance in respect of the Offers or of the Unconditional Date, whichever is the later.

#### *The Share Offer*

Provided that a valid **WHITE** Form of Acceptance and the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Receiving Agent no later than the latest time for acceptance (or such later time and/or date as the Offeror may announce with the consent of the Executive), a cheque for the amount due to each Zhongyu Shareholder less seller's ad valorem stamp duty in respect of the Zhongyu Shares tendered by him/her/it and the share certificate of the new China Gas Shares to be issued and allotted to the Zhongyu Shareholder under the Share Offer and will be despatched to the Zhongyu Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within 10 days of the later of the date on which the Offers become or are declared unconditional in all respects and the date of receipt of the completed **WHITE** Form of Acceptance and all the relevant documents by the Receiving Agent from the Zhongyu Shareholder accepting the Share Offer to render such acceptance complete and valid.

---

## LETTER FROM MCSL

---

### *The Convertible Bond Offer*

Provided that a valid **YELLOW** Form of Acceptance and the relevant certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof have been received by the Receiving Agent no later than the latest time for acceptance (or such later time and/or date as the Offeror may announce with the consent of the Executive), a cheque for the amount due to the Zhongyu Bondholders in respect of the Convertible Bonds tendered by him/her/it and the share certificate of the new China Gas Shares to be issued and allotted to the Zhongyu Bondholder under the Convertible Bond Offer will be despatched to the Bondholders by ordinary post at his own risk as soon as possible but in any event within 10 days of the later of the date on which the Offers become or are declared unconditional in all respects and the date of receipt of the completed **YELLOW** Form of Acceptance and all the relevant documents are received by the Receiving Agent to render such acceptance complete and valid.

### *The Option Offer*

Provided that a valid **PINK** Form of Acceptance and the relevant certificate(s) of the Share Options are complete and in good order in all respects and have been received by the Receiving Agent no later than the latest time for acceptance (or such later time and/or date as the Offeror may announce with the consent of the Executive), a cheque for the amount due to each Zhongyu Optionholder in respect of the Share Options surrendered by him/her/it and the share certificate of the new China Gas Shares to be issued and allotted to the Zhongyu Optionholder under the Option Offer will be despatched to the Zhongyu Optionholder by ordinary post at his/her own risk as soon as possible but in any event within 10 days of the later of the date on which the Offers become or are declared unconditional in all respects and the date of receipt of the completed **PINK** Form of Acceptance and all the relevant documents by the Receiving Agent from the Zhongyu Optionholder accepting the Option Offer to render such acceptance complete and valid.

Settlement of the consideration to which any Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers (save in respect of the payment of seller's ad valorem stamp duty in connection with the Share Offer) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror or China Gas may otherwise be, or claim to be, entitled against such Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder, as the case may be.

---

## LETTER FROM MCSL

---

### **6.4 Acquisition of the Zhongyu Shares**

Under the terms of the Share Offer, the Zhongyu Shares will be acquired with all rights attached thereto as at the date of this Offer Document or which subsequently become attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of this Offer Document, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

The Option Offer will be made on the basis that acceptance of the Option Offer by any person will constitute a warranty by such person or persons to the Offeror that the Share Options are free from all third party rights, liens, charges, equities, adverse interests and encumbrances and are to be cancelled and renounced together with all rights attaching thereto as at the date of the Offer Document or subsequently becoming attaching to them.

The Convertible Bond Offer will be made on the basis that acceptance of the Convertible Bond Offer by any person will constitute a warranty by such person or persons to the Offeror that the Convertible Bonds are free from all third party rights, liens, charges, equities, adverse interests and encumbrances and are to be acquired together with all rights attaching thereto as at the date of the Offer Document or subsequently becoming attaching to them.

### **6.5 Hong Kong stamp duty**

Sellers' ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Zhongyu Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such person's Zhongyu Shares and will be deducted from the cash amount due to such accepting Zhongyu Shareholder. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf. No stamp duty is payable in connection with the Convertible Bonds Offer and the Option Offer.

## **7. GENERAL MATTERS RELATING TO THE OFFERS**

### **7.1 Availability of the Offers**

The Offeror intends to make available the Offers to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders, including those who are resident outside Hong Kong, to the extent practicable. The availability of the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

The attention of Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders who are not resident in Hong Kong is drawn to sub-paragraphs (k) and (l) of the paragraph headed "General" in Appendix I to this Offer Document.

---

## LETTER FROM MCSL

---

As at the Latest Practicable Date, there are a total of 44 overseas Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders, as registered on Zhongyu's register of members, register of bondholders and register of optionholders respectively.

Based on Zhongyu's register of members, register of bondholders and register of optionholders as at the Latest Practicable Date, there are (i) 7 overseas Zhongyu Shareholders, all of whose registered addresses are in the PRC, (ii) one overseas Zhongyu Bondholder, whose registered address is in the United Kingdom, and (iii) 36 overseas Zhongyu Optionholders, all of whose registered addresses are in the PRC.

This Offer Document does not constitute a prospectus for the purposes of the prospectus rules issued by the FSA, pursuant to Section 84 of the FSMA, and has not been approved by or filed with the FSA. The China Gas Shares may not be offered or sold and will not be offered or sold to the public in the United Kingdom (within the meaning of Section 102B of the FSMA) save in the circumstances where it is lawful to do so without an approved prospectus (within the meaning of Section 85 of the FSMA) being made available to the public before the Offers are made. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any China Gas Shares except in circumstances in which Section 21(1) of the FSMA does not apply to China Gas and the Offeror. This Offer Document is directed only at (i) persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19 of the FPO, or (ii) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49 of the FPO. Any investment or investment activity to which this Offer Document relates is only available to and will only be engaged in with such persons and persons who do not fall within (i) or (ii) above should not rely on or act upon this communication.

### **7.2 Further agreements or arrangements**

As at the Latest Practicable Date, except for the Irrevocable Undertaking, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Zhongyu Shares or the China Gas Shares which might be material to the Offers.

As at the Latest Practicable Date, there are no agreements or arrangements to which China Gas or the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers (apart from the Conditions).

### **7.3 Completion of the Offers**

If the Conditions are not satisfied (or, if permissible, waived) on or before the First Closing Date, the Offers will lapse unless extended by the Offeror.

---

## LETTER FROM MCSL

---

In that case, China Gas will issue an announcement in relation to the revision, extension, expiry or unconditionality of the Offers in accordance with the Takeovers Code and Listing Rules by 7:00 p.m. on the First Closing Date. The latest date on which the Offeror can declare the Offers unconditional as to acceptances is 7:00 p.m. on the 60th day after the posting of the Offer Document (or such later date to which the Executive may consent).

If the Conditions are satisfied (or, if permissible, waived), Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders will be notified by an announcement in accordance with the Takeovers Code and Listing Rules as soon as possible thereafter.

### **7.4 Taxation**

The Zhongyu Shareholders, Zhongyu Bondholders and the Zhongyu Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offers. It is emphasised that none of China Gas, the Offeror, Macquarie or MCSL or any of their respective directors or any persons involved in the Offers accepts responsibility for any tax effects on or liabilities of any person or persons as a result of their acceptance of the Offers.

This Offer Document does not include any information in respect of overseas taxation. Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders who may be subject to overseas tax are recommended to consult their tax advisers regarding the implications in the relevant jurisdiction of owning and disposing of the Zhongyu Shares, Convertible Bonds and the Share Options respectively.

### **7.5 Miscellaneous**

To ensure equality of treatment of all the Zhongyu Shareholders, those Zhongyu Shareholders who hold the Zhongyu Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of the Zhongyu Shares, whose investments are registered in nominee names (including those whose interests in the Zhongyu Shares are held through CCASS), to accept the Share Offer, it is essential that they provide instructions of their intentions with regard to the Share Offer to their nominees.

All documents and remittances sent to the Zhongyu Shareholders, the Zhongyu Bondholders and the Zhongyu Optionholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Zhongyu Shareholders, the Zhongyu Bondholders and the Zhongyu Optionholders at their addresses as they appear in the register of members of Zhongyu, the register of Zhongyu Bondholders or the register of Zhongyu Optionholders (as the case may be), and in the case of joint Zhongyu Shareholders, to the Zhongyu Shareholder whose name appears first in the register of members of Zhongyu, as applicable. None of China Gas, the Offeror, Zhongyu, Macquarie or MCSL or any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

---

## LETTER FROM MCSL

---

### 8. ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from the China Gas Board” in this Offer Document which sets out, among other things, certain background information on the China Gas Group and the Offeror, the reasons for the Offers, China Gas’s and the Offeror’s intentions in relation to Zhongyu and the Enlarged Group, and the accompanying Forms of Acceptance and the additional information set out in the appendices which form part of this Offer Document.

Yours faithfully,  
For and on behalf of  
**Macquarie Capital Securities Limited**  
**David Roberts**  
*Managing Director*  
**Richard Griffiths**  
*Managing Director*

## 1. FURTHER TERMS OF THE OFFERS

### 1.1 The Share Offer

To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.

- (a) If the Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Zhongyu Shares is/are in your name, and you wish to accept the Share Offer, you must send the duly completed **WHITE** Form of Acceptance together with the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand to the Receiving Agent, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Share Offer**" on the envelope, as soon as possible and in any event so as to reach the Receiving Agent at the aforesaid address no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Zhongyu Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Zhongyu Shares, you must either:
  - (i) lodge your Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the duly completed **WHITE** Form of Acceptance together with the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Zhongyu Shares in respect of which you intend to accept the Share Offer to the Receiving Agent; or
  - (ii) arrange for the Zhongyu Shares to be registered in your name by Zhongyu through the Receiving Agent, and send the duly completed **WHITE** Form of Acceptance together with the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Receiving Agent; or

- (iii) if your Zhongyu Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Share Offer must be received by the Receiving Agent). In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in the securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in the securities/custodian bank as required by them; or
  - (iv) if your Zhongyu Shares have been lodged with your Investor Participant Account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Share Offer must be received by the Receiving Agent).
- (c) If the Zhongyu Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Zhongyu Shares is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Zhongyu Shares, the **WHITE** Form of Acceptance should nevertheless be completed and delivered to the Receiving Agent together with a letter stating that you have lost one or more of your Zhongyu Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Receiving Agent as soon as possible thereafter. If you have lost your Zhongyu Share certificate(s), you should also write to the Receiving Agent for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Receiving Agent.
- (d) If you have lodged transfer(s) of any of your Zhongyu Shares for registration in your name and have not yet received your Zhongyu Share certificate(s), and you wish to accept the Share Offer in respect of your Zhongyu Shares, you should nevertheless complete the **WHITE** Form of Acceptance and deliver it to the Receiving Agent together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to MCSL and/or the Offeror or their respective agent(s) to collect from the Receiving Agent on your behalf the relevant Zhongyu Share certificate(s) when issued and to deliver such certificate(s)

to the Receiving Agent on your behalf and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Receiving Agent with the **WHITE** Form of Acceptance.

- (e) Acceptance of the Share Offer will be treated as valid only if the completed **WHITE** Form of Acceptance is received by the Receiving Agent no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, and is:
- (i) accompanied by the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the Zhongyu Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Zhongyu Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Zhongyu Shares; or
  - (ii) from a registered Zhongyu Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Zhongyu Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
  - (iii) certified by the Receiving Agent or the Stock Exchange.
- (f) If the **WHITE** Form of Acceptance is executed by a person other than the registered Zhongyu Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Receiving Agent must be produced.
- (g) Seller's ad valorem stamp duty for transfers of Zhongyu Shares registered by the Receiving Agent arising in connection with acceptance of the Share Offer will be payable by each accepting Zhongyu Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable by the Offeror in respect of the relevant acceptance; and (ii) the value of the Zhongyu Shares and will be deducted from the cash amount due to such accepting Zhongyu Shareholder. The Offeror will pay the buyer's ad valorem stamp duty in respect of the Zhongyu Shares accepted under the Share Offer.
- (h) **Deeming provisions:** the following provisions apply in the case of incorrectly completed, incomplete or illegible **WHITE** Forms of Acceptance:
- (i) if no number is specified or if the total number of Zhongyu Shares specified in the **WHITE** Form of Acceptance is greater than the Zhongyu Shares tendered, as supported by the Zhongyu Share certificate(s), transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities

required in respect thereof), the Zhongyu Shareholder is deemed to have accepted the Share Offer in respect of the Zhongyu Shares as shall be equal to the number of the Zhongyu Shares tendered by such Zhongyu Shareholder, as supported by the Zhongyu Share certificate(s), transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof); and

- (ii) if the number specified in the **WHITE** Form of Acceptance is smaller than the Zhongyu Shares tendered, as supported by the Zhongyu Share certificate(s), transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof), the Zhongyu Shareholder is deemed to have accepted the Share Offer in respect of the Zhongyu Shares as shall be equal to the number of the Zhongyu Shares specified in such **WHITE** Form of Acceptance;
- (i) No acknowledgement of receipt of any **WHITE** Form of Acceptance, Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (j) If the Share Offer is withdrawn or lapses, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the **WHITE** Form of Acceptance to the relevant Zhongyu Shareholder(s).

## 1.2 The Convertible Bond Offer

- (a) If you accept the Convertible Bond Offer and the certificate(s) of the Convertible Bonds and/or transfer receipts and/or any other document(s) of title for your Convertible Bonds and/or any satisfactory indemnity or indemnities required are in your name, you should complete the **YELLOW** Form of Acceptance in accordance with the instructions printed thereon in respect of the nominal value of the Convertible Bonds held by you that you wish to tender to the Convertible Bond Offer, which instructions form part of the terms and conditions of the Convertible Bond Offer.
- (b) The completed **YELLOW** Form of Acceptance should be forwarded, together with the relevant certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required which you intend to accept the Convertible Bond Offer, by post or by hand as soon as possible and in any event so as to reach the Receiving Agent, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Convertible Bond Offer**" on the envelope, as soon as possible and in any event so as to reach the Receiving Agent at the aforesaid address no later than

4:00 p.m. on the First Closing Date or such later time and or date as determined and announced by the Offeror with the consent of the Executive in accordance with the Takeovers Code.

- (c) If the Convertible Bond certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Convertible Bonds is/are in the name of a nominee company or a name other than your own, and you wish to accept the Convertible Bond Offer in respect of your Convertible Bonds, you must either:
- (i) lodge your Convertible Bond certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Convertible Bond Offer on your behalf and requesting it to deliver the duly completed **YELLOW** Form of Acceptance together with the relevant Convertible Bond certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Convertible Bond in respect of which you intend to accept the Convertible Bond Offer to the Receiving Agent; or
  - (ii) arrange for the Convertible Bonds to be registered in your name by Zhongyu through the Receiving Agent, and send the duly completed **YELLOW** Form of Acceptance together with the relevant Convertible Bond certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Receiving Agent.
- (d) If the Convertible Bond certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Convertible Bonds is/are not readily available and/or is/are lost and you wish to accept the Convertible Bond Offer in respect of your Convertible Bonds, the **YELLOW** Form of Acceptance should nevertheless be completed and delivered to the company secretary of Zhongyu together with a letter stating that you have lost one or more of your Convertible Bond certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Convertible Bond certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the company secretary of Zhongyu as soon as possible thereafter. If you have lost your Convertible Bond certificate(s), you should also write to the company secretary of Zhongyu for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of Zhongyu.

- (e) If you have lodged transfer(s) of any of your Convertible Bonds for registration in your name and have not yet received your Convertible Bond certificate(s), and you wish to accept the Convertible Bond Offer in respect of your Convertible Bonds, you should nevertheless complete the **YELLOW** Form of Acceptance and deliver it to the company secretary of Zhongyu together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to MCSL and/or the Offeror or their respective agent(s) to collect from the company secretary of Zhongyu on your behalf the relevant Convertible Bond certificate(s) when issued and to deliver such certificate(s) to the company secretary of Zhongyu on your behalf and to authorise and instruct the Registrar to hold such Convertible Bond certificate(s), subject to the terms and conditions of the Convertible Bond Offer, as if it was/they were delivered to the company secretary of Zhongyu with the **YELLOW** Form of Acceptance.
- (f) **Deeming provisions:** the following provisions apply in the case of incorrectly completed, incomplete or illegible **YELLOW** Forms of Acceptance:
- (i) if no nominal value of the Convertible Bonds is specified or if the total nominal value of the Convertible Bonds specified in the **YELLOW** Form of Acceptance is greater than nominal values of the Convertible Bonds tendered, as supported by the certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required, the Zhongyu Bondholder is deemed to have accepted the Convertible Bond Offer in respect of the nominal value of the Convertible Bonds tendered by such Zhongyu Bondholder, as supported by the certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required; and
- (ii) if the nominal value of the Convertible Bonds specified in the **YELLOW** Form of Acceptance is smaller than nominal values of the Convertible Bonds tendered, as supported by the certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required, the Zhongyu Bondholder is deemed to have accepted the Convertible Bond Offer in respect of the nominal value of the Convertible Bonds as shall be equal to the nominal value of the Convertible Bonds specified in such **YELLOW** Form of Acceptance.
- (g) No stamp duty will be deducted from the amount paid to the Zhongyu Bondholders who accept the Convertible Bond Offer.
- (h) No acknowledgement of receipt of any **YELLOW** Form of Acceptance and/or the certificate of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required will be given.

- (i) If the Convertible Bond Offer is withdrawn or lapses, the Offeror shall, as soon as possible, but in any event within 10 days hereof, return by ordinary post the certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the **YELLOW** Form of Acceptance to the relevant Zhongyu Bondholder(s).

### 1.3 The Option Offer

- (a) If you accept the Option Offer, you should complete the **PINK** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.
- (b) The completed **PINK** Form of Acceptance should be forwarded, together with the relevant certificate(s) of the Share Options stating the number of Share Options in respect of the Share Options granted which you intend to accept the Option Offer, by post or by hand to the Receiving Agent, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Option Offer**" on the envelope, as soon as possible and in any event so as to reach the Receiving Agent at the aforesaid address no later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive.
- (c) **Deeming provisions:** the following provisions apply in the case of incorrectly completed, incomplete or illegible **PINK** Forms of acceptance:
  - (i) if no number is specified or if the total number of Share Options specified in the **PINK** Form of Acceptance is greater than the Share Options tendered, as supported by the certificate(s) of the Share Options, the Zhongyu Optionholder is deemed to have accepted the Option Offer in respect of the Share Options as shall be equal to the number of Share Options tendered by such Zhongyu Optionholder, as supported by the certificate(s) of the Share Options; and
  - (ii) if the number specified in the **PINK** Form of Acceptance is smaller than the Share Options tendered, as supported by the certificate(s) of the Share Options, the Zhongyu Optionholder is deemed to have accepted the Option Offer in respect of the Share Options as shall be equal to the number of the Share Options specified in such **PINK** Form of Acceptance;
- (d) No stamp duty will be deducted from the amount paid to the Zhongyu Optionholders who accept the Option Offer.
- (e) No acknowledgement of receipt of any **PINK** Form of Acceptance and/or certificate(s) of the Share Options will be given.

- (f) If the Option Offer is withdrawn or lapses, the Offeror shall, as soon as possible, but in any event within 10 days thereof, return by ordinary post the certificate(s) of the Share Options lodged with the **PINK** Form of Acceptance to the relevant Zhongyu Optionholder(s).

## 2. SETTLEMENT OF THE OFFERS

### 2.1 The Share Offer

Provided that a valid **WHITE** Form of Acceptance and the relevant Zhongyu Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Receiving Agent no later than the latest time for acceptance (or such later time and/or date as the Offeror may announce with the consent of the Executive) and the Offers have become or are declared unconditional in all respects, a cheque for the amount due to each Zhongyu Shareholder less seller's ad valorem stamp duty in respect of the Zhongyu Shares tendered by him/her/it and the share certificate of the new China Gas Shares to be issued and allotted to the Zhongyu Shareholder under the Share Offer will be despatched to the Zhongyu Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within 10 days of the later of the date on which the Offers become or are declared unconditional in all respects and the date of receipt of the completed **WHITE** Form of Acceptance and all the relevant documents by the Receiving Agent (which should be received no later than 4:00 p.m. on the First Closing Date or such later time and date as determined and announced by the Offeror with the consent of the Executive) from the Zhongyu Shareholder accepting the Share Offer.

### 2.2 The Convertible Bond Offer

Provided that a valid **YELLOW** Form of Acceptance and the relevant certificate(s) of the Convertible Bonds and/or transfer receipt(s) and/or other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof have been received by the Receiving Agent no later than the latest time for acceptance and the Offers have become or are declared unconditional in all respects, a cheque for the amount due to the Zhongyu Bondholders in respect of the Convertible Bonds tendered by him/her/it and the share certificate of the new China Gas Shares to be issued and allotted to the Zhongyu Bondholder under the Convertible Bond Offer will be despatched to the Zhongyu Bondholders by ordinary post at his/her/its own risk as soon as possible but in any event within 10 days of the later of the date on which the Offers become or are declared unconditional in all respects and the date of receipt of the completed **YELLOW** Form of Acceptance and all the relevant documents are received by the Receiving Agent (which should be received no later than 4:00 p.m. on the First Closing Date or such later time and date as determined and announced by the Offeror with the consent of the Executive) from the Zhongyu Bondholder accepting the Convertible Bond Offer.

### 2.3 The Option Offer

Provided that a valid **PINK** Form of Acceptance and the relevant certificate(s) of the Share Options are complete and in good order in all respects and have been received by the Receiving Agent no later than the latest time for acceptance (or such later time and/or date as the Offeror may announce with the consent of the Executive) and the Offers have become or are declared unconditional in all respects, a cheque for the amount due to each Zhongyu Optionholder in respect of the Share Options surrendered by him/her/it and the share certificate of the new China Gas Shares to be issued and allotted to the Zhongyu Optionholder under the Option Offer will be despatched to the Zhongyu Optionholder by ordinary post at his/her own risk as soon as possible but in any event within 10 days of the later of the date on which the Offers become or are declared unconditional in all respects and the date of receipt of the completed **PINK** Form of Acceptance and all the relevant documents by the Receiving Agent (which should be received no later than 4:00 p.m. on the First Closing Date or such later time and date as determined and announced by the Offeror with the consent of the Executive) from the Zhongyu Optionholder accepting the Option Offer.

Settlement of the consideration to which any Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers (save in respect of the payment of seller's ad valorem stamp duty where applicable) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror or China Gas may otherwise be, or claim to be, entitled against such Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder, as the case may be.

### 3. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offeror has the right, subject to the Takeovers Code, to extend the Offers after the despatch of this Offer Document or to revise the terms of the Offers, and may introduce new conditions to be attached to any revision to any of the Offers or any subsequent revision thereof to the extent necessary to implement the revised Offers and subject to the consent of the Executive.
- (b) Unless the Offers have previously been extended with the consent of the Executive, all acceptances must be received by 4:00 p.m. on the First Closing Date in accordance with the instructions printed on the relevant Forms of Acceptance and the Offers will be closed at 4:00 p.m. on the First Closing Date.
- (c) If in the course of the Offers, the Offeror revises its terms, all the Zhongyu Shareholders and the Zhongyu Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the First Closing Date.

- (d) If the Offers are extended or revised, the announcement of such extension or revision will state the next closing date or, if the Offers become or are declared unconditional as to acceptances, a statement may be made that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offers are closed to those Zhongyu Shareholders, Zhongyu Bondholders and those Zhongyu Optionholders who have not accepted the Offers and an announcement will be published.
- (e) If the closing date of the Offers is extended, any reference in this Offer Document and in the Forms of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers so extended.
- (f) The acceptance by or on behalf of (i) a Zhongyu Shareholder of the Share Offer, (ii) a Zhongyu Bondholder of the Convertible Bond Offer, or (iii) a Zhongyu Optionholder of the Option Offer, in its original and/or any previously revised form, shall be treated as an acceptance of the relevant Offer(s) as so revised.
- (g) Any acceptance of the relevant revised Offer(s) and/or any election pursuant thereto shall be irrevocable unless and until the accepting Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder becomes entitled to withdraw his/her/its acceptance under the paragraph headed "Right of Withdrawal" below and duly does so.

#### **4. ANNOUNCEMENTS**

- (a) By 6:00 p.m. on the First Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension, expiry or unconditionality of the Offers. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the First Closing Date stating, among other information required under Rule 19.1 of the Takeovers Code, whether the Offers have been revised or extended or have expired or have become or been declared unconditional (and, in such case, whether as to acceptances or in all respects).
- (b) In computing the total number of Zhongyu Shares, Convertible Bonds and Share Options represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in paragraphs 1.1, 1.2 and 1.3 of this Appendix I, and which have been received by the Receiving Agent no later than 4:00 p.m. on the First Closing Date, being the latest time and date for acceptance of the Offers, shall be included.
- (c) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offers, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

**5. RIGHT OF WITHDRAWAL**

- (a) Acceptance of the Offers tendered by the Zhongyu Shareholders, Zhongyu Bondholders and the Zhongyu Optionholders, as the case may be, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below or in compliance with Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his/her/its acceptance after 21 days from the First Closing Date if the Offers have not by then become unconditional as to acceptances.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcements” in this Appendix I, the Executive may require that the Zhongyu Shareholders, Zhongyu Bondholders and the Zhongyu Optionholders who have tendered acceptances to the Offers, as the case may be, be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.
- (c) If the Offers are withdrawn with the consent of the Executive in accordance with the Takeovers Code, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the Zhongyu Share certificate(s) lodged with the **WHITE** Form of Acceptance to the relevant Zhongyu Shareholder(s) or the certificates of the Convertible Bonds lodged with the **YELLOW** Form of Acceptance to the relevant Zhongyu Bondholder(s) or the certificate(s) of the Share Options lodged with the **PINK** Form of Acceptance to the relevant Zhongyu Optionholder(s).

**6. NEW CHINA GAS SHARES**

- (a) The new China Gas Shares to be allotted and issued as consideration for the Share Offer, the Convertible Bond Offer and the Option Offer, as the case may be, will be issued credited as fully paid and will rank pari passu in all respects with the issued China Gas Shares as at the date of allotment of such new China Gas Shares, including, among other things, the right to receive in full all dividends and other distributions after the date of issue of such new China Gas Shares.
- (b) The new China Gas Shares will also be issued subject to the terms of the memorandum of association and the bye-laws of China Gas and persons who accept the Share Offer, the Convertible Bond Offer and the Option Offer, as the case may be, and subsequently become holders of such new China Gas Shares to be allotted and issued as consideration for the Share Offer, the Convertible Bond Offer and the Option Offer, as the case may be, will be bound by the memorandum of association and the bye-laws of China Gas.
- (c) An application will be made by China Gas to the Stock Exchange for the granting of the listing of, and permission to deal in, the new China Gas Shares to be allotted and issued in connection with the Offers.

**7. GENERAL**

- (a) All communications, notices, Forms of Acceptance, certificate(s) of Zhongyu Shares, certificate(s) of the Convertible Bonds, certificate(s) of the Share Options or transfer receipt(s), other documents of title or indemnity and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Zhongyu Shareholders, Zhongyu Bondholders or the Zhongyu Optionholders will be delivered by or sent to or from them, or their designated agents by ordinary post, at their own risk, and none of the Offeror, the Concert Parties, China Gas, Macquarie, MCSL, Zhongyu, the Receiving Agent nor any of their respective directors or other parties involved in the Offers or any of their respective agents shall accept any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Forms of Acceptance form part of the terms of the Offers.
- (c) The accidental omission to despatch this Offer Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Forms of Acceptance will constitute an authority to the Offeror or such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person accepting the Offers and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, MCSL or such person or persons as it may direct, the Zhongyu Shares and the Convertible Bonds (as the case may be) or cancellation of the outstanding Share Options in respect of which such person has accepted the Offers.
- (f) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and MCSL that the Zhongyu Shares acquired under the Share Offer and/or the Convertible Bonds acquired under the Convertible Bond Offer and/or the outstanding Share Options cancelled under the Option Offer are sold (or cancelled as the case may be) by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights attaching thereto as at the date of this Offer Document or subsequently becoming attached to them, including without limitation, in the case of the Zhongyu Shares, the right to receive all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date of this Offer Document. The Zhongyu Optionholders will surrender to Zhongyu all of their existing rights, if any, in respect of the Share Options, following which such Share Options will be cancelled.

- (g) Acceptance of the Share Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror and MCSL that the number of Zhongyu Shares in respect of which it is indicated in the **WHITE** Form of Acceptance is the aggregate number of Zhongyu Shares held by such nominee for such beneficial owners who are accepting the Share Offer.
- (h) Acceptance of the Convertible Bond Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror and MCSL that the amount of Convertible Bonds in respect of which it is indicated in the **YELLOW** Form of Acceptance is the aggregate amount of Convertible Bonds held by such nominee for such beneficial owners who are accepting the Convertible Bond Offer.
- (i) Acceptance of the Option Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror and MCSL that the number of Share Options in respect of which it is indicated in the **PINK** Form of Acceptance is the aggregate number of Share Options held by such nominee for such beneficial owners who are accepting the Option Offer.
- (j) References to the Offers in this Offer Document and in the Forms of Acceptance shall include any revision and/or extension thereof.
- (k) The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Zhongyu Shareholders, Zhongyu Bondholders or Zhongyu Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about or obtain appropriate legal advice regarding the implications of the Share Offer, the Convertible Bond Offer and/or the Option Offer in the relevant jurisdictions and observe any applicable regulatory or legal requirements. It is the responsibility of any such persons who wish to accept the Offers to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities, regulatory or legal requirements and the payment of any transfer or cancellation or other taxes due in respect of such jurisdiction. Any such overseas Zhongyu Shareholder, Zhongyu Bondholder or Zhongyu Optionholder shall be fully responsible for the payment of any transfer or cancellation or other taxes and duties imposed by whomsoever payable in respect of that jurisdiction. The Offeror, China Gas, MCSL and any other person involved in the Offers shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay.
- (l) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person to the Offeror and MCSL and that such person is permitted under all applicable laws to receive and accept the Offers, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

- (m) All acceptances, instructions, authorities and undertakings given by Zhongyu Shareholders in the **WHITE** Form of Acceptance, by Zhongyu Bondholders in the **YELLOW** Form of Acceptance and by Zhongyu Optionholders in the **PINK** Form of Acceptance shall be irrevocable and unconditional except as permitted under the Takeovers Code.
- (n) Zhongyu Shares or Convertible Bonds, as the case may be, sold to the Offeror by way of the Share Offer and/or the Convertible Bond Offer will be registered under the name of the Offeror or its nominee.
- (o) Subject to the terms of the Takeovers Code, acceptance(s) of the Share Offer and Convertible Bond Offer, as the case may be, may, at the discretion of the Offeror, be treated as valid even if it is not entirely in order or is not accompanied by the relevant Zhongyu Share certificate(s) and/or Convertible Bond certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), but, in such cases, the consideration due will not be despatched until the Zhongyu Share certificate(s) and/or Convertible Bond certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) has/have been received by the Receiving Agent. **However, such acceptances will not be counted towards fulfilling the acceptance condition unless Rule 30.2 of the Takeovers Code has been fully complied with.**
- (p) The English text of this Offer Document and the Forms of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 MARCH 2007, 2008 AND 2009**

The following is a summary of the audited consolidated financial information of China Gas Group for each of the three years ended 31 March 2007, 2008 and 2009 as extracted from the annual reports of China Gas:

**Results**

	<b>Year ended 31 March</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>	<i>HK\$'000</i> <i>(Restated)</i>
Revenue	6,323,823	2,552,075	1,236,469
Profit before taxation	205,431	201,349	249,906
Taxation	<u>(71,472)</u>	<u>(13,778)</u>	<u>(13,657)</u>
Profit for the year	<u><u>133,959</u></u>	<u><u>187,571</u></u>	<u><u>236,249</u></u>
Attributable to:			
Equity holders of China Gas	103,679	141,059	200,789
Minority interests	<u>30,280</u>	<u>46,512</u>	<u>35,460</u>
	<u><u>133,959</u></u>	<u><u>187,571</u></u>	<u><u>236,249</u></u>
Dividends paid	<u><u>39,997</u></u>	<u><u>38,619</u></u>	<u><u>29,237</u></u>
Dividends per share	<u><u>HK1.40 cents</u></u>	<u><u>HK1.20 cents</u></u>	<u><u>HK1.20 cents</u></u>
Earnings per share			
Basic	<u><u>HK3.11 cents</u></u>	<u><u>HK4.39 cents</u></u>	<u><u>HK6.70 cents</u></u>
Diluted	<u><u>HK2.93 cents</u></u>	<u><u>HK3.85 cents</u></u>	<u><u>HK5.85 cents</u></u>

**Assets, liabilities and minority interests**

	<b>As at 31 March</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>	<i>HK\$'000</i> <i>(Restated)</i>
Total assets	18,086,766	11,306,127	7,308,847
Total liabilities	14,069,495	7,620,120	4,616,042
Equity attributable to equity			
holders of China Gas	3,223,270	3,140,572	2,358,587
Minority interests	794,001	545,435	334,256

*None of the audited financial statements of China Gas Group for the three years ended 31 March 2009 was qualified by Deloitte Touche Tohmatsu, Certified Public Accountants.*

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHINA GAS GROUP FOR EACH OF THE TWO YEARS ENDED 31 MARCH 2008 AND 2009**

The following is extracted the text of the audited financial statements of China Gas Group together with the accompanying notes contained on pages 3 to 108 of the annual report for China Gas for the year ended 31 March 2009.

**Consolidated Income Statement**

*For The Year Ended 31 March 2009*

	<i>Note</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i> (Restated)
Revenue	7	6,323,823	2,552,075
Cost of sales		<u>(4,894,474)</u>	<u>(1,805,956)</u>
Gross profit		1,429,349	746,119
Other income	9	225,756	188,726
Distribution costs		(330,414)	(110,296)
Administrative expenses		(468,475)	(342,556)
Change in fair value of investment properties		5,726	85,825
Change in fair value of held-for-trading investments		(23,843)	(1,232)
Impairment loss recognised on available-for-sale investments		(14,947)	–
Impairment loss on amounts due from customers for contract work		(36,864)	(79,623)
Allowance for trade and other receivables		(53,883)	(57,190)
Finance costs	10	(409,800)	(240,029)
Change in fair value of derivative financial instruments	30	(366,320)	(166,884)
Discounts on acquisition of an associate, a jointly controlled entity and business	11	236,262	40,476
Share of results of associates	20	<u>12,884</u>	<u>138,013</u>
Profit before taxation		205,431	201,349
Taxation	12	<u>(71,472)</u>	<u>(13,778)</u>
Profit for the year	13	<u><u>133,959</u></u>	<u><u>187,571</u></u>
Attributable to:			
Equity holders of China Gas		103,679	141,059
Minority interests		<u>30,280</u>	<u>46,512</u>
		<u><u>133,959</u></u>	<u><u>187,571</u></u>
Dividends paid	15	<u><u>39,997</u></u>	<u><u>38,619</u></u>
Earnings per share	16		
Basic		<u><u>HK3.11 cents</u></u>	<u><u>HK4.39 cents</u></u>
Diluted		<u><u>HK2.93 cents</u></u>	<u><u>HK3.85 cents</u></u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**


---

**Consolidated Balance Sheet**
*At 31 March 2009*

	<i>Note</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i> (Restated)
Non-current assets			
Investment properties	<i>17</i>	295,127	219,100
Property, plant and equipment	<i>18</i>	9,239,775	5,566,276
Prepaid lease payments	<i>19</i>	869,075	397,301
Interests in associates	<i>20</i>	1,006,332	214,291
Available-for-sale investments	<i>22</i>	41,995	18,376
Goodwill	<i>23</i>	633,620	429,422
Other intangible assets	<i>24</i>	320,297	318,821
Deposits for acquisition of property, plant and equipment		276,197	128,492
Prepayment for acquisition of a subsidiary and an associate	<i>44(i)</i>	63,218	566,988
Loan receivable	<i>26</i>	–	15,000
Amounts due from associates	<i>31</i>	68,966	–
Deferred tax assets	<i>39</i>	56,890	34,203
		<u>12,871,492</u>	<u>7,908,270</u>
Current assets			
Inventories	<i>27</i>	540,898	285,530
Amounts due from customers for contract work	<i>28</i>	219,993	283,426
Trade and other receivables	<i>29</i>	1,285,698	935,715
Derivative financial instruments	<i>30</i>	1,261	10,976
Amounts due from associates	<i>31</i>	243,250	158,617
Prepaid lease payments	<i>19</i>	16,173	6,878
Held-for-trading investments	<i>32</i>	11,544	42,074
Pledged bank deposits	<i>33</i>	847,759	164,597
Bank balances and cash	<i>33</i>	2,048,698	1,510,044
		<u>5,215,274</u>	<u>3,397,857</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**


---

		<b>2009</b>	<b>2008</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
<b>Current liabilities</b>			
Trade and other payables	34	2,603,313	1,348,652
Derivative financial instruments	30	782	4,264
Amounts due to customers for contract work	28	121,743	12,247
Taxation		51,733	15,072
Bank and other borrowings – due within one year	35	3,103,855	157,061
Convertible bonds	38	–	14,334
		<u>5,881,426</u>	<u>1,551,630</u>
Net current (liabilities) assets		<u>(666,152)</u>	<u>1,846,227</u>
Total assets less current liabilities		<u><u>12,205,340</u></u>	<u><u>9,754,497</u></u>
<b>Equity</b>			
Share capital	36	33,336	33,314
Reserves		<u>3,189,934</u>	<u>3,107,258</u>
Equity attributable to equity holders of China Gas		3,223,270	3,140,572
Minority interests		<u>794,001</u>	<u>545,435</u>
Total equity		<u>4,017,271</u>	<u>3,686,007</u>
<b>Non-current liabilities</b>			
Derivative financial instruments	30	360,087	–
Amount due to a minority shareholder of a subsidiary	37	356,591	339,092
Bank and other borrowings – due after one year	35	7,194,067	5,624,454
Convertible bonds	38	14,823	–
Deferred taxation	39	<u>262,501</u>	<u>104,944</u>
		<u>8,188,069</u>	<u>6,068,490</u>
		<u><u>12,205,340</u></u>	<u><u>9,754,497</u></u>

**Consolidated Statement Of Changes In Equity***For The Year Ended 31 March 2009*

	Attributable to equity holders of China Gas											
	Share capital HK\$'000	Share premium HK\$'000	Employee share-based reserve HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Properties revaluation reserve HK\$'000	Special reserve HK\$'000	Statutory funds HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 April 2007	30,962	1,442,638	42,875	119,592	(7,899)	1,601	1,602	15,621	711,557	2,358,549	334,256	2,692,805
Increase in fair value of available-for-sale investments	-	-	-	-	591	-	-	-	-	591	-	591
Exchange gain on translation	-	-	-	164,098	-	-	-	-	-	164,098	35,159	199,257
Net income recognised directly in equity	-	-	-	164,098	591	-	-	-	-	164,689	35,159	199,848
Release upon disposal of available-for-sale investments	-	-	-	-	(1,144)	-	-	-	-	(1,144)	-	(1,144)
Profit for the year	-	-	-	-	-	-	-	-	141,059	141,059	46,512	187,571
Total recognised income for the year	-	-	-	164,098	(553)	-	-	-	141,059	304,604	81,671	386,275
Recognition of equity-settled share based payments	-	-	6,458	-	-	-	-	-	-	6,458	-	6,458
Exercise of share options	570	41,140	-	-	-	-	-	-	-	41,710	-	41,710
Exercise of subscription rights	70	7,826	-	-	-	-	-	-	-	7,896	-	7,896
Conversion of convertible bonds	1,712	458,262	-	-	-	-	-	-	-	459,974	-	459,974
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	82,391	82,391
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	91,815	91,815
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(429)	(429)
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	-	(44,269)	(44,269)
Dividends paid	-	-	-	-	-	-	-	-	(38,619)	(38,619)	-	(38,619)
Transfer	-	-	-	-	-	-	-	62,073	(62,073)	-	-	-
At 31 March 2008, as restated	33,314	1,949,866	49,333	283,690	(8,452)	1,601	1,602	77,694	751,924	3,140,572	545,435	3,686,007

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

	Attributable to equity holders of China Gas											
	Share capital HK\$'000	Share premium HK\$'000	Employee share-based compensation reserve HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Properties revaluation reserve HK\$'000	Special reserve HK\$'000	Statutory funds HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 April 2008, as restated	33,314	1,949,866	49,333	283,690	(8,452)	1,601	1,602	77,694	751,924	3,140,572	545,435	3,686,007
Decrease in fair value of available-for-sale investments	-	-	-	-	(6,495)	-	-	-	-	(6,495)	-	(6,495)
Impairment loss recognised on available-for-sale investments	-	-	-	-	14,947	-	-	-	-	14,947	-	14,947
Exchange gain on translation	-	-	-	1,863	-	-	-	-	-	1,863	11,130	12,993
Net income recognised directly in equity	-	-	-	1,863	8,452	-	-	-	-	10,315	11,130	21,445
Profit for the year	-	-	-	-	-	-	-	-	103,679	103,679	30,280	133,959
Total recognised income for the year	-	-	-	1,863	8,452	-	-	-	103,679	113,994	41,410	155,404
Recognition of equity-settled share based payments	-	-	6,981	-	-	-	-	-	-	6,981	-	6,981
Exercise of share options	22	1,698	-	-	-	-	-	-	-	1,720	-	1,720
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	240,042	240,042
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	14,175	14,175
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	-	(47,061)	(47,061)
Dividends paid	-	-	-	-	-	-	-	-	(39,997)	(39,997)	-	(39,997)
Transfer	-	-	-	-	-	-	-	34,216	(34,216)	-	-	-
At 31 March 2009	<u>33,336</u>	<u>1,951,564</u>	<u>56,314</u>	<u>285,553</u>	<u>-</u>	<u>1,601</u>	<u>1,602</u>	<u>111,910</u>	<u>781,390</u>	<u>3,223,270</u>	<u>794,001</u>	<u>4,017,271</u>

*Note:* The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of China Gas's shares issued for the acquisition at the time of the group reorganisation prior to the listing of China Gas's shares in 1995.

The statutory funds are reserves required by the relevant laws of the People's Republic of China, other than Hong Kong (the "PRC"), applicable to China Gas's PRC subsidiaries.

**Consolidated Cash Flow Statement***For The Year Ended 31 March 2009*

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i> (Restated)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	205,431	201,349
Adjustments for:		
Change in fair value of investment properties	(5,726)	(85,825)
Net gain on disposal of available-for-sale investments	–	(1,144)
Impairment loss recognised on available-for-sale investments	14,947	–
Impairment loss on amounts due from customers for contract work	36,864	79,623
Allowance for trade and other receivables	53,883	57,190
Depreciation of property, plant and equipment	333,914	189,383
Release of prepaid lease payments	20,614	8,401
Amortisation of intangible assets	12,685	7,936
Loss on disposal of property, plant and equipment	27,564	8,253
Interest expense	409,800	240,029
Share of results of associates	(12,884)	(138,013)
Discount on acquisition of additional interest in a subsidiary	–	(108)
Discounts on acquisition of an associate, a jointly controlled entity and business	(236,262)	(40,476)
Share-based payments	6,981	6,458
Interest income	(59,290)	(54,712)
Change in fair value of derivative financial instruments	366,320	166,884
Net exchange gain	(63,366)	–
Operating cash flows before movements in working capital	1,111,475	645,228
Decrease (increase) in inventories	55,114	(113,670)
Decrease in amounts due from customers contract work	26,668	108,642
Decrease (increase) in trade and other receivables	142,284	(175,949)
Decrease in held-for-trading investments	23,843	15,767
(Decrease) increase in trade and other payables	(379,170)	177,576
Increase in amounts due to customers for contract work	105,720	6,526
Cash from operations	1,085,934	664,120
PRC Enterprise Income Tax paid	(62,553)	(32,472)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>1,023,381</b>	<b>631,648</b>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**


---

	<i>Note</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i> (Restated)
<b>INVESTING ACTIVITIES</b>			
Interest received		59,290	54,712
Repayment of loan receivable		15,000	–
Increase in amounts due from associates		(58,915)	(119,523)
Deposits paid for acquisition of property, plant and equipment		(277,606)	(128,492)
Decrease (increase) in pledged bank deposits		33,530	(135,180)
Purchase of additional interest in a subsidiary		–	(321)
Addition of property, plant and equipment		(1,423,094)	(1,093,762)
Addition of prepaid lease payments		(40,075)	(95,206)
Proceeds from disposal of property, plant and equipment		1,536	4,486
Acquisition of assets in subsidiaries, net of cash and cash equivalents acquired	<i>40</i>	(28,358)	1,641
Acquisition of jointly controlled entities, net of cash and cash equivalents acquired	<i>41</i>	(20,042)	(88,923)
Acquisition of businesses, net of cash and cash equivalents acquired	<i>42</i>	(241,485)	(532,668)
Acquisition of an associate		(3,301)	–
Capital injection into a jointly controlled entity		–	(157,965)
Prepayment for acquisition of a subsidiary and an associate		–	(286,733)
Proceeds from disposal of available-for-sale investments		–	5,570
		<u>–</u>	<u>5,570</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(1,983,520)</u>	<u>(2,572,364)</u>
<b>FINANCING ACTIVITIES</b>			
Interest paid		(360,066)	(238,790)
Proceeds from issue of ordinary shares		1,720	49,606
Dividends paid		(39,997)	(38,619)
New bank and other borrowings raised		3,894,133	2,944,169
Repayments of bank and other borrowings		(2,015,180)	(906,875)
Advance from (repayments to) a minority shareholder of a subsidiary		5,806	(6,716)
Capital contribution from minority interests of subsidiaries		14,175	91,815
Dividend paid by subsidiaries to its minority shareholders		(47,061)	(44,269)
		<u>(47,061)</u>	<u>(44,269)</u>
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<u>1,453,530</u>	<u>1,850,321</u>

---

**APPENDIX II            FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i> (Restated)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	493,391	(90,395)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,510,044	1,482,930
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>45,263</u>	<u>117,509</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>2,048,698</u></u>	<u><u>1,510,044</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u><u>2,048,698</u></u>	<u><u>1,510,044</u></u>

**Notes to the Consolidated Financial Statements**

*For The Year Ended 31 March 2009*

**1. GENERAL**

China Gas is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office and principal place of business are disclosed in the section headed “Corporate Information” of the Group’s annual report.

China Gas acts as an investment holding company. The activities of its principal subsidiaries are set out note 50.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and the functional currency of China Gas and its subsidiaries is Renminbi (“RMB”). As China Gas is a listed entity in Hong Kong, the directors consider that it is appropriate to present the consolidated financial statements in HK\$.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)**

In the current year, the Group has applied the following amendments and interpretations (“New HKFRSS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective for the Group’s financial year beginning 1 April 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these New HKFRSSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

HKFRSS (Amendments)	Improvements to HKFRSS 2008 <sup>1</sup>
HKFRSS (Amendments)	Improvements to HKFRSS 2009 <sup>2</sup>
HKAS 1 (Revised)	Presentation of financial statements <sup>3</sup>
HKAS 23 (Revised)	Borrowing costs <sup>3</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>4</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>3</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>4</sup>
HKFRS 1	First-time adoption of financial reporting standards <sup>4</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate <sup>3</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>4</sup>

---

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

---

HKFRS 7 (Amendment)	Improving disclosures about financial instruments <sup>3</sup>
HKFRS 8	Operating segments <sup>3</sup>
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives <sup>5</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>6</sup>
HK(IFRIC) – INT 15	Agreements for the construction of real estate <sup>3</sup>
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation <sup>7</sup>
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners <sup>4</sup>
HK(IFRIC) – INT 18	Transfer of assets from customers <sup>8</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for accounting periods beginning on or after 1 July 2009.

<sup>2</sup> Effective for accounting periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for accounting periods beginning on or after 1 January 2009.

<sup>4</sup> Effective for accounting periods beginning on or after 1 July 2009.

<sup>5</sup> Effective for accounting periods ending on or after 30 June 2009.

<sup>6</sup> Effective for accounting periods beginning on or after 1 July 2008.

<sup>7</sup> Effective for accounting periods beginning on or after 1 October 2008.

<sup>8</sup> Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of China Gas are still assessing the potential impact of the above new and revised standards and have not yet quantified the potential impact.

### 3. 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 investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of China Gas and entities controlled by China Gas (its subsidiaries). Control is achieved where China Gas 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 income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### **Acquisition of additional interest in a subsidiary**

On acquisition of additional interest in a subsidiary, goodwill is calculated as the difference between the consideration paid for the additional interest and the carrying amount of the net assets of the businesses attributable to the additional interest acquired. If the Group's additional interest in the net assets of the subsidiaries exceeds the consideration paid for the additional interest, the excess is recognised as income in the consolidated income statement.

#### **Business combinations**

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

#### **Goodwill**

##### ***Capitalised goodwill arising on acquisitions prior to 1 April 2005***

Goodwill arising on an acquisition of net assets or businesses or a jointly controlled entity for which the agreement date is before 1 April 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations another entity or a jointly controlled entity before 1 April 2005, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

*Capitalised goodwill arising on acquisitions on or after 1 April 2005*

Goodwill arising on the acquisition of a business or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

On acquisition of additional interest in businesses, the excess of the fair value of the consideration over the carrying values of the underlying assets and liabilities attributable to the additional interest in businesses acquired by the Group are recognised as goodwill.

Capitalised goodwill arising on an acquisition of a business or a jointly controlled entity is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in a subsequent periods.

On subsequent disposal of a business or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**Interests in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part 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.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**Investments in jointly controlled entities**

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business (see above).

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.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Construction contract revenue from gas connection contracts is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Construction contract 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 construction contract for gas connection contracts cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable to be recoverable.

Revenue from sales of natural gas, liquefied petroleum gas ("LPG"), coke and gas appliances are recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Property, plant and equipment**

Property, plant and equipment, which include land and buildings held for use in the production or supply of goods and services or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising from derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item and is included in the consolidated income statement in the year in which the item is derecognised.

### **Construction in progress**

Construction in progress represents property, plant and equipment in the course of construction for production or for the Group's own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

### **Investment properties**

Investment properties are properties held to earn rentals or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

### ***Leasehold land held for undetermined future use***

Leasehold land held for undetermined future use is regarded as held for capital appreciation purpose and classified as an investment property, and carried at fair value. Changes in fair value of the leasehold land are recognised directly in profit or loss for the period in which changes take place.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

### **Intangible assets**

#### ***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are identified and recognised separately from goodwill when they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

**Construction contracts**

Where the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by reference to the value of work carried out during the year to estimated total costs for the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expense in the period in which they are incurred.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount 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 an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

**Inventories**

Inventories, including construction materials, gas appliances and gas for sales, LPG, coke, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

**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 the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as reduction of rental expense over the lease term on a straight-line basis.

**Leasehold land and building**

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme (“MPF Scheme”) and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

**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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction on production of qualifying assets, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when 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 profit or loss in the period in which they are incurred.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet 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.

#### ***Financial assets***

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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.

#### ***Financial assets at fair value through profit or loss***

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including loan receivable, amounts due from associates, trade and other receivables, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loan and receivable, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

#### *Impairment of financial assets*

Financial assets, other than those classified as held-for-trading, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

#### *Financial liabilities*

Financial liabilities including trade and other payables, amount due to a minority shareholder of a subsidiary, bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

#### *Convertible bonds that contain liability component and conversion/redemption option derivatives*

Convertible bonds issued by the Group that contain liability and conversion/redemption option derivatives components are classified separately into respective items on initial recognition. Conversion option derivatives that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of China Gas's own equity instruments is a conversion option derivative. The redemption option derivatives represent the redemption at the option of the bond holders before the maturity date. At the date of issue, both the liability and conversion/redemption option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion/redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion/redemption option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion/redemption option derivatives is charged to profit and loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

#### *Equity instruments*

Equity instruments issued by China Gas are recorded at the proceeds received, net of direct issue costs.

#### *Derivative financial instruments*

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

#### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts (the liability component) and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the combined contract is treated as held-for-trading.

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Equity settled share-based payment transactions**

##### *Share options granted to employees of China Gas after 7 November 2002 and vested on or after 1 January 2005*

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 (employee share-based compensation reserve).

At each balance sheet date, 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, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

*Share options granted to employees on or before 7 November 2002 or vested after 7 November 2002 and vested before 1 January 2005*

The financial impact of the share options granted and fully vested before 1 April 2005 is not recorded in China Gas's or the Group's financial statements until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by China Gas as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by China Gas in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

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

At each balance sheet date, 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. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

**4. RESTATEMENTS**

During the year ended 31 March 2008, the Group acquired a jointly controlled entity and business of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year, the Group made certain fair value adjustments, with reference to the valuation reports, to the carrying amounts of the identifiable assets and liabilities of the jointly controlled entity and business acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been completed on the acquisition date.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

The cumulative effects of the above restatements on the consolidated balance sheet as at 31 March 2008 are summarised below:

	Subsequent fair value adjustments on				As at 31 March 2008 HK\$'000 (restated)
	Establishment As at 31 March 2008 HK\$'000 (originally stated)	of a jointly controlled entity (note 41(ii)) HK\$'000	Acquisition of business (note 42(vi)) HK\$'000	Total HK\$'000	
Goodwill	418,247	–	11,175	11,175	429,422
Other intangible assets	319,658	28,380	(29,217)	(837)	318,821
Deferred taxation	(105,153)	(7,095)	7,304	209	(104,944)
Other assets and liabilities	<u>3,042,708</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,042,708</u>
Net assets	<u><u>3,675,460</u></u>	<u><u>21,285</u></u>	<u><u>(10,738)</u></u>	<u><u>10,547</u></u>	<u><u>3,686,007</u></u>
Minority interests	556,173	–	(10,738)	(10,738)	545,435
Other reserves items	2,388,648	–	–	–	2,388,648
Retained earnings	<u>730,639</u>	<u>21,285</u>	<u>–</u>	<u>21,285</u>	<u>751,924</u>
	<u><u>3,675,460</u></u>	<u><u>21,285</u></u>	<u><u>(10,738)</u></u>	<u><u>10,547</u></u>	<u><u>3,686,007</u></u>

The effects of above restatements on the results for the current and prior year are as follows:

	2009 HK\$'000	2008 HK\$'000
Increase in discount on acquisition of a jointly controlled entity	–	21,285
Increase in amortisation of intangible assets	(28)	–
Decrease in taxation	<u>7</u>	<u>–</u>
(Decrease) increase in profit for the year	<u><u>(21)</u></u>	<u><u>21,285</u></u>
Attributable to:		
Equity holders of China Gas	<u><u>(21)</u></u>	<u><u>21,285</u></u>
Increase in basic earnings per share	<u><u>–</u></u>	<u><u>HK0.66 cents</u></u>
Increase in diluted earnings per share	<u><u>–</u></u>	<u><u>HK0.60 cents</u></u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

Analysis of (decrease) increase in profit of the year by line item presented according to their functions:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Increase in cost of sales	(28)	–
Increase in discount on acquisition of a jointly controlled entity	–	21,285
Decrease in taxation	<u>7</u>	<u>–</u>
(Decrease) increase in profit for the year	<u><u>(21)</u></u>	<u><u>21,285</u></u>

#### **5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

##### **Fair value of derivative financial instruments**

The management of the Group uses their judgments in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and convertible bonds with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

##### **Impairment of goodwill**

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 present value. When the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at 31 March 2009 was HK\$633,620,000 (2008: HK\$429,422,000) with no impairment loss recognised. Details of the value in use calculation are set out in note 25.

##### **Impairment of intangible assets**

At the balance sheet date, management reconsidered the recoverability of its intangible assets arising from the acquisitions of businesses/assets, in which the carrying amount at 31 March 2009 was HK\$320,297,000 (2008: HK\$318,821,000). The business of the cash generating unit (“CGU”) continues to progress in a satisfactory manner. Detailed valuation analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored. Any change in the business environment may lead to the change of expected future cashflows in the future. If the future recoverable amounts falls below the carrying amounts, additional impairment is required.

##### **Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change.

**Impairment on amounts due from customers for contract work**

At each balance sheet date, management reconsidered the recoverability of its amounts due from customers for contract work based on its assessment of the likelihood of ultimately collecting the amounts from its customers. In determining whether impairment is required, the Group takes into consideration of the construction in progress and the progress payments received from its customers. Impairment is recognised for those contracts that may not be honored by the customers and the balance may not be collectible. During the year, the Group has recognised impairment loss on amounts due from customers for contract work of HK\$36,864,000 (2008: HK\$79,623,000). If more customers fail to honor the terms of agreement than expected, additional impairment is required.

**Estimated allowance of trade and other receivables**

The Group makes allowance of trade and other receivables based on an assessment of the recoverability of receivables. Allowance is applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance 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 doubtful debt expenses in the periods in which such estimate has been changed.

**Deferred taxation**

As at 31 March 2009, the Group has unused tax losses of HK\$846,411,000 (2008: HK\$520,802,000) available for offset against future profits. No deferred tax asset in relation to these unused tax losses has been recognised in the Group's balance sheet due to uncertainty of future profit streams. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the income statement for the period in which such future profits are recorded.

**Revenue recognition of gas connection contract**

Construction revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total costs. Accordingly, any changes to the estimated total cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

**6. FINANCIAL INSTRUMENTS****Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the bank and other borrowings, amount due to a minority shareholder of a subsidiary and convertible bonds disclosed in notes 35, 37 and 38 respectively, and equity attributable to equity holders of China Gas, comprising issued share capital disclosed in note 36, reserves and accumulated profits as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### Categories of financial instruments

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets		
Available-for-sale investments	41,995	18,376
Held-for-trading investments	11,544	42,074
Loans and receivables (including cash and cash equivalents)	4,120,309	2,371,312
Derivative financial assets	1,261	10,976
Financial liabilities		
Amortised cost	12,551,946	6,630,388
Derivative financial liabilities	360,869	4,264

### Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, loan receivable, amount due from an associate, trade and other receivables, derivative financial instruments, trade and other payables, amounts due from/to minority shareholders of subsidiaries, bank and other borrowings, pledged bank deposits and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Group on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risks

##### Currency risk

The Group collects most of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally and supply and demand of RMB. The appreciation or devaluation of RMB against foreign currencies may have positive or negative impact on the results of operations of the Group.

As at balance sheet date, the Group has convertible bonds, certain bank balances, trade payables and bank and other borrowings that are not denominated in functional currency of relevant group entities. The carrying amounts of the Group's monetary assets and liabilities that are denominated in foreign currency are as follows:

	Assets		Liabilities	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	373,531	51,408	3,448,881	1,928,087
HK\$	11,895	20,672	–	–
JPY	–	–	47,479	44,574
EUR	–	–	22,907	–
	–	–	–	–

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against respective foreign currencies and all other variables were held constant. 5% (2008: 5%) is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts its translation at the year end for a 5% (2008: 5%) change in foreign currencies rates. A positive number below indicates an increase in profit for the year where RMB strengthen 5% (2008: 5%) against the relevant foreign currency. For a 5% (2008: 5%) weakening of RMB against respective foreign currencies, there would be an equal and opposite impact on the profit for the year.

	<b>Increase in profit (loss) for the year</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
USD impact	153,768	93,834
HK\$ impact	(595)	(1,034)
JPY impact	2,374	2,229
EUR impact	1,145	–
	<u>156,692</u>	<u>95,029</u>

*Interest rate risks*

The Group manages its interest rate exposure based on interest rate level as well as potential impact on the Group's financial position arising from volatility. Interest rate swap is the hedging instrument most commonly used by the Group to manage interest rate exposure.

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings and the convertible bonds issued by the Group (see notes 35 and 38 for details of these borrowings and convertible bonds respectively). In relation to the fixed-rate bank and other borrowings, the Group entered into interest rate swaps to manage its exposures to changes in fair values of the bank and other borrowings. These hedging activities do not qualify for hedge accounting. The changes in fair value of the interest rate swaps are recognised in the profit and loss as they arise.

The Group's cash flow interest rate risk primarily relates to variable-rate bank and other borrowings (see note 35 for details of these borrowings). It is the Group's policy to keep its bank and other borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rate risk for both floating-rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress at the balance sheet date. A change of 100 basis points (2008: 100 basis points) was applied to the yield curves and interest rate on both floating-rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress. The applied change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If the interest rate of variable rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress had been 100 basis points (2008: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year, after taking amount of interest capitalised, would increase/decrease by HK\$192,710,000 (2008: HK\$40,247,000).

*Equity price risk*

The Group's available-for-sale investments and held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to equity price risks of listed equity instrument at the reporting date. A 10% (2008: 10%) change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

For the year ended 31 March 2009, if the market bid prices of the listed investments had been 10% (2008: 10%) higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK\$1,681,000 (2008: HK\$4,207,000) and the Group's investment revaluation reserve will increase/decrease by HK\$nil (2008: HK\$1,177,000) respectively. This is mainly attributable to the changes in fair values of the listed investments held for trading and available-for-sale investments respectively.

*Credit risk*

As at 31 March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

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 balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of China Gas consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on amount due from an associate, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In order to minimise the credit risk on amount due from an associate, the directors of China Gas closely monitors the subsequent settlement and does not grant long credit period to the counterparty. In this regard, the directors of China Gas consider that the Group's credit risk is significant reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are reputable banks in the PRC and banks with high credit-ratings assigned by international credit-rating agencies.

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration of aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

*Liquidity risk*

The Group has net current liabilities of HK\$666,152,000 as at 31 March 2009. The consolidated financial statements have been prepared on a going concern basis because the directors believed that the Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations, the utilisation of the available unutilised long-term bank loans facilities. As at 31 March 2009, the Group had available unutilised long-term bank loans facilities of HK\$12,914,680,000 (2008: HK\$11,558,687,000). Details of the Group's bank and other borrowings at 31 March 2009 are set out in note 35.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition to issuance of new shares and convertible bonds, the Group also relies on bank and other borrowings as a significant source of liquidity. The management monitors the utilisation of bank and other borrowings.

*Liquidity tables*

For non-derivative financial liabilities, the following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have 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 tables include both interest and principal cash flows.

	Weighted average contractual interest rate %	Payable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at balance sheet date HK\$'000
At 31 March 2009									
Trade and bill payables	N/A	-	304,908	907,030	299,291	-	-	1,511,229	1,511,229
Other payables	N/A	-	131,934	96,610	43,092	-	-	271,636	271,636
Amounts due to minority shareholders of subsidiaries	N/A	99,745	-	-	-	-	-	99,745	99,745
Bank and other borrowings									
- fixed rate	5.99%	-	-	-	2,942,472	2,066,739	3,699,403	8,708,614	7,392,080
- floating rate	6.60%	-	-	-	73,041	582,282	3,151,564	3,806,887	2,905,842
Convertible bonds	4.5%	-	-	-	-	16,157	-	16,157	14,823
Amount due to a minority shareholder of a subsidiary	2%	-	-	-	-	392,250	-	392,250	356,591
		<u>99,745</u>	<u>436,842</u>	<u>1,003,640</u>	<u>3,357,896</u>	<u>3,057,428</u>	<u>6,850,967</u>	<u>14,806,518</u>	<u>12,551,946</u>
At 31 March 2008									
Trade and bill payables	N/A	-	94,110	186,476	79,082	-	-	359,668	359,668
Other payables	N/A	-	26,587	55,246	29,388	-	-	111,221	111,221
Amounts due to minority shareholders of subsidiaries	N/A	24,558	-	-	-	-	-	24,558	24,558
Bank and other borrowings									
- fixed rate	4.97%	-	-	-	164,867	1,617,391	4,589,340	6,371,598	4,714,191
- floating rate	6.48%	-	-	-	-	287,894	1,116,533	1,404,427	1,067,324
Convertible bonds	4.5%	-	-	-	-	16,198	-	16,198	14,334
Amount due to a minority shareholder of a subsidiary	2%	-	-	-	-	373,001	-	373,001	339,092
		<u>24,558</u>	<u>120,697</u>	<u>241,722</u>	<u>273,337</u>	<u>2,294,484</u>	<u>5,705,873</u>	<u>8,660,671</u>	<u>6,630,388</u>

**Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of interest rate range accrual swaps as set out in note 30, are calculated using discounted cash flow analysis based on the application yield curve derived from quoted interest rates and quoted spot and forward foreign exchange rates. For an option-based derivative embedded in convertible bonds, the fair value is estimated using option pricing model.

The directors of China Gas consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

**7. REVENUE**

Revenue mainly represents, the net amounts received and receivable for sales of piped gas, LPG and coke and gas appliances and construction contract revenue from gas connection contracts by the Group for the year and is analysed as follows:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of piped gas	2,678,377	1,691,159
Gas connection income	1,127,403	615,282
Sales of LPG	2,272,173	–
Sales of coke and gas appliances	244,086	244,146
Others	1,784	1,488
	<u>6,323,823</u>	<u>2,552,075</u>

**8. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**Business segments**

For management purposes, the Group is currently mainly organised into four operating divisions – sales of piped gas, gas connection income, sales of LPG and sales of coke and gas appliances. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

**2009**

	Sales of piped gas HK\$'000	Gas connection HK\$'000	Sales of LPG HK\$'000	Sales of coke and gas appliances HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>	<u>2,678,377</u>	<u>1,127,403</u>	<u>2,272,173</u>	<u>244,086</u>	<u>1,784</u>	<u>6,323,823</u>
<b>SEGMENT RESULT</b>	<u>438,727</u>	<u>310,578</u>	<u>(3,992)</u>	<u>5,415</u>	<u>5,306</u>	756,034
Unallocated corporate revenue						125,586
Unallocated corporate expenses						(149,215)
Finance costs						(409,800)
Change in fair value of derivative financial instruments						(366,320)
Discount on acquisition of a jointly controlled entity	8,860	-	-	-	-	8,860
Discount on acquisition of an associate						227,402
Share of results of associates						12,884
Profit before taxation						205,431
Taxation						(71,472)
Profit for the year						<u>133,959</u>
<b>ASSETS</b>						
Segment assets	9,423,016	776,330	3,033,345	37,000	295,127	13,564,818
Interests in associates						1,006,332
Unallocated corporate assets						3,515,616
Consolidated total assets						<u>18,086,766</u>
<b>LIABILITIES</b>						
Segment liabilities	279,459	1,132,019	844,799	54,949	-	2,311,226
Unallocated corporate liabilities						11,758,269
Consolidated total liabilities						<u>14,069,495</u>
<b>OTHER INFORMATION</b>						
Additions to goodwill	53,688	-	150,510	-	-	<u>204,198</u>
Additions to intangible assets	14,161	-	-	-	-	<u>14,161</u>
Additions to property, plant and equipment	1,626,649	-	2,136,750	-	-	3,763,399
Additions to property, plant and equipment (unallocated)						2,980
						<u>3,766,379</u>
Loss on disposal of property, plant and equipment	27,499	-	65	-	-	<u>27,564</u>

2009

	Sales of piped gas HK\$'000	Gas connection HK\$'000	Sales of LPG HK\$'000	Sales of coke and gas appliances HK\$'000	Others	Consolidated HK\$'000
Amortisation of intangible assets	12,685	–	–	–	–	<u>12,685</u>
Release of prepaid lease payment	12,358	–	6,480	–	–	18,838
Release of prepaid lease payment (unallocated)						<u>1,776</u>
						<u>20,614</u>
Depreciation of property, plant and equipment	273,462	–	40,240	–	–	313,702
Depreciation of property, plant and equipment (unallocated)						<u>20,212</u>
						<u>333,914</u>
Impairment loss of amounts due from customers for contract work	–	36,864	–	–	–	<u>36,864</u>
Allowance for trade and other receivables	53,883	–	–	–	–	<u>53,883</u>
Change in fair value of investment properties	–	–	–	–	5,726	<u>5,726</u>
Impairment loss recognised on available-for-sale investments (unallocated)						<u>14,947</u>
Change in fair value of derivative financial instruments (unallocated)						<u>366,320</u>
Discounts on acquisition of an associate and a jointly controlled equity (unallocated)						<u>236,262</u>

2008 (restated)

	Sales of piped gas <i>HK\$'000</i>	Gas connection <i>HK\$'000</i>	Sales of coke and gas appliances <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>	<u>1,691,159</u>	<u>615,282</u>	<u>244,146</u>	<u>1,488</u>	<u>2,552,075</u>
<b>SEGMENT RESULT</b>	<u>223,018</u>	<u>111,071</u>	<u>5,844</u>	<u>84,957</u>	424,890
Unallocated corporate revenue					103,705
Unallocated corporate expenses					(98,822)
Finance costs					(240,029)
Change in fair value of derivative financial instruments					(166,884)
Discounts on acquisition of a jointly controlled entity and business	40,476	-	-	-	40,476
Share of results of associates					<u>138,013</u>
Profit before taxation					201,349
Taxation					<u>(13,778)</u>
Profit for the year					<u>187,571</u>
<b>ASSETS</b>					
Segment assets	7,944,293	911,895	42,772	279,749	9,178,709
Interests in associates					214,291
Unallocated corporate assets					<u>1,913,127</u>
Consolidated total assets					<u>11,306,127</u>
<b>LIABILITIES</b>					
Segment liabilities	810,262	326,801	82,246	100	1,219,409
Unallocated corporate liabilities					<u>6,400,711</u>
Consolidated total liabilities					<u>7,620,120</u>
<b>OTHER INFORMATION</b>					
Additions to goodwill	129,457	-	-	-	<u>129,457</u>
Additions to intangible assets	228,306	-	-	-	<u>228,306</u>
Additions to property, plant and equipment	2,309,216	-	-	-	2,309,216
Additions to property, plant and equipment (unallocated)					<u>15,905</u>
					<u>2,325,121</u>
Loss on disposal of property, plant and equipment	6,852	-	-	-	6,852
Loss on disposal of property, plant and equipment (unallocated)					<u>1,401</u>
					<u>8,253</u>

2008 (restated)

	Sales of piped gas <i>HK\$'000</i>	Gas connection <i>HK\$'000</i>	Sales of coke and gas appliances <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amortisation of intangible assets	7,936	-	-	-	<u>7,936</u>
Release of prepaid lease payment	8,035	-	-	-	8,035
Release of prepaid lease payment (unallocated)					<u>366</u>
					<u>8,401</u>
Depreciation of property, plant and equipment	182,525	-	-	-	182,525
Depreciation of property, plant and equipment (unallocated)					<u>6,858</u>
					<u>189,383</u>
Impairment loss on amounts due from customers for contract work	-	79,623	-	-	<u>79,623</u>
Allowance for trade and other receivables	57,190	-	-	-	<u>57,190</u>
Change in fair value of investment properties	-	-	-	85,825	<u>85,825</u>
Change in fair value of derivative financial instruments (unallocated)					<u>166,884</u>
Discounts on acquisition of a jointly controlled entity and business (unallocated)					<u>40,476</u>

**Geographical segments**

The Group's operations and the segment assets are mainly located in the PRC. Accordingly, no analysis of the Group's revenue and the carrying amount of segment assets by geographical segment is presented.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**9. OTHER INCOME**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	59,290	54,712
Subsidies from PRC governmental authorities:		
– compensation of loss incurred in coal gas operation ( <i>note a</i> )	11,059	12,192
– subsidy for replacement of pipelines for natural gas supply ( <i>note b</i> )	32,028	18,818
– tax refund ( <i>note c</i> )	3,637	5,583
Profit on sales of industrial materials	181	16,383
Repair and maintenance services fee	9,318	4,917
Other services income	14,211	–
Income from leasing of equipments	12,165	–
Foreign exchange gain	63,366	56,166
Net gain on disposal of available-for-sale investments	–	1,144
Discount on acquisition of additional interests in a subsidiary ( <i>note 40</i> )	–	108
Other	20,501	18,703
	<u>225,756</u>	<u>188,726</u>

*Notes:*

- (a) Pursuant to notice of compensation dated 28 August 2007 issued by the relevant government authority in the PRC, 撫順中燃城市發展有限公司 (“撫順中燃”), a subsidiary of China Gas, received a compensation from the government authority to subsidise for the increase in cost of sales of natural gas by reference to monthly purchase volume by 撫順中燃 for both years.
- (b) For the year ended 31 March 2009, 撫順中燃 received a subsidy of HK\$23,233,000 (2008: HK\$13,776,000) from 撫順市財政局 for the cost incurred for the setting up pipeline network for the customers in new urban areas and replacement of old pipeline network of the natural gas users in Fushun city. All the required work has been completed by 撫順中燃. In addition, 淮南中燃城市發展有限公司 (“淮南中燃”), a subsidiary of China Gas, was entitled to receive subsidies of HK\$8,795,000 for the year (2008: HK\$5,042,000) from 淮南市財政局 for its additional costs incurred in certain gas connection contracts in which the connection fee is fixed by the relevant government authority in the PRC. All the costs incurred were recognised as cost of sales in profit or loss during the year.
- (c) The PRC government authorities have granted a tax incentive to certain subsidiaries in the PRC by way of tax refund for natural gas business operated in the PRC.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**10. FINANCE COSTS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and other borrowings wholly repayable within five years	192,295	132,228
Bank loans and other borrowings not wholly repayable within five years	292,683	210,714
Convertible bonds ( <i>note 38</i> )	645	1,781
	<u>485,623</u>	<u>344,723</u>
Net interest expense (income) on interest rate swaps	23,649	(21,001)
Interest capitalised to construction in progress	(99,472)	(83,693)
	<u><u>409,800</u></u>	<u><u>240,029</u></u>

Borrowing costs capitalised as part of the cost of construction in progress during the year arose on the general borrowing pool and calculated by applying a capitalisation rate of 1.5% (2008: 1.9%) to expenditure on qualifying assets.

**11. DISCOUNTS ON ACQUISITION OF AN ASSOCIATE, A JOINTLY CONTROLLED ENTITY AND BUSINESS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)
Discount on acquisition of an associate ( <i>note 20</i> )	227,402	–
Discount on acquisition of a jointly controlled entity ( <i>note 41</i> )	8,860	21,285
Discount on acquisition of business ( <i>note 42</i> )	–	19,191
	<u>236,262</u>	<u>40,476</u>

**12. TAXATION**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC Enterprise Income Tax	98,696	31,755
Deferred taxation ( <i>note 39</i> )	(27,224)	(17,977)
	<u>71,472</u>	<u>13,778</u>

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit derived in Hong Kong for both years.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009.

Taxation arising in other jurisdictions in the PRC is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of China Gas are exempted from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC entities will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years ("Tax preference"). The reduced tax rate for the relief period is ranging from 7.5% to 16.5%. The charge of PRC Enterprise Income Tax for the years has been provided for after taking these tax incentives into account.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changes the PRC Enterprise Income Tax rate to 25% and takes affect for the PRC group entities of China Gas from 1 January 2008.

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

Entities that originally enjoy the Tax preference can continue enjoying the tax preference based on the original tax rate until after the expiration of the tax preference. Entities that did not start Tax preference before 2008 because they were still in loss position shall start the Tax preference from 2008.

The taxation for the year can be reconciled to the (loss) profit before taxation per the income statement as follows:

	Hong Kong		PRC		Total	
	2009	2008	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
(Loss) profit before taxation	<u>(587,991)</u>	<u>(280,778)</u>	<u>793,422</u>	<u>482,127</u>	<u>205,431</u>	<u>201,349</u>
Tax at the domestic income tax rate	(97,019)	(49,136)	198,356	159,102	101,337	109,966
Tax effect of share of profit of associates	-	-	(3,221)	(45,544)	(3,221)	(45,544)
Tax effect of expenses not deductible for tax purpose	65,884	26,971	25,858	2,619	91,742	29,590
Tax effect of income not taxable for tax purpose	(147)	(2,947)	(69,837)	(25,468)	(69,984)	(28,415)
Tax effect of estimated tax losses not recognised	31,282	25,112	34,094	16,851	65,376	41,963
Effect of tax exemption granted to certain PRC entities	-	-	(113,778)	(93,782)	(113,778)	(93,782)
Taxation	<u>-</u>	<u>-</u>	<u>71,472</u>	<u>13,778</u>	<u>71,472</u>	<u>13,778</u>

*Note:* The applicable tax rate for Hong Kong is 16.5% (2008: 17.5%). For the year ended 31 March 2009, applicable tax rate for the PRC is 25%. For the year ended 31 March 2008, the applicable tax rate for the PRC was 33% from 1 April 2007 to 31 December 2007 and tax rate of 25% from 1 January 2008 to 31 March 2008.

## 13. PROFIT FOR THE YEAR

	2009 HK\$'000	2008 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	5,500	3,620
Depreciation of property, plant and equipment	333,914	189,383
Release of prepaid lease payments	20,614	8,401
Amortisation of intangible assets included in cost of sales	12,685	7,936
Minimum lease payments for operating leases in respect of:		
– rented premises	19,037	9,994
– equipments	55,087	8,092
	74,124	18,086
Loss on disposal of property, plant and equipment	27,564	8,253
Share of tax of associates (included in share of results of associates)	2,286	21,101
Staff costs:		
Directors' emoluments ( <i>note 14</i> )	26,722	32,064
Salaries and allowances of other staff	300,697	176,689
Contributions to retirement benefit scheme contributions of other staff	58,449	37,451
Less: amount capitalised in construction in progress	(17,546)	(12,367)
	368,322	233,837
Cost of inventories recognised as expenses in respect of:		
Sales of piped gas	1,768,878	1,218,993
Sales of LPG	1,966,301	–
Contract costs recognised as expense in respect of gas connection construction contracts	269,215	155,874
Sales of coke and gas appliances	196,654	285,248
	4,201,048	1,660,115
Rental income from investment properties less outgoings of HK\$1,496,000 (2008: HK\$369,000)	(9,005)	(4,801)

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 14. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

#### Directors

The emoluments paid or payable to each of the directors were as follow:

	2009					Total emoluments HK\$'000
	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Performance related incentive payments HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits scheme HK\$'000	
Executive directors						
Mr. Li Xiao Yun	3,000	-	-	138	-	3,138
Mr. Xu Ying	-	7,188	2,395	-	12	9,595
Mr. Liu Ming Hui	-	7,188	4,791	-	12	11,991
Mr. Ma Jin Long	-	165	-	-	-	165
Mr. Zhu Wei Wei	-	628	-	-	12	640
Non-executive directors						
Mr. Feng Zhuo Zhi	120	-	-	-	-	120
Mr. Mark Gelinas*	120	-	-	-	-	120
Mr. R.K. Goel	30	-	-	-	-	30
Mr. Kim Joong Ho	83	-	-	-	-	83
Mr. Rackets William Hugh	-	-	-	-	-	-
Mr. Jo Yamagata	120	-	-	-	-	120
Independent non-executive directors						
Mr. Zhao Yu Hua	240	-	-	-	-	240
Dr. Mao Er Wan	240	-	-	-	-	240
Ms. Wong Sin Yue, Cynthia	240	-	-	-	-	240
	<u>4,193</u>	<u>15,169</u>	<u>7,186</u>	<u>138</u>	<u>36</u>	<u>26,722</u>

\* The director resigned on 20 March 2009.

	2008					Total emoluments HK\$'000
	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Performance related incentive payments HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits scheme HK\$'000	
Executive directors						
Mr. Li Xiao Yun	3,000	-	-	138	-	3,138
Mr. Xu Ying	-	7,188	4,402	-	12	11,602
Mr. Liu Ming Hui	-	7,188	8,204	-	12	15,404
Mr. Ma Jin Long	-	120	-	-	-	120
Mr. Zhu Wei Wei	-	588	-	-	12	600
Non-executive directors						
Mr. Feng Zhuo Zhi	120	-	-	-	-	120
Mr. Mark Gelinis	83	-	-	-	-	83
Mr. R.K. Goel	120	-	-	-	-	120
Mr. Jo Yamagata	120	-	-	-	-	120
Mr. Harrison Blacker	37	-	-	-	-	37
Independent non-executive directors						
Mr. Zhao Yu Hua	240	-	-	-	-	240
Dr. Mao Er Wan	240	-	-	-	-	240
Ms. Wong Sin Yue, Cynthia	240	-	-	-	-	240
	<u>4,200</u>	<u>15,084</u>	<u>12,606</u>	<u>138</u>	<u>36</u>	<u>32,064</u>

During both years, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

### Employees

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of China Gas whose emoluments are included in the disclosures above. The emoluments of the remaining two (2008: two) individuals were as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries and other benefits	10,845	10,782
Retirement benefit scheme contributions	<u>24</u>	<u>24</u>
	<u>10,869</u>	<u>10,806</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

Their emoluments were within the following bands:

	<b>2009</b>	<b>2008</b>
	No. of employee	No. of employee
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$7,500,001 to HK\$8,000,000	–	1
	<u>–</u>	<u>1</u>

**15. DIVIDENDS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend paid in respect of 2008 of HK\$0.012 (2008: HK\$0.012 in respect of 2007) per share	<u>39,997</u>	<u>38,619</u>

The final dividend in respect of 2009 of HK\$0.014 (2008: HK\$0.012) per share 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 ordinary equity holders of China Gas is based on the following data:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Earnings for the purpose of basic earnings per share, being profit for the year attributable to equity holders of China Gas	103,679	141,059
Adjustment for the effect of dilutive potential ordinary shares: Change in fair value of stock subscription option	<u>–</u>	<u>(5,400)</u>
Earnings for the purpose of diluted earnings per share	<u>103,679</u>	<u>135,659</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

	<b>2009</b>	<b>2008</b>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,333,233	3,209,579
Adjustment for effect of dilutive potential ordinary shares:		
Share options ( <i>note a</i> )	204,537	312,319
Stock subscription option ( <i>note b</i> )	–	751
Convertible bonds ( <i>note c</i> )	–	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,537,770</u>	<u>3,522,649</u>

*Notes:*

- (a) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has taken into account the effect of the options with dilutive effect.
- (b) Weighted average number of ordinary shares for the purpose of computation of diluted earnings per share has taken into account the effect of the potential issuance of shares upon exercise of the stock subscription option.
- (c) The computation of diluted earnings per share does not assume the conversion of convertible bonds for both years as the conversion would result in an increase in earnings per share.

**17. INVESTMENT PROPERTIES**

	<i>HK\$'000</i>
At 1 April 2007	133,275
Change in fair value	<hr/> 85,825
At 31 March 2008	219,100
Acquired on acquisition of business ( <i>note 42(i)</i> )	70,301
Change in fair value	<hr/> 5,726
At 31 March 2009	<u>295,127</u>

The Group's investment properties are analysed as follows:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held under medium term leases:		
– in Hong Kong	56,400	58,100
– in the PRC	<hr/> 238,727	<hr/> 161,000
	<u>295,127</u>	<u>219,100</u>

---

**APPENDIX II                      FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

The fair value of the Group's investment properties in Hong Kong at 31 March 2009 have been arrived at on the basis of a valuation carried out at these dates by Asset Appraisal Limited. The resulting deficit of HK\$1,700,000 (2008: surplus of HK\$9,000,000) was included in consolidated income statement. The valuation was arrived at by reference to comparable market transactions for similar properties.

The fair value of the Group's investment properties in the PRC have been arrived at on the basis of a valuation carried out at these dates by CB Richard Ellis Limited. The resulting surplus of HK\$7,426,000 (2008: HK\$76,825,000) was credited to consolidated income statement. The valuation was arrived at by reference to standard land prices set by the PRC government and comparable market transactions as available in the locality.

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.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Pipelines <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>							
At 1 April 2007	263,564	1,608,880	922,124	349,071	16,044	85,329	3,245,012
Additions	28,323	49,776	1,066,512	48,763	11,841	24,836	1,230,051
Acquired on acquisition of a subsidiary	–	–	1,030	3,137	90	224	4,481
Acquired on acquisition of jointly controlled entities	7,176	103,075	4,648	1,174	212	423	116,708
Acquired on acquisition of businesses	48,347	458,720	404,081	49,966	1,934	10,833	973,881
Disposals	(7,875)	–	–	(5,131)	(502)	(3,796)	(17,304)
Reclassification	83,083	1,000,877	(1,116,425)	32,465	–	–	–
Exchange realignment	27,511	181,762	117,881	35,853	1,508	8,209	372,724
At 31 March 2008	450,129	3,403,090	1,399,851	515,298	31,127	126,058	5,925,553
Additions	13,691	137,488	1,247,394	90,602	30,157	38,094	1,557,426
Acquired on acquisition of subsidiaries	550	–	28,802	–	78	411	29,841
Acquired on acquisition of a jointly controlled entity	1,537	33,485	–	757	25	33	35,837
Acquired on acquisition of businesses	697,476	231,851	201,104	956,400	35,893	20,551	2,143,275
Disposals	(45,850)	–	–	(8,592)	(1,467)	(6,731)	(62,640)
Reclassification	24,959	927,741	(997,509)	44,809	–	–	–
Exchange realignment	27,201	124,839	70,995	52,093	2,623	5,633	283,384
At 31 March 2009	1,169,693	4,858,494	1,950,637	1,651,367	98,436	184,049	9,912,676
<b>DEPRECIATION AND IMPAIRMENT</b>							
At 1 April 2007	15,613	67,040	–	50,588	5,905	22,566	161,712
Provided for the year	13,107	103,653	–	50,303	5,348	16,972	189,383
Eliminated on disposals	(269)	–	–	(1,712)	(275)	(2,309)	(4,565)
Exchange realignment	1,091	5,047	–	4,443	422	1,744	12,747
At 31 March 2008	29,542	175,740	–	103,622	11,400	38,973	359,277
Provided for the year	43,999	162,685	–	96,023	10,505	20,702	333,914
Eliminated on disposals	(24,489)	–	–	(4,288)	(1,295)	(3,468)	(33,540)
Exchange realignment	1,701	6,216	–	3,629	439	1,265	13,250
At 31 March 2009	50,753	344,641	–	198,986	21,049	57,472	672,901
<b>CARRYING VALUES</b>							
At 31 March 2009	<u>1,118,940</u>	<u>4,513,853</u>	<u>1,950,637</u>	<u>1,452,381</u>	<u>77,387</u>	<u>126,577</u>	<u>9,239,775</u>
At 31 March 2008	<u>420,587</u>	<u>3,227,350</u>	<u>1,399,851</u>	<u>411,676</u>	<u>19,727</u>	<u>87,085</u>	<u>5,566,276</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

The carrying value of leasehold land and buildings of the Group shown above comprises:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong		
Long lease	6,080	6,253
In PRC		
Long lease	278,215	95,774
Medium term lease	834,645	318,560
	<u>1,118,940</u>	<u>420,587</u>

The pipelines of the Group are located in the PRC.

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the remaining terms of the leases or 50 years
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	5% – 10%
Furniture and fixtures	15% – 50%
Motor vehicles	25%

At 31 March 2009, interest capitalised in construction in progress amounted to HK\$99,472,000 (2008: HK\$83,693,000).

During the year, the Group is in the process of obtaining title deeds from relevant government authorities for its land and buildings in the PRC amounting to HK\$64,411,000 (2008: HK\$28,737,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its land and buildings in the PRC.

At 31 March 2009, the directors of China Gas considered that the leasehold land element of the buildings with the carrying value of HK\$49,324,000 (2008: HK\$40,530,000) cannot be separately identified.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**19. PREPAID LEASE PAYMENTS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong		
Long lease	21,994	22,182
Leasehold land in the PRC		
Long lease	532,700	120,429
Medium term lease	330,554	261,568
	<u>885,248</u>	<u>404,179</u>
Analysed for reporting purposes as:		
Non-current portion	869,075	397,301
Current portion	16,173	6,878
	<u>885,248</u>	<u>404,179</u>

The leasehold land and land use rights are charged to income statement on a straight-line basis over the term of the leases.

During the year, the Group is in the process of obtaining title deeds from relevant government authorities for its prepaid lease payments in the PRC amounting to HK\$73,425,000 (2008: nil). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its prepaid lease payment in the PRC.

**20. INTERESTS IN ASSOCIATES**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investments in associates – unlisted	618,157	66,402
Share of pre-acquisition dividend	(1,296)	(1,296)
Share of post-acquisition profit (net of dividend received)	156,501	143,617
Discount on acquisition of associates	232,970	5,568
	<u>1,006,332</u>	<u>214,291</u>

The Group had interests in the following associates:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group		Principal activities
					2009 %	2008 %	
北京宏達斯特 燃氣技術開發公司	Sino-foreign equity joint venture	PRC	PRC	Registered	22.10	22.10	Trading of natural gas
北京華昊恒通 有限責任公司	Sino-foreign equity joint venture	PRC	PRC	Registered	19.60 (note a)	19.60 (note a)	Trading of natural gas
重慶市川東燃氣 工程建設有限公司 ("川東燃氣")	Sino-foreign equity joint venture	PRC	PRC	Registered	44.00	44.00	Trading of natural gas, gas pipeline construction and property investment
重慶鼎發實業股份 有限公司 ("重慶鼎發")	Sino-foreign equity joint venture	PRC	PRC	Registered	38.69	38.69	Exploration, collection transportation, purification and sales of natural gas
重慶市渝北區佳渝 天然氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	47.83	47.83	Trading of natural gas
哈爾濱中慶燃氣公司 ("哈爾濱中慶")	Sino-foreign equity joint venture	PRC	PRC	Registered	48.00	–	Trading of nature gas and gas pipeline construction
福安市三誠液化氣 有限公司	Limited liability company	PRC	PRC	Registered	33.20	–	Trading of LPG
福建省晉江廈華 石化有限公司	Limited liability company	PRC	PRC	Registered	29.05	–	Refining process, storage or LPG
上海中油國電 油品有限公司	Limited liability company	PRC	PRC	Registered	41.50	–	Sales of fuel oil (except hazardous products), instruments, mechanical and electrical facilities, construction materials
上海華辰船務 有限公司	Limited liability company	PRC	PRC	Registered	16.60 (note b)	–	Shipping delivery services, technical development, providing consultancy services and agent of delivery

---

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

---

*Notes:*

- (a) The Group is able to exercise significant influence over this company because it has the power to appoint two out of the six directors of that company.
- (b) The Group is able to exercise significant influence over this company because it has the power to appoint one out of the three directors of that company.

During the year, a discount on acquisition of HK\$227,402,000 arising on the acquisition of 哈爾濱中慶 has been included in consolidated income statement. The interest in 哈爾濱中慶 as acquired by the Group was previously owned by 哈爾濱市人民政府國有資產監督管理委員會. The acquisition of 哈爾濱中慶 was required as a result of a tender in August 2007 to 哈爾濱產權交易中心. The directors of China Gas consider that the sale of the 48% equity interests in 哈爾濱中慶 by 哈爾濱市人民政府國有資產監督管理委員會 was made with an intention of bringing in foreign capital and expertise in the operation and management of natural gas projects in the PRC which is in line with the national policy in the PRC.

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

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Total assets	4,300,311	1,216,139
Total liabilities	<u>(2,023,824)</u>	<u>(709,492)</u>
Net assets	<u>2,276,487</u>	<u>506,647</u>
The Group's share of associates' net assets	<u>1,006,332</u>	<u>214,291</u>
Revenue	<u>674,251</u>	<u>283,193</u>
Change in fair value of investment properties	<u>(11,306)</u>	<u>264,722</u>
Profit for the year	<u>11,186</u>	<u>312,412</u>
The Group's share of results of associates for the year	<u>12,884</u>	<u>138,013</u>

## 21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of registration/incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group		Principal activities
					2009 %	2008 %	
北京京港燃氣有限公司 Beijing Jinggang Gas Development Company Limited* ("Beijing Jinggang")	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0	49.0	Trading of natural gas and gas pipeline construction
柳州中燃城市燃氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction
揚州中燃城市燃氣發展有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction
呼和浩特中燃城市燃氣發展有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction
德州中燃城市燃氣發展有限公司 ("德州中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0	49.0	Trading of natural gas and gas pipeline construction
蕪湖中燃新福利汽車燃氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Nature gas refill service and gas station administration
重慶鼎旺化工有限公司 ("重慶鼎旺")	Equity joint venture	PRC	PRC	Registered	49.0	49.0	Purifying technology service of natural gas
China Gas – SK Energy Holdings Company Limited ("China Gas – SK Energy")	Incorporated	Hong Kong	Hong Kong	Ordinary	50.0	50.0	Trading of natural gas and gas pipeline construction
China Oman Energy Company Limited ("China Oman")	Incorporated	Bermuda	Hong Kong	Ordinary	50.0	50.0	Development of energy import projects from Middle East to PRC
泰能天然氣有限公司 ("泰能天然氣")	Equity joint venture	PRC	PRC	Registered	51.0	51.0	Trading of natural gas

\* English name is for identification purposes only.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

As all the major financial and operating decisions of the above entities require unanimous consent from all venturers, they are accounted for as jointly controlled entities.

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	<u>625,259</u>	<u>721,065</u>
Non-current assets	<u>2,217,330</u>	<u>1,735,097</u>
Current liabilities	<u>723,995</u>	<u>648,663</u>
Non-current liabilities	<u>543,753</u>	<u>315,237</u>
Revenue	<u>969,884</u>	<u>805,340</u>
Profit for the year	<u>65,044</u>	<u>131,550</u>

### 22. AVAILABLE-FOR-SALE INVESTMENTS

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong, at fair value	5,272	11,767
Unlisted equity securities, at cost less impairment	33,008	3,017
Club debenture, at fair value	<u>3,715</u>	<u>3,592</u>
	<u>41,995</u>	<u>18,376</u>

Equity securities listed in Hong Kong are stated at fair value. The fair values of listed equity securities are based on quoted market bid price. Change in fair value of the listed equity securities classified as available-for-sale investments for the year ended 31 March 2009 with decrease of HK\$6,495,000 (2008: increase of HK\$591,000) was recognised in the investment revaluation reserve. During the year ended 31 March 2009, the Group recognised impairment loss of HK\$14,947,000 (2008: nil) to the consolidated income statement.

During the year ended 31 March 2008, the Group disposed of available-for-sale investments with the carrying value of HK\$5,570,000 and a net gain on disposal of HK\$1,144,000 was credited to consolidated income statement.

Unlisted equity securities issued by private entities incorporated in the PRC. Those private entities are engaged in the sales and distribution of LPG in the PRC. They are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of China Gas are of the opinion that their fair values cannot be measured reliably.

Club debentures are stated at fair value. Fair value of the club debenture has been determined by reference to the bid prices quoted in active market. No fair value change was recognised in both years.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 23. GOODWILL

	<i>HK\$'000</i>
<b>COST</b>	
At 1 April 2007	299,965
Arising on acquisition of businesses ( <i>note 42</i> )	<u>129,457</u>
At 31 March 2008	429,422
Arising on acquisition of businesses ( <i>note 42</i> )	<u>204,198</u>
At 31 March 2009	<u>633,620</u>
<b>CARRYING AMOUNTS</b>	
At 31 March 2009	<u><u>633,620</u></u>
At 31 March 2008	<u><u>429,422</u></u>

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. Particulars regarding impairment testing on goodwill are disclosed in note 25.

### 24. OTHER INTANGIBLE ASSETS

	<b>Exclusive rights of natural gas operations</b> <i>HK\$'000</i>	<b>Customer Relationship</b> <i>HK\$'000</i>	<b>Technical expertise</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>COST</b>				
At 1 April 2007	86,111	15,000	–	101,111
Acquired on establishment of jointly controlled entities ( <i>note 41</i> )	30,927	–	13,637	44,564
Acquired on acquisition of businesses ( <i>note 42</i> )	<u>183,742</u>	<u>–</u>	<u>–</u>	<u>183,742</u>
At 31 March 2008, as restated	300,780	15,000	13,637	329,417
Acquired on acquisition of a subsidiary ( <i>note 40</i> )	7,037	–	–	7,037
Acquired on acquisition of businesses ( <i>note 42</i> )	<u>7,124</u>	<u>–</u>	<u>–</u>	<u>7,124</u>
At 31 March 2009	<u>314,941</u>	<u>15,000</u>	<u>13,637</u>	<u>343,578</u>

	Exclusive rights of natural gas operations <i>HK\$'000</i>	Customer Relationship <i>HK\$'000</i>	Technical expertise <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>AMORTISATION</b>				
At 1 April 2007	2,366	294	–	2,660
Charge for the year	<u>5,868</u>	<u>1,500</u>	<u>568</u>	<u>7,936</u>
At 31 March 2008	8,234	1,794	568	10,596
Charge for the year	<u>10,504</u>	<u>1,500</u>	<u>681</u>	<u>12,685</u>
At 31 March 2009	<u>18,738</u>	<u>3,294</u>	<u>1,249</u>	<u>23,281</u>
<b>CARRYING VALUES</b>				
At 31 March 2009	<u><u>296,203</u></u>	<u><u>11,706</u></u>	<u><u>12,388</u></u>	<u><u>320,297</u></u>
At 31 March 2008	<u><u>296,546</u></u>	<u><u>13,206</u></u>	<u><u>13,069</u></u>	<u><u>318,821</u></u>

*Note:* The exclusive rights of natural gas operation, customer relationship and technical expertise are amortised on a straight-line method over the period of 30 years, 10 years and 20 years respectively. Particulars regarding impairment testing on other intangible assets are disclosed in note 25.

## 25. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS

Management considered each subsidiary represents a separate CGU for the purpose of goodwill and other intangible assets impairment testing. The carrying amounts of goodwill, exclusive rights of natural gas operations, customer relationship and technical expertise are allocated as follows:

	Goodwill		Exclusive rights of natural gas operations		Customer relationship		Technical expertise	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Clever Decision Enterprise Limited	141,716	141,716	-	-	-	-	-	-
宿州中燃城市燃氣發展有限公司 ("宿州中燃")	44,802	44,802	-	-	-	-	-	-
北京中油翔科科技有限公司	15,540	15,540	-	-	-	-	-	-
柳州中燃	65,981	65,981	-	-	-	-	-	-
Positive Rise Energy Limited ("Positive Rise")	100,086	100,086	89,821	92,948	-	-	-	-
包頭市燃氣有限公司 ("包頭燃氣")	-	-	23,804	24,642	-	-	-	-
China City Natural Gas Investment Limited ("CGNGIL")	-	-	63,629	65,968	-	-	-	-
呼和浩特中燃	-	-	10,784	11,182	-	-	-	-
撫順中燃	-	-	3,597	3,730	-	-	-	-
杭州東能管道燃氣有限公司 ("杭州東能")	-	-	60,885	63,234	-	-	-	-
德州中燃	-	-	29,811	30,842	-	-	-	-
China Gas Investment Development Limited ("CGIDL")	-	-	-	-	11,706	13,206	-	-
China Oman	-	-	-	-	-	-	12,388	13,069
湖南明程貿易發展有限公司 ("湖南明程")	53,688	-	3,558	-	-	-	-	-
Zhejiang Zhongyou Hua Dian Energy Co. Ltd. ("Zhongyou Hua Dian")	150,510	-	-	-	-	-	-	-
Other subsidiaries	61,297	61,297	10,314	-	-	-	-	-
	<u>633,620</u>	<u>429,422</u>	<u>296,203</u>	<u>292,546</u>	<u>11,706</u>	<u>13,206</u>	<u>12,388</u>	<u>13,069</u>

The recoverable amounts of the CGUs are determined based on 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 prices 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.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by management for the next five years. The CGUs cashflows beyond the 5-year period are extrapolated using a steady 3% (2008: 3%) growth rate for natural gas business and 5% (2008: nil) for LPG business. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. The rates used to discount the forecast cash flows for CGUs are from 15% to 17% (2008: 15% to 17%). In the opinion of the directors, no material impairment loss is identified for both years.

### 26. LOAN RECEIVABLE

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate loan receivable at interest rate of 7% per annum, unsecured and repayable after 2 years but not more than 5 years	—	15,000
	—	15,000

The amount was denominated in HK\$, currency other than the functional currency of the respective group entities and fully repaid during the year.

### 27. INVENTORIES

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction materials	113,329	231,546
Consumables, spare parts and coke materials	59,364	38,932
Natural gas	25,992	15,052
LPG	342,213	—
	540,898	285,530

### 28. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	527,111	391,350
Less: Progress billings	(428,861)	(120,171)
	98,250	271,179
Analysed for reporting purposes as:		
Amounts due from customers for contract work	219,993	283,426
Amounts due to customers for contract work	(121,743)	(12,247)
	98,250	271,179

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

At 31 March 2009 and 2008, there was no retention monies held by customers for contract work performed. At 31 March 2009, advances received from customers for contract work amounted to HK\$258,592,000 (2008: HK\$230,340,000) which were included in trade and other payables in note 34.

During the year ended 31 March 2009, the Group recognised losses of HK\$36,864,000 (2008: HK\$79,623,000) in respect of contract costs incurred. The directors of China Gas reviewed the recoverable amounts of contract costs incurred and identified certain projects are unlikely to be completed in foreseeable future. In the opinion of directors of China Gas, the amounts are unlikely to be recovered from its customers and accordingly, losses are recognised in full in the consolidated income statement.

### 29. TRADE AND OTHER RECEIVABLES

Other than certain major customers with good repayment history which the Group allows a longer credit period or settlement by instalment basis, the Group generally allows an average credit period of 30 to 180 days to its trade customers.

The following is an aged analysis of trade receivables net of impairment losses at the reporting date:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 180 days	344,066	271,250
181 – 365 days	92,333	67,857
Over 365 days	219,375	141,809
Total trade receivables before accumulated allowances	655,774	480,916
Less: Accumulated allowances	(146,079)	(79,187)
Trade receivables	509,695	401,729
Deposits paid for construction and other materials	75,134	77,027
Deposits paid for purchase of natural gas and LPG	130,983	81,825
Advance payments to contractors	105,806	72,477
Other receivables, deposits and prepayments	328,528	219,271
Amounts due from minority shareholders of subsidiaries	70,155	40,506
Amounts due from shareholders of jointly controlled entities	65,397	42,880
	1,285,698	935,715

The trade receivables with carrying amount of HK\$344,066,000 (2008: HK\$271,250,000) are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

The Group has policies for allowance of bad and doubtful debts which are based on the evaluation of collectability and age analysis of accounts and on the management's judgment including the credit creditworthiness and the past collection history of each customer.

During the year ended 31 March 2009, the Group made an allowance of HK\$53,883,000 (2008: HK\$57,190,000) in respect of the trade receivables, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date. The directors of China Gas considered the related receivables may be impaired and specified allowance is made.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

Movement in the allowance for bad and doubtful debts:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Balance at the beginning of the year	79,187	20,201
Exchange differences	13,009	1,796
Charge for the year	<u>53,883</u>	<u>57,190</u>
Balance at the end of the year	<u><u>146,079</u></u>	<u><u>79,187</u></u>

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The trade receivables past due but not provided for impairment were either subsequently settled as at the date of this report or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of China Gas believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

Included in the Group's trade receivables are debtors, with a carrying amount of HK\$165,629,000 (2008: HK\$130,479,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivable is 320 days (2008: 310 days) as at 31 March 2009.

In respect of trade receivables which are past due but not impaired at the respective balance sheet date, the aged analysis from due date is as follows:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
180 – 365 days	92,333	67,857
over 365 days	<u>73,296</u>	<u>62,622</u>
	<u><u>165,629</u></u>	<u><u>130,479</u></u>

Amounts due from minority shareholders of subsidiaries and shareholders of jointly controlled entities are unsecured, non-interest bearing and repayable on demand.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**30. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Derivative financial assets:		
<b>Current</b>		
Interest rate range accrual swap transactions not qualified for hedge accounting	–	8,362
Early redemption option embedded in convertible bonds ( <i>note 38 (ii)(c)</i> )	<u>1,261</u>	<u>2,614</u>
	<u><u>1,261</u></u>	<u><u>10,976</u></u>
Derivative financial liabilities:		
<b>Non-current</b>		
Interest rate range accrual swap transactions not qualified for hedge accounting	360,087	–
<b>Current</b>		
Embedded conversion option ( <i>note 38 (ii)(b)</i> )	<u>782</u>	<u>4,264</u>
	<u><u>360,869</u></u>	<u><u>4,264</u></u>

**Interest rate range accrual swap transactions**

Major terms of the outstanding interest rate swap transactions as at 31 March 2009 and 2008 are as follows:

Notional amount	Maturity dates	Pay leg	Receive leg
RMB2,000,000,000 in aggregate	From 4 September 2011 to 12 December 2011	6.60% – 6.65%	Relative movement of 2-year, 10-year and 30-year USD swap rates
US\$200,000,000 in aggregate	From 12 October 2010 to 13 June 2011	From USD LIBOR + 0.60% to USD LIBOR + 2.35%	Relative movement of 2-year, 10-year and 30-year USD swap rates

The net fair values of the outstanding interest rate transactions are measured at the present value of estimated future cash flows discounted bases on the applicable yield curves derived from quoted interest rates.

**Derivatives embedded in convertible bonds**

Embedded conversion option represents the fair value of the bondholders' option to convert the convertible bonds issued on 29 June 2005 (as detailed in note 38) into equity of China Gas.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

Early redemption option represents the fair value of China Gas's option to early redeem in respect of convertible bond issued on 29 June 2005.

The fair value of the embedded conversion and early redemption option are calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Embedded conversion option		Early redemption option	
	2009	2008	2009	2008
Conversion price/redemption price/exercise price	HK\$1.731	HK\$1.731	HK\$1.210	HK\$1.996
Expected volatility ( <i>note a</i> )	70.72%	51.27%	70.72%	51.27%
Expected life ( <i>note b</i> )	1.25 year	0.25 year	1.25 year	0.25 year
Risk free rate ( <i>note c</i> )	0.51%	1.31%	0.51%	1.31%

*Notes:*

- (a) Expected volatility for early redemption option was determined by calculating the historical volatility of China Gas's share price over 250 trading days; for embedded conversion option was determined by calculating the historical volatility of China Gas's share price over 250 trading days.
- (b) Expected life was the expected remaining life of the respective options.
- (c) The risk free rate is determined by reference to the Hong Kong Government Bond Yield.

During the year, HK\$366,320,000 (2008: HK\$166,884,000) was recognised as a change in fair value of derivative financial instruments.

### 31. AMOUNTS DUE FROM ASSOCIATES

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current portion ( <i>note a</i> )	68,966	–
Current portion ( <i>note b</i> )	243,250	158,617
	<u>312,216</u>	<u>158,617</u>

*Notes:*

- (a) The balance is unsecured, interest bearing at 5.31% per annum and repayable on 1 June 2010.
- (b) Included in balance amount of HK\$76,264,000 (2008: nil) is unsecured, interest bearing at 5.31% to 6.93% per annum and repayable within a year. The remaining balance is unsecured, non-interest bearing and repayable on demand.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**32. HELD-FOR-TRADING INVESTMENTS**

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Listed securities at fair value		
– Equity securities listed in Hong Kong	11,460	42,074
– Equity securities listed in the PRC	<u>84</u>	<u>–</u>
	<u><u>11,544</u></u>	<u><u>42,074</u></u>

**33. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at market rates which range from 0.03% to 1.21% per annum (2008: 0.03% to 2.63% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$847,759,000 (2008: HK\$164,597,000) have been pledged to secure short-term bank loans and undrawn facilities and are therefore classified as current assets. The pledged bank deposits carry fixed interest rate of 0.81% to 3.42% (2008: 1.5% to 3.5%) per annum.

The details of the Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currency of the respective group entities are set out below:

	<b>USD</b> <i>HK\$'000</i> equivalent	<b>HK\$</b> <i>HK\$'000</i>
At 31 March 2009	<u><u>373,531</u></u>	<u><u>11,895</u></u>
At 31 March 2008	<u><u>51,408</u></u>	<u><u>5,672</u></u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**34. TRADE AND OTHER PAYABLES**

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The following is an aged analysis of trade and other payables at the reporting date:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
0 – 90 days	1,142,836	234,247
91 – 180 days	119,262	31,311
Over 180 days	249,131	94,110
	<hr/>	<hr/>
Trade and bill payables	1,511,229	359,668
Other payables and accrued charges	499,483	569,314
Advanced payments from customers	186,196	164,772
Advances received from customers for contract works that have not yet been started	258,592	230,340
Amounts due to minority shareholders of subsidiaries	99,745	24,558
Deferred cash consideration for the acquisition of businesses	48,068	–
	<hr/>	<hr/>
	<b>2,603,313</b>	<b>1,348,652</b>
	<hr/> <hr/>	<hr/> <hr/>

Amounts due to minority shareholders of subsidiaries are unsecured, non-interest bearing and repayable on demand.

**35. BANK AND OTHER BORROWINGS**

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Bank and other borrowings comprise the following:		
Bank loans	7,741,596	5,471,132
Trust receipt loans	1,586,521	–
Mortgage loan	11,904	14,416
Other bank loans	669,138	–
Other loans	288,763	295,967
	<hr/>	<hr/>
	<b>10,297,922</b>	<b>5,781,515</b>
	<hr/> <hr/>	<hr/> <hr/>
Secured	7,563,605	4,528,197
Unsecured	2,734,317	1,253,318
	<hr/>	<hr/>
	<b>10,297,922</b>	<b>5,781,515</b>
	<hr/> <hr/>	<hr/> <hr/>

Other bank loans represent the loans from discounting of intercompany receivables with full recourse.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

The maturity profile of the above loans is as follows:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	3,103,855	157,061
More than one year, but not exceeding two years	355,753	205,922
More than two years, but not exceeding five years	2,430,918	899,345
More than five years	<u>4,407,396</u>	<u>4,519,187</u>
	10,297,922	5,781,515
Less: Amount due within one year shown under current liabilities	<u>(3,103,855)</u>	<u>(157,061)</u>
Amount due after one year	<u><u>7,194,067</u></u>	<u><u>5,624,454</u></u>
Borrowings comprise:		
Fixed-rate borrowings	7,392,080	4,714,191
Floating-rate borrowings	<u>2,905,842</u>	<u>1,067,324</u>
	<u><u>10,297,922</u></u>	<u><u>5,781,515</u></u>

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	<b>2009</b>	<b>2008</b>
Effective interest rate per annum:		
Fixed-rate borrowings	2.10% - 7.83%	2.10% - 7.83%
Floating-rate borrowings	3.56% - 8.00%	4.17% - 7.83%

The details of the Group's borrowings which are denominated in currencies other than the functional currency of the respective group entities are set out below:

	<b>EUR</b>	<b>USD</b>	<b>JPY</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	equivalent	equivalent	equivalent
At 31 March 2009	<u>22,907</u>	<u>3,434,058</u>	<u>47,479</u>
At 31 March 2008	<u>–</u>	<u>1,913,753</u>	<u>44,574</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**36. SHARE CAPITAL**

	<b>Ordinary shares</b>		<b>Convertible preference shares</b>		<b>Total</b>
	<i>No. of shares</i>		<i>No. of shares</i>		
	<i>'000</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>at HK\$0.01 each</i>		<i>at HK\$1.00 each</i>		
Authorised	<u>9,000,000</u>	<u>90,000</u>	<u>124,902</u>	<u>124,902</u>	<u>214,902</u>
Issued and fully paid:					
At 1 April 2007	3,096,204	30,962	–	–	30,962
Issue of new ordinary shares <i>(notes a and b)</i>	178,230	1,782	–	–	1,782
Exercise of share options <i>(note 47)</i>	<u>57,010</u>	<u>570</u>	<u>–</u>	<u>–</u>	<u>570</u>
At 31 March 2008	3,331,444	33,314	–	–	33,314
Exercise of share options <i>(note 47)</i>	<u>2,170</u>	<u>22</u>	<u>–</u>	<u>–</u>	<u>22</u>
At 31 March 2009	<u>3,333,614</u>	<u>33,336</u>	<u>–</u>	<u>–</u>	<u>33,336</u>

*Notes:*

- (a) On 22 May 2007, pursuant to the subscription letter dated 29 October 2003, China Gas issued a total of 7,000,000 ordinary shares of HK\$0.01 each in China Gas at a price of HK\$1.128 per share to ML (as defined in note 38(i)). Details of the subscription letter are set out in note 38(i).
- (b) During the year ended 31 March 2008, the bondholders of the Bond (as defined in note 38 (ii)) have converted part of the Bond into 171,230,000 ordinary shares of HK\$0.01 each in China Gas at a conversion price of HK\$1.731 per share.

The shares issued during the year rank pari passu with the then existing shares in all respects.

**37. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY**

The amount is unsecured, interest bearing at 2% per annum and repayable in year 2013. Accordingly, the amount is classified as a non-current liability as at the balance sheet date.

**38. CONVERTIBLE BONDS**

- (i) China Gas entered into a subscription letter on 29 October 2003 with Merrill Lynch (“ML”) pursuant to which China Gas granted to ML, the rights to subscribe for new shares of China Gas (the “Letter”). Under the terms of the Letter, ML would have a right to subscribe for new shares up to 15% of the principal amount of each tranche of the convertible bonds (“the ML Bonds”) pursuant to a subscription agreement dated on 29 October 2003 (“the Agreement”) issued divided by 0.94 with a subscription price of HK\$1.128 per share (subject to adjustments). The subscription rights are exercisable by ML at any time from and including the date of issue to the maturity date of the relevant tranche of the ML Bonds. The maturity dates are 30 October 2008 and 30 October 2009 for the ML Bonds issued on 13 November 2003 and 10 June 2004, respectively. All of the ML Bonds issued under the Agreement had been either converted or redeemed during the two years ended 31 March 2005. The stock subscription rights are fully exercised by ML during the year ended 31 March 2008.
- (ii) On 23 June 2005, China Gas entered into a conditional subscription agreement with CQS Convertible and Quantitative Strategies Master Fund Limited (“CQS”) and Courtenay Enterprises Limited (“Courtenay”), independent third parties of the Group, whereby CQS and Courtenay subscribed the USD denominated Bonds (“the Bond”) issued at par by China Gas in an aggregate principal amount of US\$40,000,000. The Bond was issued on 29 June 2005 (“the Issue Date”) and carries interest at 1% per annum and is matured on 29 June 2010. The conversion price of the Bond is HK\$1.7310 and can be converted at any time on or after Issue Date up to 19 June 2010. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.070 per cent of their principal amount on 29 June 2010. All or some of the Bonds may be redeemed at the option of the relevant holder on 29 June 2008 at 115.314 per cent of their principal amount. The Bond are listed on the Stock Exchange (Stock Code: 2562) on 1 June 2006.

The net proceeds received from the issue of convertible bonds contain the following components that are required to be separately accounted for in accordance with HKAS 32 “Financial instruments: Disclosure and Presentation” and HKAS 39 “Financial instruments: Recognition and Measurement”:

- (a) Liability component of the Bond represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component determined on initial recognition is 4.5% per annum.
- (b) Embedded conversion option of the Bond to be accounted for as a separate financial liability represents the fair value of the option to convert the liability into equity of China Gas.
- (c) Embedded early redemption option of the Bond represents China Gas’s option to early redeem all or part of the Bond by bond holder on or before 19 June 2010 at the conversion price of HK\$1.7310.
- (d) Mandatory redemption option of the Bond represents redemption at the option of the bond holders on 29 June 2008 at 115.314 per cent of the principal amount of the Bond.

The movement of different components of the convertible bonds during the year is set out below:

	<b>Liability</b> <i>HK\$'000</i>	<b>Embedded conversion option</b> <i>HK\$'000</i>	<b>Early redemption option</b> <i>HK\$'000</i>	<b>Mandatory redemption option</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 April 2007	273,457	52,502	(15,865)	1,412	311,506
Change in fair value	–	190,606	(25,981)	(1,412)	163,213
Exercise during the year	(260,362)	(238,844)	39,232	–	(459,974)
Interest charged ( <i>note 10</i> )	1,781	–	–	–	1,781
Interest paid	(542)	–	–	–	(542)
At 31 March 2008	14,334	4,264	(2,614)	–	15,984
Change in fair value	–	(3,482)	1,353	–	(2,129)
Interest charged ( <i>note 10</i> )	645	–	–	–	645
Interest paid	(156)	–	–	–	(156)
At 31 March 2009	<u>14,823</u>	<u>782</u>	<u>(1,261)</u>	<u>–</u>	<u>14,344</u>

From 4 June 2007 to 19 September 2007 (“1st batch conversion”) and 23 November 2007 (“2nd batch conversion”), the bond holders exercised their conversion options with the principal amount of US\$26,000,000 and US\$12,000,000 of the Bonds respectively. The fair values of the embedded conversion and early redemption option were calculated by using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	<b>Embedded conversion option</b>		<b>Early redemption option</b>	
	<b>2nd batch conversion</b>	<b>1st batch conversion</b>	<b>2nd batch conversion</b>	<b>1st batch conversion</b>
Share price at conversion	HK\$3.38	HK\$2.62 – 3.52	HK\$3.38	HK\$2.62 – 3.52
Conversion price/ redemption price	HK\$1.731	HK\$1.731	HK\$1.996	HK\$1.996
Expected volatility	47.20%	46.10%	47.20%	46.10%
Expected life	0.60 years	0.72 years	0.60 years	0.96 years
Risk-free rate	2.35%	4.42%	2.35%	4.42%
Fair value at conversion (in HK\$'000)	83,542	155,302	9,468	29,764

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 39. DEFERRED TAXATION

The following is the deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting years.

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation investment properties <i>HK\$'000</i>	Revaluation on property, plant and equipment and prepaid lease payments <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Intangible assets <i>HK\$'000</i>	Impairment on trade receivables and amounts due from customers for contract work <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2007	494	1,878	–	(2,372)	3,860	–	3,860
Acquisition of a jointly controlled entity ( <i>note 41</i> )	–	–	–	–	637	–	637
Acquisition of businesses ( <i>note 42</i> )	–	–	31,190	–	53,240	–	84,430
(Credit) charge to consolidated income statement for the year	<u>(22)</u>	<u>20,781</u>	<u>(2,095)</u>	<u>(1,553)</u>	<u>(885)</u>	<u>(34,203)</u>	<u>(17,977)</u>
At 1 April 2008, originally stated	472	22,659	29,095	(3,925)	56,852	(34,203)	70,950
Acquisition of a jointly controlled entity ( <i>note 41</i> )	–	–	–	–	7,095	–	7,095
Acquisition of businesses ( <i>note 42</i> )	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,304)</u>	<u>–</u>	<u>(7,304)</u>
At 1 April 2008, as restated	472	22,659	29,095	(3,925)	56,643	(34,203)	70,741
Acquisition of businesses ( <i>note 42</i> )	–	–	160,314	–	1,780	–	162,094
(Credit) charge to consolidated income statement for the year	<u>(1)</u>	<u>1,575</u>	<u>(4,421)</u>	<u>283</u>	<u>(1,973)</u>	<u>(22,687)</u>	<u>(27,224)</u>
At 31 March 2009	<u>471</u>	<u>24,234</u>	<u>184,988</u>	<u>(3,642)</u>	<u>56,450</u>	<u>(56,890)</u>	<u>205,611</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Deferred tax assets	56,890	34,203
Deferred tax liabilities	<u>(262,501)</u>	<u>(104,944)</u>
	<u>(205,611)</u>	<u>(70,741)</u>

At 31 March 2009, the Group has estimated unused tax losses of HK\$846,411,000 (2008: HK\$520,802,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$22,073,000 (2008: HK\$22,428,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$824,338,000 (2008: HK\$498,374,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK\$278,085,000 (2008: HK\$141,709,000) that will expire in 5 years from the year of origination.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**40. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL INTEREST IN A SUBSIDIARY**

**Acquisition of assets through purchase of subsidiaries in 2009**

- (i) On 7 August 2008, the Group acquired 90% equity interest in 烏審旗明月天然氣開發有限公司 (“烏審旗明月”) for RMB19,267,000 (equivalent to HK\$22,145,000). 烏審旗明月 has not commenced business at the date of acquisition.

HK\$'000

**NET ASSETS ACQUIRED**

Property, plant and equipment	20,735
Prepaid lease payments	5,430
Inventories	55
Bank balances and cash	4
Other payables	(1,618)

24,606

Minority interests (2,461)

22,145

**SATISFIED BY**

Cash consideration 22,145

**NET CASH OUTFLOW ARISING ON ACQUISITION**

Cash paid (22,145)

Bank balances and cash acquired 4

(22,141)

- (ii) On 4 August 2008 and 22 August 2008, the Group entered into agreements with two independent third parties pursuant to which the Group subscribed for 50% interest in 寧夏深中天然氣發展有限公司 (“寧夏深中”) for RMB11,000,000 (equivalent to HK\$12,222,000) and acquired further 25% interest in 寧夏深中 from the two independent third parties for a consideration of RMB8,000,000 (equivalent to HK\$8,889,000) respectively. 寧夏深中 has not commenced business at the date of acquisition.

HK\$'000

**NET ASSETS ACQUIRED**

Property, plant and equipment	9,106
Prepaid lease payment	836
Intangible assets – exclusive rights of natural gas operations	7,037
Inventories	1,855
Other receivables	4,486
Bank balances and cash	2,672
Other payables	(10,066)

15,926

Cash injection by the Group	12,222
-----------------------------	--------

28,148

Minority interests	(7,037)
--------------------	---------

21,111**SATISFIED BY**

Cash consideration	8,889
Cash injection to 寧夏深中	12,222

21,111**NET CASH OUTFLOW ARISING ON ACQUISITION**

Cash paid	(8,889)
Bank balances and cash acquired	2,672

(6,217)

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**Acquisition of assets through establishment of a subsidiary in 2008**

On 21 May 2007, the Group established a subsidiary in the PRC, namely 長沙中燃天然氣有限公司 (“長沙中燃”) which the Group owns 70% issued share capital. The Group contributed the capital in cash of US\$1,847,000 and the minority shareholder injected capital in cash of RMB1,608,000 and property, plant and equipment into 長沙中燃.

	<i>HK\$'000</i>
NET ASSETS ACQUIRED	
Property, plant and equipment	4,481
Bank balances and cash	1,641
	<hr/>
	6,122
Cash injection by the Group	14,286
Minority interest	(6,122)
	<hr/>
Total consideration	<u>14,286</u>
<b>SATISFIED BY</b>	
Cash injection to 長沙中燃	<u>14,286</u>
<b>NET CASH INFLOW ARISING ON ACQUISITION</b>	
Bank balances and cash acquired	<u>1,641</u>

**Acquisition of additional interest in a subsidiary in 2008**

On 15 January 2008, 淮南中燃, a wholly-owned subsidiary of China Gas, entered into an agreement with independent third party in relation to the acquisition of the remaining 10% equity interest of a non-wholly owned subsidiary, 壽縣中燃城市燃氣有限公司 (“壽縣中燃”), at a total consideration of RMB315,000. Discount on acquisition arising from the acquisition of additional interest in 壽縣中燃 is HK\$108,000.

**41. ACQUISITION OF JOINTLY CONTROLLED ENTITIES****Establishment of a jointly controlled entity in 2009**

On 31 August 2008, a jointly controlled entity, China Gas – SK Energy, which the Group owns 50% issued share capital, established a jointly controlled entity in the PRC, namely 金華中燃愛思開匯能城市燃氣發展有限公司 (“金華中燃”), which China Gas – SK Energy owns 50% issued share capital. China Gas – SK Energy contributed the capital in cash of RMB70,000,000 (equivalent to HK\$80,269,000) and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enables 金華中燃 to continue the operation of the existing natural gas business which the other shareholder previously engaged. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount of net assets injected by other shareholder of <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value of net assets injected by the other shareholder of <i>HK\$'000</i>	Fair value of net assets under proportionate consolidation <i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>				
Property, plant and equipment	143,382	(33)	143,349	35,837
Trade and other receivables	68	(68)	–	–
Inventories	76	–	76	19
Bank balances and cash	100	–	100	25
Trade and other payables	(27,817)	–	(27,817)	(6,954)
	<u>115,809</u>	<u>(101)</u>	115,708	28,927
Cash injection by China Gas – SK Energy			80,269	20,067
Discount on acquisition			–	(8,860)
Total consideration			<u>195,977</u>	<u>40,134</u>
<b>SATISFIED BY</b>				
Cash injection to 金華中燃 by the Group				<u>40,134</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>				
Cash paid				(40,134)
Bank balances and cash acquired				<u>20,092</u>
				<u>(20,042)</u>

**Establishment of jointly controlled entities in 2008**

- (i) On 1 January 2008, a jointly controlled entity, China Gas – SK Energy, which the Group owns 50% issued share capital, established a jointly controlled entity in the PRC, namely 台州中燃愛思開城市燃氣發展有限公司 (“台州中燃”), which China Gas – SK Energy owns 50% issued share capital. China Gas – SK Energy contributed the capital in cash of RMB71,200,000 (equivalent to HK\$75,820,000) and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enable 台州中燃 to continue the operation of the existing natural gas business which the other shareholder previously engaged. This transaction has been accounted for using the purchase method of accounting.

	<b>Carrying amount and fair value of net assets injected by the other shareholder of台州中燃</b>	<b>Carrying amount and fair value of net assets under proportionate consolidation</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	76,100	19,025
Trade and other receivables	416	104
Bank balances and cash	27,880	6,970
Trade and other payables	(28,576)	(7,144)
	<u>75,820</u>	<u>18,955</u>
Cash injection by China Gas – SK Energy	75,820	18,955
	<u>151,640</u>	<u>37,910</u>
<b>SATISFIED BY</b>		
Cash injection to 台州中燃 by the Group		<u>37,910</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>		
Cash paid		(37,910)
Bank balances and cash acquired		<u>25,925</u>
		<u>(11,985)</u>

- (ii) On 18 August 2007, the Group established a jointly controlled entity in the PRC, namely 德州中燃, which the Group owns 49% issued share capital. The Group contributed the capital in cash of RMB104,983,000 (equivalent to HK\$111,195,000) and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enable 德州中燃 to continue the operation of the existing natural gas business which the other shareholder previously engaged. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount of net assets injected by other shareholder of 德州中燃 HK\$'000	Fair value adjustments of 德州中燃 HK\$'000	Provisional fair value as previously stated injected by other shareholder of 德州中燃 HK\$'000	Prior year adjustments upon completion of initial accounting of 德州中燃 HK\$'000	Adjusted fair value of net assets injected by other shareholder of 德州中燃 HK\$'000	49% of fair value under proportionate consolidation HK\$'000
<b>NET ASSETS ACQUIRED</b>						
Property, plant and equipment	162,890	(8,398)	154,492	-	154,492	75,701
Prepaid lease payments	7,447	-	7,447	-	7,447	3,649
Intangible assets – exclusive rights of natural gas operations	-	5,198	5,198	57,919	63,117	30,927
Inventories	4,941	-	4,941	-	4,941	2,421
Trade and other receivables	15,682	(147)	15,535	-	15,535	7,611
Bank balances and cash	19,182	-	19,182	-	19,182	9,399
Trade and other payables	(36,008)	-	(36,008)	-	(36,008)	(17,643)
Bank borrowings	(53,754)	-	(53,754)	-	(53,754)	(26,339)
Deferred taxation	-	(1,300)	(1,300)	(14,480)	(15,780)	(7,732)
	<u>120,380</u>	<u>(4,647)</u>	<u>115,733</u>	<u>43,439</u>	159,172	77,994
Cash injection by the Group			111,195	-	111,195	54,486
			<u>226,928</u>	<u>43,439</u>	<u>270,367</u>	<u>132,480</u>
Discount on acquisition						(21,285)
Total consideration						<u>111,195</u>
<b>SATISFIED BY</b>						
Cash injection to 德州中燃						<u>111,195</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>						
Cash paid						(111,195)
Bank balances and cash acquired						63,885
						<u>(47,310)</u>

- (iii) On 21 May 2007, the Group established a jointly controlled entity in Bermuda, namely China Oman, which the Group owns 50% issued share capital. The Group paid in cash of US\$3,500,000 (approximately HK\$27,300,000) to subscribe 3,500,000 ordinary shares of China Oman and the other shareholder paid in form of cash of US\$3,500 (approximately HK\$27,000) and agreed to contribute the technical expertise with value of US\$3,496,500 (approximately HK\$27,273,000) to subscribe 3,500,000 ordinary shares of China Oman. The technical expertise with fair value of HK\$13,637,000, representing the committed contribution to China Oman during the operation period of 20 years by the joint venturer of China Oman without any compensation from China Oman for the identification and development of (1) the energy projects related to the oil and gas filed exploration and production (including coal-bed methane fields), transportation infrastructure, such as pipelines, and gas liquefaction and re-gasification facilities in the Middle East, PRC or other parts of the world and (2) the importation of energy products into the PRC including liquefied natural gas, liquefied petroleum gas, crude oil and fuel oil from the Middle East or other parts of the world. Acquisition of the technical expertise enhances the Group's competitiveness in the gas supply market in the PRC. The technical expertise contributed by other shareholder was accounted for as an intangible asset and the Groups shared 50% on it.

#### Acquisition of assets through purchase of a jointly controlled entity in 2008

On 20 September 2007, the Group acquired a jointly controlled entity in the PRC, namely 重慶鼎旺, which the Group owns 49% registered capital with a consideration of RMB15,680,000. 重慶鼎旺 has not yet commenced business at date of acquisition.

	Net assets of the jointly controlled entity <i>HK\$'000</i>	49% of net assets under proportionate consolidation <i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	44,862	21,982
Trade and other receivables	3,170	1,553
Bank balances and cash	45	22
Trade and other payables	(1,682)	(824)
Bank borrowings	(13,742)	(6,733)
	<u>32,653</u>	<u>16,000</u>
<b>SATISFIED BY</b>		
Cash consideration		<u>16,000</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>		
Cash paid		(16,000)
Bank balances and cash acquired		<u>22</u>
		<u>(15,978)</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**42. ACQUISITION OF BUSINESSES**

**Acquisition of businesses through purchase of subsidiaries in 2009**

- (i) On 30 September 2008, the Group acquired 83% equity interests in Zhongyou Hua Dian for cash of RMB501,780,000 (equivalent to HK\$557,533,000).

	<b>Acquiree's carrying amount before combination</b>	<b>Fair value adjustments</b>	<b>Provisional fair values</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>			
Investment properties	70,301	–	70,301
Property, plant and equipment	1,728,955	351,250	2,080,205
Prepaid lease payments	143,607	290,004	433,611
Interest in associates	37,574	–	37,574
Available-for-sale investment	29,349	–	29,349
Inventories	288,326	–	288,326
Trade and other receivables	548,987	–	548,987
Pledged bank deposits	716,692	–	716,692
Bank balances and cash	294,874	–	294,874
Trade and other payables	(1,319,157)	–	(1,319,157)
Bank borrowings	(2,422,099)	–	(2,422,099)
Deferred taxation	–	(160,314)	(160,314)
	<u>117,409</u>	<u>480,940</u>	598,349
Minority interests			(191,326)
Goodwill on acquisition			<u>150,510</u>
			<u>557,533</u>
<b>SATISFIED BY</b>			
Cash consideration paid by the Group			519,620
Deferred cash consideration			<u>37,913</u>
			<u>557,533</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(519,620)
Bank balances and cash acquired			<u>294,874</u>
			<u>(224,746)</u>

*Note:* The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuations in relation to certain underlying assets and liabilities of the acquiree.

Zhongyou Hua Dian principally engages in the business of trading of LPG business. The goodwill arising on the acquisition of Zhongyou Hua Dian is attributable to the anticipated profitability of the trading of LPG business of this group.

Zhongyou Hua Dian contributed to the Group's revenue and loss of HK\$2,076,887,000 and of HK\$153,342,000 for the year respectively.

The deferred cash consideration will be payable within one year after completion of acquisition.

If the above acquisitions had been completed on 1 April 2008, total group revenue and profit for the year would have been HK\$9,171,713,000, and HK\$30,560,000 respectively. The pro forma 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 above acquisitions been completed on 1 April 2008, nor is it intended to be projection of future results.

- (ii) On 11 August 2008, the Group acquired 95% of 湖南明程, which holds 57% of registered capital of 佳木斯恒佳管道燃氣有限公司 (“佳木斯”) for consideration of RMB29,450,000 (equivalent to HK\$33,851,000).

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair values <i>HK\$'000</i>
NET ASSETS ACQUIRED			
Property, plant and equipment	46,319	–	46,319
Prepaid lease payment	2,187	–	2,187
Intangible asset – exclusive rights of natural gas operations	–	3,558	3,558
Trade and other receivables	46,356	–	46,356
Bank balances and cash	6,713	–	6,713
Trade and other payables	(99,988)	–	(99,988)
Deferred taxation	–	(889)	(889)
	<u>1,587</u>	<u>2,669</u>	4,256
Minority interests			(24,093)
Goodwill			<u>53,688</u>
Total consideration			<u><u>33,851</u></u>
<b>SATISFIED BY</b>			
Cash consideration paid by the Group			23,696
Deferred cash consideration			<u>10,155</u>
			<u><u>33,851</u></u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(23,696)
Bank balances and cash acquired			<u>6,713</u>
			<u><u>(16,983)</u></u>

湖南明程 is an investment holding company and 佳木斯 is engaged in the operation of gas connection and sales of piped gas businesses in the PRC. The goodwill arising on the acquisition of 湖南明程 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this group.

湖南明程 contributed to the Group's revenue and profit of HK\$78,579,000 and HK\$32,076,000 respectively for the year.

- (iii) On 11 July 2008, the Group entered into cooperation agreement with independent third parties pursuant to which the Group acquired 51% equity interest in 大連金城燃氣有限公司 (“大連金城”) for RMB13,490,000 (equivalent to HK\$15,506,000) and the other shareholder contributed the additional capital in form of assets and liabilities.

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair values <i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	16,751	–	16,751
Intangible asset – exclusive rights of natural gas operations	–	3,566	3,566
Prepaid lease payment	195	–	195
Inventories	458	–	458
Other receivables	1,544	–	1,544
Bank balances and cash	244	–	244
Trade and other payables	(6,742)	–	(6,742)
Deferred taxation	–	(891)	(891)
	<u>12,450</u>	<u>2,675</u>	15,125
Cash injection by the Group			15,506
Minority interests			<u>(15,125)</u>
			<u>15,506</u>
<b>SATISFIED BY</b>			
Cash injection by the Group			<u>15,506</u>
<b>NET CASH INFLOW ARISING ON ACQUISITION</b>			
Bank balances and cash acquired			<u>244</u>

大連金城 is principally engaged in the installation of nature gas pipeline network and related facilities and sale of natural gas in the PRC.

大連金城 contributed to the Group's revenue and loss of HK\$548,000 and HK\$567,000 respectively for the year.

If the above acquisitions had been completed on 1 April 2008, total group revenue and profit for the year including Zhongyou Hua Dian stated in note 42(i) would have been HK\$9,188,455,000 and HK\$32,490,000 respectively. The pro forma 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 above acquisitions been completed on 1 April 2008, nor is it intended to be projection of future results.

**Acquisition of businesses through purchase of subsidiaries in 2008**

- (i) On 18 December 2006, the Group entered into share transfer agreements with two independent third parties pursuant to which the Group acquired 100% of Positive Rise, which holds 100% registered capital of 上海中寶科技控燃氣實業有限公司 (“上海中寶”) which in turn holds 51% of registered capital of 泰能天然氣, which is considered as a jointly controlled entity of the Group, at an aggregate consideration of RMB255,950,000 (equivalent to HK\$256,011,000). The acquisition was completed on 23 May 2007.

	<b>Acquiree's carrying amount before combination</b>	<b>Fair value adjustments</b>	<b>Fair values</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	254,575	40,436	295,011
Intangible asset – exclusive rights of natural gas operations	–	93,837	93,837
Inventories	1,409	–	1,409
Trade and other receivables	18,140	–	18,140
Bank balances and cash	30,937	–	30,937
Trade and other payables	(111,933)	–	(111,933)
Bank borrowings	(137,908)	–	(137,908)
Deferred taxation	–	(33,568)	(33,568)
	<u>55,220</u>	<u>100,705</u>	155,925
Goodwill			<u>100,086</u>
Total consideration			<u>256,011</u>
<b>SATISFIED BY</b>			
Cash consideration			<u>256,011</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(256,011)
Bank balances and cash acquired			<u>30,937</u>
			<u>(225,074)</u>

上海中寶 is an investment holding company and 泰能天然氣 is engaged in the operation of gas connection and sales of piped gas businesses in the PRC. The goodwill arising on the acquisition of Positive Rise is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this group.

Positive Rise contributed to the Group's revenue and profit of HK\$213,845,000 and HK\$9,523,000 respectively for the year ended 31 March 2008.

- (ii) On 18 June 2007, the Group acquired 80% equity interests in 包頭燃氣 at a consideration of RMB147,040,000 (equivalent to HK\$150,041,000).

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair values <i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	499,139	24,513	523,652
Prepaid lease payments	14,714	52,006	66,720
Intangible assets – exclusive rights of gas operations	–	25,104	25,104
Inventories	10,486	–	10,486
Trade and other receivables	5,209	–	5,209
Bank balances and cash	3,603	–	3,603
Trade and other payables	(19,298)	–	(19,298)
Bank borrowings	(378,530)	–	(378,530)
Deferred taxation	–	(25,406)	(25,406)
	<u>135,323</u>	<u>76,217</u>	211,540
Minority interests			(42,308)
Discount on acquisition			<u>(19,191)</u>
			<u>150,041</u>
<b>SATISFIED BY</b>			
Cash consideration			<u>150,041</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(150,041)
Bank balances and cash acquired			<u>3,603</u>
			<u>(146,438)</u>

包頭燃氣 principally engages in the production and sale of liquefied natural gas, coal gas, natural gas and their respective side products, design and operation of the liquefied natural gas and coal gas projects. The discount on acquisition of 包頭燃氣 amounted to HK\$19,191,000 which was recognised in consolidated income statement during the year.

In the opinion of the directors of China Gas, as the seller is lack of resources to finance the development plan by the local government in certain large-scale gas connection contracts in the foreseeable future, the introduction of the Group to 包頭燃氣 of financial position of 包頭燃氣 and the continuance of the development plan, therefore, a discount is resulted on this acquisition.

包頭燃氣 contributed to the Group's revenue and profit of HK\$267,746,000 and HK\$59,102,000 respectively for the year ended 31 March 2008.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

- (iii) On 18 June 2007, the Group acquired 80% equity interests in 包頭申銀管道工程有限公司 (“包頭申銀”) at a consideration of RMB8,000,000 (equivalent to HK\$8,163,000).

	<b>Acquirees' carrying amounts before combination and fair values</b>
	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>	
Property, plant and equipment	3,125
Inventories	3,731
Trade and other receivables	498
Bank balances and cash	4,303
Trade and other payables	(9,258)
	<hr/>
	2,399
Minority interests	(480)
Goodwill	6,244
	<hr/>
	8,163
	<hr/> <hr/>
<b>SATISFIED BY</b>	
Cash consideration	8,163
	<hr/> <hr/>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>	
Cash consideration paid	(8,163)
Bank balances and cash acquired	4,303
	<hr/>
	(3,860)
	<hr/> <hr/>

包頭申銀 principally engages in the design, construction and maintenance of city pipeline projects in the PRC. Goodwill on acquisition of 包頭申銀 amounted to HK\$6,244,000 which is attributable to the anticipated synergy effect of businesses with another newly acquired subsidiary, 包頭燃氣.

包頭申銀 contributed to the Group's revenue and profit HK\$6,784,000 and HK\$628,000 respectively for the year ended 31 March 2008.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

- (iv) On 18 June 2007, the Group acquired 80% equity interests in 包頭市申銀天然氣加氣有限公司 (“包頭加氣”) at a consideration of RMB24,000,000 (equivalent to HK\$24,490,000).

	<b>Acquirees' carrying amounts before combination and fair values</b>
	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>	
Property, plant and equipment	24,517
Inventories	140
Trade and other receivables	2,693
Bank balances and cash	4,886
Trade and other payables	<u>(7,713)</u>
	24,523
Minority interests	(4,905)
Goodwill	<u>4,872</u>
	<u><u>24,490</u></u>
<b>SATISFIED BY</b>	
Cash consideration	<u><u>24,490</u></u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>	
Cash consideration paid	(24,490)
Bank balances and cash acquired	<u>4,886</u>
	<u><u>(19,604)</u></u>

包頭加氣 principally engages in the natural gas refill services and gas station administration in the PRC. The goodwill on acquisition of 包頭加氣 amounted to HK\$4,872,000 which is attributable to the anticipated synergy effect of businesses the another newly acquired subsidiary, 包頭燃氣.

包頭加氣 contributed to the Group's revenue and loss of HK\$30,124,000 and HK\$2,139,000 respectively for the year ended 31 March 2008.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**


---

- (v) On 25 April 2007, the Group acquired 100% equity interests in 重慶渝北區天然氣有限責任公司 (“重慶渝北”) at a consideration of RMB121,860,000 (equivalent to HK\$124,347,000).

	<b>Acquiree's carrying amount before combination</b>	<b>Fair value adjustments</b>	<b>Fair values</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	103,642	–	103,642
Prepaid lease payments	–	7,808	7,808
Interest in an associate	1,000	–	1,000
Inventories	1,948	–	1,948
Trade and other receivables	13,063	–	13,063
Bank balances and cash	25,857	–	25,857
Trade and other payables	(34,099)	–	(34,099)
Deferred taxation	–	(1,952)	(1,952)
	<u>111,411</u>	<u>5,856</u>	117,267
Goodwill			<u>7,080</u>
			<u>124,347</u>
<b>SATISFIED BY</b>			
Cash consideration			<u>124,347</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(124,347)
Bank balances and cash acquired			<u>25,857</u>
			<u>(98,490)</u>

重慶渝北 principally engages in the installation of natural gas pipeline network and related facilities and sale of natural gas.

The goodwill arising on the acquisition of 重慶渝北 is attributable on the anticipated profitability of the gas connection and sales of piped gas businesses of this company.

重慶渝北 contributed to the Group's revenue and profit of HK\$61,075,000 and HK\$9,988,000 respectively for the year ended 31 March 2008.

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

- (vi) On 28 September 2007, the Group acquired 51% equity interests in 杭州東能 at a consideration of RMB40,100,000 (equivalent to HK\$40,918,000).

	Acquirees' carrying amounts before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Provisional fair value as previously stated <i>HK\$'000</i>	Prior year adjustments upon completion of initial accounting <i>HK\$'000</i>	Adjusted fair values <i>HK\$'000</i>
<b>NET ASSETS ACQUIRED</b>					
Property, plant and equipment	23,934	-	23,934	-	23,934
Intangible assets – exclusive rights of natural gas operations	-	94,018	94,018	(29,217)	64,801
Inventories	855	-	855	-	855
Trade and other receivables	3,720	-	3,720	-	3,720
Bank balances and cash	1,716	-	1,716	-	1,716
Trade and other payables	(15,405)	-	(15,405)	-	(15,405)
Bank borrowings	(5,102)	-	(5,102)	-	(5,102)
Deferred taxation	-	(23,504)	(23,504)	7,304	(16,200)
	<u>9,718</u>	<u>70,514</u>	<u>80,232</u>	<u>(21,913)</u>	<u>58,319</u>
Minority interests					(28,576)
Goodwill					<u>11,175</u>
					<u>40,918</u>
<b>SATISFIED BY</b>					
Cash consideration					<u>40,918</u>
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>					
Cash consideration paid					(40,918)
Bank balances and cash acquired					<u>1,716</u>
					<u>(39,202)</u>

杭州東能 is engaged in trading of natural gas pipeline network installation business and sales of natural gas in the PRC.

杭州東能 contributed to the Group's revenue and loss of HK\$9,927,000 and HK\$1,127,000 respectively for the year ended 31 March 2008.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

If the above acquisitions during the year ended 31 March 2008 had been completed on 1 April 2007, total group revenue for the year would have been HK\$2,523,791,000, and profit for the year ended 31 March 2008 would have been HK\$411,934,000. The pro forma 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 above acquisitions been completed on 1 April 2007, nor is it intended to be projection of future results.

**43. OPERATING LEASE ARRANGEMENTS**

**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Within one year	12,237	10,441
In the second to fifth year inclusive	10,884	7,318
After five years	1,498	186
	<u>24,619</u>	<u>17,945</u>

Operating lease payments represent rentals payable by the Group in respect of leasehold land and buildings and equipments. Leases for rented premises and equipment are negotiated for an average term of two to six years with fixed rental.

**The Group as lessor**

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Within one year	8,154	7,898
In the second to fifth year inclusive	7,735	10,278
After five years	—	2,181
	<u>15,889</u>	<u>20,357</u>

Leases are negotiated for an average term of two to ten years.

**44. CAPITAL COMMITMENTS**

- (i) On 29 April 2006, a subsidiary of China Gas entered into a share transfer agreement with 廣西南方食品集團股份有限公司 (“南方食品”) (formerly known as 廣西南方控股股份有限公司) pursuant to which the subsidiary will acquire 60% equity interest in 南寧管道燃氣有限責任公司 (“南寧管道”) at an aggregate consideration of RMB110,000,000 (approximate by HK\$126,436,000) and have paid a deposit of RMB55,000,000 (approximate by HK\$63,218,000) as at the balance sheet date. The completion of the acquisition is pending for the completion of change in the shareholders of 南寧管道 for 南方食品 to get the control of 南寧管道 pursuant to the share transfer agreement. The transaction has not yet been completed at the date of this report.
- (ii) On 6 June 2006, the Group entered into an investment agreement (“Investment Agreement”) with Dalian SOA Administration Bureau to establish a subsidiary namely 大連中燃城市燃氣發展有限公司 (“Dalian JV”). Dalian JV will engage principally in the natural gas business. The Group will hold 75% equity interest of Dalian JV after its establishment. Pursuant to the Investment Agreement, the registered capital of the Dalian JV will be RMB1,000,000,000 (approximate HK\$1,020,408,000). RMB750,000,000 (approximate HK\$765,306,000) will be contributed by the Group by way of cash and the remaining RMB250,000,000 (approximate HK\$255,102,000) will be contributed by Dalian SOA Administration Bureau by way of assets injection. The transaction has not yet been completed and there is no capital contributed by the Group up to at the date of this report.

Save as disclosed above, as at 31 March 2009, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements amounting to HK\$208,150,000 (2008: HK\$201,256,000) and HK\$93,312,000 (2008: HK\$119,897,000) respectively.

**45. PLEDGE OF ASSETS**

The Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying value of HK\$457,164,000 and HK\$37,047,000 (2008: HK\$6,297,000 and HK\$22,181,000) respectively, investment properties having a carrying value of HK\$19,200,000 (2008: HK\$20,100,000), trade receivables having carrying amount of HK\$45,878,000 (2008: HK\$24,232,000), inventories having carrying value of HK\$87,651,000 (2008: nil), pledged bank deposits of HK\$847,759,000 (2008: HK\$164,597,000) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the Group.

**46. RETIREMENT BENEFITS SCHEMES**

With effective from 1 December 2000, the Group has joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years at 31 March 2009 and 2008.

Employees of the Group’s subsidiaries in the PRC are covered by the retirement and pension schemes defined by local practice and regulations. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement and pension schemes. The only obligation of the Group in respect to the retirement benefits scheme is to make the specified contribution.

The calculation of contributions for PRC eligible staff is based on certain percentage of the applicable payroll costs. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling.

#### 47. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS

The share option scheme was adopted by China Gas pursuant to a resolution passed on 6 February 2003 (the "Scheme") for the primary purpose of providing incentives to any directors of China Gas, any employees of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser or legal adviser of the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of China Gas in issue at the date of shareholders' approval of the Scheme ("Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total number of shares of China Gas in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of China Gas then in issue. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to substantial shareholder or an independent non-executive director or any of their respective associate would result in the shares of China Gas issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of China Gas's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by China Gas's shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$10 per each grant. Options may be exercised at any time from the date to be determined by the board of directors to the tenth anniversary of the date of grant. The exercise price is determined by the directors of China Gas, and will not be less than the higher of (i) the closing price of China Gas's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

The life of the Scheme is effective for 10 years from the date of adoption until 5 February 2013.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

The following table discloses details of China Gas's share options held by employees (including directors) and movements in such holdings during the two years ended 31 March 2009:

Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number			Number				
				of share options at 4.1.2007	Granted during the year	Exercised during the year (Note 3)	of share options at 3.31.2008	Granted during the year	Exercised during the year (Note 3)	of share options at 3.31.2009	
<b>Directors</b>											
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	31,240,711	-	-	-	31,240,711	-	-	31,240,711
10.6.2004	(Note 1)	(Note 1)	0.71	220,000,000	-	-	-	220,000,000	-	-	220,000,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 (Note 2)	0.71	7,400,000	-	-	-	7,400,000	-	-	7,400,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	5,000,000	-	-	-	5,000,000	-	-	5,000,000
				<u>263,640,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,640,711</u>	<u>-</u>	<u>-</u>	<u>263,640,711</u>
<b>Other employees</b>											
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	63,210,000	-	(13,700,000)	(400,000)	49,110,000	-	(1,980,000)	47,130,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 (Note 2)	0.71	131,660,000	-	(43,310,000)	-	88,350,000	-	(190,000)	88,160,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	151,800,000	-	-	-	151,800,000	-	-	151,800,000
1.27.2006	1.27.2006 to 1.26.2011	1.27.2011 to 1.26.2016	1.52	6,500,000	-	-	-	6,500,000	-	-	6,500,000
8.23.2007	8.23.2007 to 9.18.2008	9.19.2008 to 9.18.2017	2.32	-	3,000,000	-	-	3,000,000	-	-	3,000,000
8.7.2008	8.7.2008 to 9.2.2009	9.3.2009 to 9.2.2018	1.77	-	-	-	-	-	1,500,000	-	1,500,000
8.7.2008	8.7.2008 to 9.2.2010	9.3.2010 to 9.2.2018	1.77	-	-	-	-	-	1,500,000	-	1,500,000
				<u>353,170,000</u>	<u>3,000,000</u>	<u>(57,010,000)</u>	<u>(400,000)</u>	<u>298,760,000</u>	<u>3,000,000</u>	<u>(2,170,000)</u>	<u>299,590,000</u>
				<u>616,810,711</u>	<u>3,000,000</u>	<u>(57,010,000)</u>	<u>(400,000)</u>	<u>562,400,711</u>	<u>3,000,000</u>	<u>(2,170,000)</u>	<u>563,230,711</u>
Weighted average exercise price				<u>HK\$0.93</u>	<u>HK\$2.32</u>	<u>HK\$0.74</u>	<u>HK\$0.78</u>	<u>HK\$0.93</u>	<u>HK\$1.77</u>	<u>HK\$0.79</u>	<u>HK\$0.97</u>
Exercisable at the end of the year				<u>453,510,711</u>				<u>396,100,711</u>			<u>396,930,711</u>

---

## APPENDIX II      FINANCIAL INFORMATION OF THE CHINA GAS GROUP

---

*Notes:*

- (1) The exercise of the options will be subject to the condition that the consolidated net asset value of China Gas and its subsidiaries which shall be certified by the auditors appointed by China Gas as at the date of the exercise of the options being not less than HK\$1 billion. Exercisable period is between 22 November 2004 to 5 October 2014.
- (2) The original exercisable period was 1 July 2005 to 5 October 2014. Pursuant to a resolution passed in the board of directors meeting held on 20 March 2005, the exercisable period is changed to the period from 20 March 2005 to 5 October 2014.
- (3) The weighted average share price on exercise dates and the weighted average price immediately before exercise dates are HK\$2.20 (2008: HK\$2.52) per share.

The consideration received during the year from the directors and employees for taking up the options granted amounted to HK\$20 (2008: HK\$10).

In accordance with HKFRS 2 “Share-based payment”, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group’s employee share-based compensation reserve. In the current year, an amount of share-based payment expenses in respect of its share options of approximately HK\$6,981,000 (2008: HK\$6,458,000) has been recognised with a corresponding adjustment recognised in the Group’s employee share-based compensation reserve.

The options outstanding as at 31 March 2009 have a weighted average remaining contractual life of 6 years (2008: 7 years). During the year ended 31 March 2009, options were granted on 7 August 2008. The estimated fair values of the options granted are HK\$2,333,000. During the year ended 31 March 2008, options were granted on 23 August 2007. The estimated fair values of the options granted are HK\$2,579,000.

These fair values were calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	<b>Share option grant date</b>	
	<b>7 August 2008</b>	<b>23 August 2007</b>
Weighted average share price	HK\$1.780	HK\$2.330
Exercise price	HK\$1.770	HK\$2.320
Expected volatility ( <i>note a</i> )	52.55% to 53.23%	50.89%
Expected life ( <i>note b</i> )	5.5 years to 6 years	3 years
Risk free rate ( <i>note c</i> )	3.221% to 3.278%	4.103%
Expected dividend yield ( <i>note d</i> )	1.90%	0.53%

*Notes:*

- (a) The expected volatility was determined by calculating the historical volatility of China Gas's share price over 260 trade days (2008: 260 trade days) immediately before share option grant date.
- (b) Expected life used has been adjusted, based on the management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.
- (c) The risk free rate is determined by the reference to the Exchange Fund Notes issued by Hong Kong Monetary Authority.
- (d) The expected dividend yield was based on historical dividend payment record of the Group and consensus from analyst forecast.

**48. RELATED PARTY TRANSACTIONS**

Apart from the amounts due from/to related parties as disclosed in notes 29, 31, 34 and 37, the Group entered into the following transactions with related parties that are not members of the Group:

- (i) During the year ended 31 March 2009, the Group purchased gas for total amount of HK\$113,746,000 (2008: HK\$105,300,000) from minority shareholders of subsidiaries.
- (ii) During the year ended 31 March 2009, the Group received interest income for total amount of HK\$7,299,000 (2008: nil) from an associate.
- (iii) During the year ended 31 March 2009, the Group paid construction fee for total amount of HK\$181,206,000 (2008: HK\$61,655,000) to an associate.

The remuneration of key management of the Group was as follows:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	37,429	43,022
Post employment benefits	60	63
	<u>37,489</u>	<u>43,085</u>

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 49. POST BALANCE SHEET EVENTS

- (i) On 26 April 2009, China Gas entered into the a conditional agreement with Chinese People Holdings Company Limited for the acquisition of 100% equity interest on Brilliant China Investments Limited and its subsidiary, Beijing Zhongmin Zhongran Trading Company Limited which, in turn, beneficially owned 45.45% of the equity interests in Fujian Anran Gas Investment Company Limited. The consideration of HK\$323,664,000 will be satisfied in cash.

At the same date, a subsidiary of China Gas also entered into a conditional agreement with Beijing Zhongmin Company Limited for the acquisition of 3.55% of Fujian Anran Gas Investment Company Limited. The consideration of RMB40,000,000 will be satisfied in cash.

Details of the acquisitions are set out in China Gas's announcement dated 27 April 2009. The transactions have not been completed at the date of this report.

- (ii) On 31 May 2009, a subsidiary of the Group entered into cooperation agreements with 上海華辰能源有限公司 and 廣東省湛江海鷹船舶燃料運輸有限公司 pursuant to which the Group will acquire 80% equity interest in 上海華辰船務有限公司 at a consideration of RMB74,500,000 (approximate HK\$85,632,000). As at 31 March 2009, 上海華辰船務有限公司 is an associate of the Group with effective shareholding of 16.6% and is principally engaged in shipping delivery services, technical development, providing consultancy services and agent of delivery. The transaction has not been completed at the date of this report.

### 50. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by China Gas		Principal activities
				2009	2008	
				%	%	
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK\$2	100 <sup>#</sup>	100 <sup>#</sup>	Securities investment
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Incorporated	Ordinary HK\$1,000 Non-voting deferred shares HK\$1,000,000 (Note 1)	100 <sup>#</sup> -	100 <sup>#</sup> -	Investment holding, property investment and provision of management services to group companies
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100 <sup>#</sup>	100 <sup>#</sup>	Property development
Zhongran Gas (Shenzhen) Company Limited*	PRC	Wholly-foreign owned enterprises ("WFOE")	Registered US\$29,800,000	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding and treasury

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by China Gas		Principal activities
				2009	2008	
				%	%	
中燃投資有限公司	PRC	WFOE	Registered RMB898,637,000	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding and treasury
Beijing Zhongran Xiangke Oil Gas Technology Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	60 <sup>#</sup>	60 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100 <sup>#</sup>	100 <sup>#</sup>	Property holding
Wuhan China Natural Gas Investment Company Limited*	PRC	WFOE	Registered RMB69,980,000	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding
Yiyang Central Gas & City Gas Development Co., Ltd*	PRC	Sino-foreign equity joint venture	Registered RMB44,000,000	80 <sup>#</sup>	80 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	90 <sup>#</sup>	90 <sup>#</sup>	Trading of natural gas and gas pipeline construction
北京中油翔科科技有限公司	PRC	Limited liability company	Registered RMB2,000,000	80 <sup>#</sup>	80 <sup>#</sup>	Trading of natural gas and gas pipeline construction
唐山翔科燃氣有限公司	PRC	Limited liability company	Registered RMB1,000,000	70 <sup>#</sup>	70 <sup>#</sup>	Trading of natural gas and gas pipeline construction
廊坊市翔科危險貨物運輸有限公司	PRC	Limited liability company	Registered RMB500,000	80 <sup>#</sup>	80 <sup>#</sup>	Trading of natural gas and gas pipeline construction
廊坊市翔科油氣技術有限公司	PRC	Limited liability company	Registered RMB2,680,000	51 <sup>#</sup>	51 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Yichang Zhongran City Gas Development Limited*	PRC	Limited liability company	Registered RMB70,000,000	70 <sup>#</sup>	70 <sup>#</sup>	Trading of natural gas and gas pipeline construction
蕪城翔科燃氣有限公司	PRC	Limited liability company	Registered RMB2,000,000	95 <sup>#</sup>	95 <sup>#</sup>	Trading of natural gas and gas pipeline construction

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by China Gas		Principal activities
				2009	2008	
				%	%	
Clever Decision Enterprises Limited	BVI	Incorporated Limited	Ordinary US\$100	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	WFOE	Registered RMB20,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding
Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
壽縣中燃	PRC	Sino-foreign equity joint venture	Registered RMB3,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Suizhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB35,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Xiaogan China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB48,950,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Xiaogan China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB16,002,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Hanchuan Jchina Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB11,274,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Yunmeng China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB9,708,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Yingcheng Jiayu China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,074,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Dangyang Zhongran Gas Co., Ltd.*	PRC	WFOE	Registered HK\$20,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by China Gas		Principal activities
				2009	2008	
				%	%	
Pizhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US\$3,060,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline
Suzhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered US\$3,625,000	75 <sup>#</sup>	75 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Cangzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK\$2,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Nanpixian Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK\$2,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline
Wuhuxian Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Qinzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered RMB20,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Yangzhong Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US\$1,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Tianmen Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered RMB10,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Baoji Zhongran City Gas Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Registered RMB265,725,000	64 <sup>#</sup>	64 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Nanjing Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB200,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Yulin Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by China Gas		Principal activities
				2009	2008	
				%	%	
烏審旗中燃城市燃氣發展有限公司	PRC	WFOE	Registered RMB50,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Fushun Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB133,330,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
Wuwei Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB18,000,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
重慶渝北	PRC	Sino-foreign equity joint venture	Registered RMB5,060,000	100 <sup>#</sup>	100 <sup>#</sup>	Trading of natural gas and gas pipeline construction
包頭燃氣	PRC	Sino-foreign equity joint venture	Registered RMB183,800,000	80 <sup>#</sup>	80 <sup>#</sup>	Trading of natural gas and gas pipeline construction
包頭加氣	PRC	Sino-foreign equity joint venture	Registered RMB30,000,000	80 <sup>#</sup>	80 <sup>#</sup>	Natural gas refill services and gas station administration
包頭申銀	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	80 <sup>#</sup>	80 <sup>#</sup>	Design, construction and maintenance of city pipeline projects
Zhongyou Hua Dian	PRC	Limited liability company	Registered RMB220,000,000	83 <sup>#</sup>	-	Trading of LPG
上海中油能源控股有限公司	PRC	Limited liability company	Registered RMB100,000,000	83 <sup>#</sup>	-	Investment in petrochemical facilities of storage and transportation, fundamental facilities of pier, sales of raw chemical materials and construction materials

**APPENDIX II**
**FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by China Gas		Principal activities
				2009	2008	
				%	%	
溫州中化燃氣有限公司	PRC	Limited liability company	Registered RMB20,000,000	83 <sup>#</sup>		– Sale of inflammable gas, LPG, inflammable liquid and inflammable solid
溫州市華顯燃氣有限公司	PRC	Limited liability company	Registered RMB20,000,000	83 <sup>#</sup>		– Goods delivery and as agent of steel cylinder testing
溫州中燃能源有限公司	PRC	Limited liability company	Registered RMB3,000,000	83 <sup>#</sup>		– Retailing and wholesaling of LPG and accessories
廣州華凱石油燃氣有限公司	PRC	Limited liability company	Registered USD8,000,000	54 <sup>#</sup>		– Manufacturing of highly purified LPG, highly purified propane and butane
廣西中油能源有限公司 (note 2)	PRC	Limited liability company	Registered USD7,000,000	50 <sup>#</sup>		– Storing and trading of LPG. Sales of chemical products, filling of LPG and delivery of hazardous products
江蘇中油長江石化有限公司 (note 3)	PRC	Limited liability company	Registered capital US\$10,000,000	42 <sup>#</sup>		– Producing and storing LPG and chemical product
廈門中油鷺航油氣有限公司	PRC	Limited liability company	Registered capital RMB21,250,000	58 <sup>#</sup>		– Operation of gas in cities, filling of LPG, delivery of hazardous products and wholesaling and retailing of chemical products
China Gas Corporate Services	Hong Kong	Incorporated Limited	Ordinary HK\$2	100 <sup>#</sup>	100 <sup>#</sup>	Nominee and secretarial services
Iwai Style Limited	Hong Kong	Incorporated Limited	Ordinary HK\$2	100 <sup>#</sup>	100 <sup>#</sup>	Provision of management services to the Group

\* English name is for identification purposes only.

# The proportion of nominal value of issued share capital/registered capital/registered capital directly held by China Gas.

## The proportion of nominal value of issued share capital/registered capital/registered capital indirectly held by China Gas.

---

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

---

The above table lists the principal subsidiaries of China Gas which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

*Notes:*

- (1) The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of China Gas or to participate in any distribution on winding up.
- (2) The Group held 50% indirect interest in 廣西中油能源有限公司 through the 60% direct interest held by a 83% owned subsidiary, Zhongyou Hua Dian. Therefore the Group has control over this entity and it is considered as a subsidiary of China Gas.
- (3) The Group held 42% indirect interest in through the 50.86% direct interest held by an 83% owned subsidiary, Zhongyou Hua Dian. Therefore the Group has control over this entity and it is considered as a subsidiary of China Gas.

None of the subsidiaries had any debt securities outstanding at the end of the year.

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

The following is the unaudited consolidated financial statements of the Group for the six months ended 30 September 2009 as extracted from the interim report 2009 of China Gas.

**Condensed Consolidated Statement of Comprehensive Income**

*For The Six Months Ended 30 September 2009*

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 September 2009</b>	<b>30 September 2008</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited) (restated)
Revenue		3,937,292	1,649,787
Cost of sales		<u>(3,003,261)</u>	<u>(1,096,687)</u>
Gross profit		934,031	553,100
Other income		112,655	87,203
Distribution costs		(210,592)	(66,385)
Administrative expenses		(257,212)	(157,236)
Change in fair value of derivative financial instruments		163,728	(48,955)
Gain (loss) on fair value changes of held-for-trading investments		3,773	(19,252)
Change in fair value of investment properties		19,600	(2,448)
Discount on acquisition of subsidiaries		67,623	–
Impairment loss recognised in respect of trade and other receivable		(40,236)	(74,000)
Finance costs	5	(275,060)	(142,545)
Share of results of associates		<u>22,861</u>	<u>6,577</u>
Profit before taxation		541,171	136,059
Taxation	6	<u>(50,393)</u>	<u>(24,073)</u>
Profit for the period		<u>490,778</u>	<u>111,986</u>
Other comprehensive income			
Exchange gain on translation of operations outside Hong Kong		494	88,240
Gain (loss) on fair value change of available-for-sale investments		<u>6,413</u>	<u>(5,571)</u>

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 September 2009</b>	<b>30 September 2008</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited) (restated)
Other comprehensive income for the period (net of tax)		<u>6,907</u>	<u>82,669</u>
Total comprehensive income for the period		<u><u>497,685</u></u>	<u><u>194,655</u></u>
Profit for the period attributable to:			
Equity holders of China Gas		<u>431,778</u>	<u>73,836</u>
Minority interest		<u>59,000</u>	<u>38,150</u>
		<u><u>490,778</u></u>	<u><u>111,986</u></u>
Total comprehensive income attributable to:			
Equity holders of China Gas		<u>438,685</u>	<u>156,505</u>
Minority interest		<u>59,000</u>	<u>38,150</u>
Total comprehensive income for the period		<u><u>497,685</u></u>	<u><u>194,655</u></u>
Earnings per share			
Basic	8	<u><u>HK12.95 cents</u></u>	<u><u>HK2.22 cents</u></u>
Diluted	8	<u><u>HK12.05 cents</u></u>	<u><u>HK2.01 cents</u></u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**Condensed Consolidated Statement of Financial Position**

*At 30 September 2009*

	<i>Notes</i>	<b>30 September 2009</b> <i>HK\$'000</i> (unaudited)	<b>31 March 2009</b> <i>HK\$'000</i> (audited)
Non-current assets			
Investment properties	9	314,727	295,127
Property, plant and equipment		10,158,122	9,239,775
Prepaid lease payments		880,723	869,075
Interests in associates		1,063,243	1,006,332
Available-for-sale investments		60,686	41,995
Goodwill		906,047	633,620
Other intangible assets		327,385	320,297
Deposits for acquisition of property, plant and equipment		136,032	276,197
Prepayment for acquisition of subsidiaries and an associate		329,773	63,218
Amounts due from associates		87,964	68,966
Deferred tax assets		66,949	56,890
		<u>14,331,651</u>	<u>12,871,492</u>
Current assets			
Inventories		582,772	540,898
Amounts due from customers for contract work		191,983	219,993
Trade and other receivables	10	1,599,972	1,285,698
Derivative financial instruments		3,211	1,261
Amounts due from associates		210,195	243,250
Prepaid lease payments		17,432	16,173
Held-for-trading investments		11,552	11,544
Pledged bank deposits		954,656	847,759
Bank balances and cash		1,548,467	2,048,698
		<u>5,120,240</u>	<u>5,215,274</u>

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

		<b>30 September 2009</b>	<b>31 March 2009</b>
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
<b>Current liabilities</b>			
Trade and other payables	<i>11</i>	2,917,350	2,603,313
Derivative financial instruments		6,919	782
Amounts due to customers for contract work		93,623	121,743
Taxation		54,010	51,733
Bank and other borrowings – due within one year	<i>12</i>	3,102,667	3,103,855
Convertible bonds		14,823	–
		<u>6,189,392</u>	<u>5,881,426</u>
Net current liabilities		<u>(1,069,152)</u>	<u>(666,152)</u>
Total assets less current liabilities		<u><u>13,262,499</u></u>	<u><u>12,205,340</u></u>
<b>Capital and reserves</b>			
Share capital	<i>13</i>	33,353	33,336
Share premium and reserves		3,614,952	3,189,934
Equity attributable to equity holders of China Gas		3,648,305	3,223,270
Minority interests		829,638	794,001
Total equity		<u>4,477,943</u>	<u>4,017,271</u>
<b>Non-current liabilities</b>			
Derivative financial instruments		192,172	360,087
Amount due to a minority shareholder of a subsidiary		356,591	356,591
Bank and other borrowings – due after one year	<i>12</i>	7,968,539	7,194,067
Convertible bonds		–	14,823
Deferred taxation		267,254	262,501
		<u>8,784,556</u>	<u>8,188,069</u>
		<u><u>13,262,499</u></u>	<u><u>12,205,340</u></u>

**Condensed Consolidated Statement of Changes in Equity**  
*For The Six Months Ended 30 September 2009*

	Attributable to equity holders of the parent											
	Share capital	Share premium	Employee share-based compensation reserve	Translation reserve	Investment revaluation reserve	Properties revaluation reserve	Special reserve	Statutory funds	Accumulated profits	Total	Minority interest	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1 April 2008 (audited)	33,314	1,949,866	49,333	283,690	(8,452)	1,601	1,602	77,694	730,639	3,119,287	556,173	3,675,460
Profit for the period	-	-	-	-	-	-	-	-	73,836	73,836	38,150	111,986
Loss on fair value change of available-for-sales investments	-	-	-	-	(5,571)	-	-	-	-	(5,571)	-	(5,571)
Exchange gain on translation of operations outside Hong Kong	-	-	-	88,240	-	-	-	-	-	88,240	-	88,240
Total comprehensive income for the period	-	-	-	88,240	(5,571)	-	-	-	73,836	156,505	38,150	194,655
Exercise of share options	22	1,697	-	-	-	-	-	-	-	1,719	-	1,719
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	480,994	480,994
Dividend paid	-	-	-	-	-	-	-	-	(39,997)	(39,997)	-	(39,997)
Recognition of equity-settled share based payments	-	-	3,472	-	-	-	-	-	-	3,472	-	3,472
Transfer	-	-	-	-	-	-	-	13,335	(13,335)	-	-	-
At 30 September 2008 (unaudited)	33,336	1,951,563	52,805	371,930	(14,023)	1,601	1,602	91,029	1,094,001	3,240,986	1,075,317	4,316,303
At 1 April 2009 (audited)	33,336	1,951,564	56,314	285,553	-	1,601	1,602	111,910	781,390	3,223,270	794,001	4,017,271
Profit for the period	-	-	-	-	-	-	-	-	431,778	431,778	59,000	490,778
Gain on fair value change of available-for-sales investments	-	-	-	-	6,413	-	-	-	-	6,413	-	6,413
Exchange gain on translation of operations outside Hong Kong	-	-	-	494	-	-	-	-	-	494	-	494
Total comprehensive income for the period	-	-	-	494	6,413	-	-	-	431,778	438,685	59,000	497,685
Exercise of share options	17	1,306	-	-	-	-	-	-	-	1,323	-	1,323
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	8,712	8,712
Dividend paid	-	-	-	-	-	-	-	-	(46,676)	(46,676)	-	(46,676)
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	-	(32,075)	(32,075)
Recognition of equity-settled share based payments	-	-	31,703	-	-	-	-	-	-	31,703	-	31,703
Transfer	-	-	-	-	-	-	-	67,176	(67,176)	-	-	-
At 30 September 2009 (unaudited)	33,353	1,952,870	88,017	286,047	6,413	1,601	1,602	179,086	1,099,316	3,648,305	829,638	4,477,943

---

**APPENDIX II                      FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**Condensed Consolidated Statement of Cash Flows**

*For The Six Months Ended 30 September 2009*

	<b>Six months ended</b>	
	<b>30 September 2009</b>	<b>30 September 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	559,302	469,428
NET CASH USED IN INVESTING ACTIVITIES	(1,521,619)	(124,042)
NET CASH FROM FINANCING ACTIVITIES	<u>462,086</u>	<u>1,049,711</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(500,231)	1,395,097
CASH AND CASH EQUIVALENTS AT APRIL 1	2,048,698	1,510,044
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>—</u>	<u>46,952</u>
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	<u><u>1,548,467</u></u>	<u><u>2,952,093</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u><u>1,548,467</u></u>	<u><u>2,952,093</u></u>

**Notes to the Condensed Consolidated Financial Statements**

*For The Six Months Ended 30 September 2009*

**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 “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments which are measured at revalued amounts or fair values, as appropriate.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after July 1, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 32 and HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 and HKAS 39 (Amendment)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation

The adoption of these new or revised standards, amendments and interpretations had no material effect on the results and financial position of the Group for the current and/or prior accounting periods. Accordingly, no prior period adjustment has been required.

Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 March 2009.

**HKFRS 8 – Operating segments**

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments (see note 4) and has had no impact on the reported results or financial position of the Group.

**HKAS 1 (Revised) – Presentation of financial statements**

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact of the reported results or financial position of the Group.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>1</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
HKFRS 1 (Revised)	First-time adoption of HKFRSs <sup>1</sup>
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>1</sup>
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners <sup>1</sup>
HK(IFRIC) – INT 18	Transfer of assets from customers <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>4</sup> Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The directors of China Gas anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**3. RESTATEMENTS**

During the period ended 30 September 2008, the Group acquired certain subsidiaries of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the period, the Group made certain fair value adjustments, with reference to the valuation reports, to the carrying amounts of the identifiable assets and liabilities of the subsidiaries acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been completed on the acquisition date.

**4. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segment (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of the measurement of segment profit or loss.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

The Group is organised into four operating divisions – sales of piped gas, gas connection, sales of liquefied petroleum gas (“LPG”) and sales of coke and gas appliance. These principal operating activities are the basis on which the chief operating decision maker allocate resources to segments and to assess their performance.

Segment information for the six months ended 30 September 2009 and 2008 about these businesses is presented below.

	Six months ended 30 September 2009					
	Sales of piped gas <i>HK\$'000</i>	Gas connection <i>HK\$'000</i>	Sales of LPG <i>HK\$'000</i>	Sales of coke and gas appliances <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>1,577,112</u>	<u>559,269</u>	<u>1,748,104</u>	<u>52,327</u>	<u>480</u>	<u>3,937,292</u>
Segment result	<u>267,839</u>	<u>299,129</u>	<u>(2,414)</u>	<u>539</u>	<u>19,474</u>	584,567
Unallocated corporate revenue						57,676
Unallocated corporate expenses						(80,224)
Change in fair value of derivative financial instruments						163,728
Discount on acquisition of subsidiaries						67,623
Finance cost						(275,060)
Share of result of associates						<u>22,861</u>
Profit before taxation						541,171
Taxation						<u>(50,393)</u>
Profit for the period						<u>490,778</u>

## Six months ended 30 September 2008

	Sales of	Gas	Sales	Sales of coke	Others	Consolidated
	pipled gas	connection	of PLG	and gas		
	HK\$'000	HK\$'000	HK\$'000	appliances	HK\$'000	HK\$'000
				HK\$'000		
Revenue	<u>1,039,417</u>	<u>412,950</u>	<u>–</u>	<u>196,850</u>	<u>480</u>	<u>1,649,697</u>
Segment result	<u>131,530</u>	<u>175,708</u>	<u>–</u>	<u>5,974</u>	<u>(2,558)</u>	310,654
Unallocated corporate revenue						87,203
Unallocated corporate expenses						(76,875)
Change in fair value of derivative financial instruments						(48,955)
Finance cost						(142,545)
Share of result of associates						<u>6,577</u>
Profit before taxation						136,059
Taxation						<u>(24,073)</u>
Profit for the period						<u>111,986</u>

## 5. FINANCE COSTS

	Six months ended	
	30 September 2009	30 September 2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on:		
– Bank loans and other borrowings wholly repayable within five years	91,312	92,830
– Bank loans not wholly repayable within five years	153,839	137,106
– Convertible bonds	<u>323</u>	<u>323</u>
	245,474	230,259
Less: Interest capitalised to construction in progress	(45,500)	(72,629)
Net interest expense (income) on interest rate swaps	<u>75,086</u>	<u>(15,085)</u>
	<u>275,060</u>	<u>142,545</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**6. TAXATION**

	<b>Six months ended</b>	
	<b>30 September 2009</b>	<b>30 September 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	64,297	44,338
Deferred taxation	(13,904)	(20,265)
	<u>50,393</u>	<u>24,073</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for either period. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The taxation charge of the PRC Enterprise Income Tax for the current and prior periods have been made based on the Group's estimated assessable profits calculated at the prevailing tax rates in accordance with the relevant income tax laws applicable to the subsidiaries in the PRC.

**7. PROFIT FOR THE PERIOD**

	<b>Six months ended</b>	
	<b>30 September 2009</b>	<b>30 September 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	217,971	126,448
Release of prepaid lease payment	6,715	5,197
Amortisation of intangible assets	6,422	4,672
Interest income	(35,606)	(41,270)
Loss on disposal of property, plant and equipment	2,086	547
Share of tax of associates	<u>4,257</u>	<u>991</u>

---

**APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP**

---

**8. EARNINGS PER SHARE**

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

	Six months ended	
	30 September 2009 HK\$'000 (unaudited)	30 September 2008 HK\$'000 (unaudited) (restated)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of China Gas)	431,778	73,836
Adjustment for the effect of dilutive potential ordinary shares:		
Change in fair value of embedded derivatives of convertible bonds	–	(1,991)
Interest on convertible bonds	–	323
	<u>431,778</u>	<u>72,168</u>
Earnings for the purpose of diluted earnings per share	<u>431,778</u>	<u>72,168</u>

	Six months ended	
	30 September 2009 (unaudited)	30 September 2008 (unaudited) (restated)
<b>Number of shares</b>		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,333,846	3,332,887
Effect of dilutive potential ordinary shares:		
Share options	248,754	254,177
Convertible bonds	–	8,954
	<u>3,582,600</u>	<u>3,596,018</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,582,600</u>	<u>3,596,018</u>

The computation of diluted earnings per share does not assume the conversion of convertible bonds for the period ended 30 September 2009 as the conversion would result in an increase in earnings per share.

**9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment at a total cost of approximately HK\$1,138,404,000 of which HK\$459,506,000 was acquired through acquisition of business.

During the period, certain property, plant and equipment with a carrying amount of HK\$2,086,000 were written off by the Group, resulting in a loss on disposal of HK\$2,086,000.

The Group's investment properties were fair valued by the professional valuers at 30 September 2009. The resulting increase in fair value of investment properties of HK\$19,600,000 has been recognised directly in the condensed consolidated statement of comprehensive income.

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 10. TRADE AND OTHER RECEIVABLES

Other than certain major customers with good repayment history which the Group allows a longer credit period or settlement by instalment basis, the Group allows an average credit period of 30 – 180 days to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	<b>30 September 2009</b>	<b>31 March 2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
0 – 180 days	392,938	344,066
181 – 365 days	105,042	92,333
Over 365 days	<u>247,280</u>	<u>219,375</u>
Total trade receivables before accumulated allowances	745,260	655,774
Less: accumulated allowances	<u>(186,315)</u>	<u>(146,079)</u>
Trade receivables	558,945	509,695
Deposits paid for purchase of natural gas and LPG	223,076	130,983
Advanced payments to contractors and deposits paid for construction materials	242,730	180,940
Other receivables, deposits and prepayments	477,760	328,528
Amount due from minority shareholders of subsidiaries	68,925	70,155
Amounts due from shareholders of a jointly controlled entity	<u>28,536</u>	<u>65,397</u>
	<u><u>1,599,972</u></u>	<u><u>1,285,698</u></u>

### 11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30 September 2009</b>	<b>31 March 2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
0 – 90 days	1,124,915	1,142,836
91 – 180 days	78,075	119,262
Over 180 days	<u>417,167</u>	<u>249,131</u>
Trade payables	1,620,157	1,511,229
Other payables and accrued charges	445,812	499,483
Advanced payments from customers	254,701	186,196
Advance received from customers for contract works	582,074	258,592
Amounts due to minority shareholders of subsidiaries	14,606	99,745
Deferred cash consideration for the acquisition of business	<u>–</u>	<u>48,068</u>
	<u><u>2,917,350</u></u>	<u><u>2,603,313</u></u>

## APPENDIX II FINANCIAL INFORMATION OF THE CHINA GAS GROUP

### 12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank and other borrowings of approximately HK\$750,287,000 of which approximately HK\$229,885,000 is repayable within one year. The loans bears interest at 4.37% to 7.74% per annum. The proceeds were used to finance the capital expenditure and general working capital of the Group.

### 13. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital</b>
	<i>'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each issued and fully paid:		
At 1 April 2008	3,331,444	33,314
Exercise of share options	2,170	22
At 30 September 2008 and 31 March 2009	3,333,614	33,336
Exercise of share options	1,660	17
At 30 September 2009	3,335,274	33,353

### 14. ACQUISITION OF SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

During the period, the Group entered into acquisition agreements with independent third parties pursuant to which the Group acquired 100% interest in 南京新浦口管道燃氣有限公司 (“南京新浦口”) at a consideration of RMB7,465,700. 南京新浦口 is principally engaged in the installation of natural gas pipeline network and sale of natural gas in 南京新浦口 region of Nanjing, the PRC. A discount on acquisition of HK\$22,123,000 was credited to consolidated statement of comprehensive income during the period. 南京新浦口 contributed to the Group’s revenue and profit of HK\$4,007,000 and of HK\$291,000 respectively.

During the period, the Group further acquired 上海華辰船務有限公司 (“上海華辰船務”) from 20% equity interest to 100% equity interest at a consideration of RMB54,500,000. 上海華辰船務 is principally engaged in transportation of LPG. Discount on acquisition arising from the acquisition of additional interest 上海華辰船務 is HK\$45,496,000. During the period, 上海華辰船務 contributed to the Group’s revenue and profit of HK\$35,104,000 and of HK\$2,005,000 respectively.

During the period, the Group entered into acquisition agreements with independent third parties pursuant to which the Group acquired 49% equity interest in Fujian Anran Gas Investment Company Limited (“Fujian Anran”) at a consideration of approximately HK\$369,641,000. Fujian Anran is principally engaged in the provision of gas fuel and gas pipeline connection, transportation and distribution of liquefied petroleum gas in PRC. The goodwill of HK\$270,971,000 arising on the acquisition of Fujian Anran is attributable to the anticipated profitability of the natural gas business of this Group. The initial accounting for this acquisition has been determined provisionally, awaiting the receipt of professional valuations in relation to certain underlying assets and liabilities of the acquiree. During the period, Fujian Anran contributed to the Group’s revenue and profit of HK\$22,482,000 and HK\$6,620,000 respectively.

### 15. CAPITAL COMMITMENTS

As at 30 September 2009, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements amounting to HK\$181,123,000 (31 March 2009: HK\$208,150,000) and HK\$81,649,000 (31 March 2009: HK\$93,312,000), respectively.

**16. PLEDGE OF ASSETS**

As at 30 September 2009, the Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying amount of approximately HK\$449,646,000 and HK\$36,652,000 (31 March 2009: HK\$457,164,000 and HK\$37,047,000), investment properties having a carrying value of HK\$25,300,000 (31 March 2009: HK\$19,200,000), trade receivables having carrying amount of HK\$65,125,000 (31 March 2009: HK\$45,878,000), inventories having carrying value of HK\$91,954,000 (31 March 2009: HK\$87,651,000), pledged bank deposits of HK\$954,656,000 (31 March 2009: HK\$847,759,000) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the Group.

**17. RELATED PARTY TRANSACTIONS**

The Group entered into the following transactions with related parties that are not members of the Group:

- (i) During the period, the Group purchased gas for total amount of HK\$48,536,000 (year ended 31 March 2009: HK\$113,746,000) from minority shareholders of subsidiaries.
- (ii) During the period, the Group received interest income for total amount of HK\$5,780,000 (year ended 31 March 2009: HK\$7,299,000) from an associate.
- (iii) During the period, the Group paid construction fee for total amount of HK\$56,445,000 (year ended 31 March 2009: HK\$181,206,000) to an associate.

**18. POST BALANCE SHEET EVENTS**

The Group did not have material post balance sheet event.

**INTERIM DIVIDEND**

The China Gas Directors did not recommend the payment of an interim dividend for the six months ended 30 September 2009 (30 September 2008: NIL).

## 1. RESPONSIBILITY STATEMENTS

This Offer Document includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purposes of giving information with regard to the China Gas Group and the Offers.

The China Gas Directors and the Offeror Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Offer Document (other than that relating to Zhongyu, Hezhong, the Management Owners and Partners Capital, except as stated below) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in this Offer Document, the omission of which would make any statements in this Offer Document misleading.

The information on the Zhongyu Group, Hezhong, the Management Owners and Partners Capital in this Offer Document has been taken from the published interim reports and annual reports of the Zhongyu Group and from information publicly available on the websites of the SFC, the Stock Exchange and Zhongyu, public announcements and circulars issued by Zhongyu and public disclosure of interests made pursuant to Rule 22 of the Takeovers Code and the SFO. The China Gas Directors and the Offeror Directors jointly and severally take full responsibility for the correctness and fairness of the reproduction or presentation of such information contained in this Offer Document.

## 2. SHARE CAPITAL OF CHINA GAS

### (a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of China Gas were as follows:

<i>Authorised:</i>	<i>HK\$</i>
9,000,000,000 ordinary China Gas Shares	90,000,000.00
68,500,000 preference shares A of China Gas	68,500,000
56,402,477 preference shares B of China Gas	56,402,477

<i>Issued and fully paid and to be issued:</i>		<i>HK\$</i>
3,333,614,020	China Gas Shares as at 31 March 2009	33,336,140.20
300,000	China Gas Shares issued on 16 June 2009 on the exercise of share options under the China Gas Share Option Scheme	3,000.00
60,000	China Gas Shares issued on 18 August 2009 on the exercise of share options under the China Gas Share Option Scheme	600.00
1,300,000	China Gas Shares issued on 25 September 2009 on the exercise of share options under the China Gas Share Option Scheme	13,000.00
9,012,131	China Gas Shares issued on 22 October 2009 upon exercise of the conversion right attached to the China Gas Convertible Bonds	90,121.31
6,000,000	China Gas Shares issued on 27 October 2009 on the exercise of share options under the China Gas Share Option Scheme	60,000.00
150,000	China Gas Shares issued on 10 November 2009 on the exercise of share options under the China Gas Share Option Scheme	1,500.00
1,500,000	China Gas Shares issued on 17 November 2009 on the exercise of share options under the China Gas Share Option Scheme	15,000.00
100,000	China Gas Shares issued on 23 November 2009 on the exercise of share options under the China Gas Share Option Scheme	1,000.00
3,000,000	China Gas Shares issued on 25 November 2009 on the exercise of share options under the China Gas Share Option Scheme	30,000.00
800,000	China Gas Shares issued on 10 December 2009 on the exercise of share options under the China Gas Share Option Scheme	8,000.00
800,000	China Gas Shares issued on 23 December 2009 on the exercise of share options under the China Gas Share Option Scheme	8,000.00
2,000,000	China Gas Shares issued on 29 December 2009 on the exercise of share options under the China Gas Share Option Scheme	20,000.00
400,000	China Gas Shares issued on 5 February 2010 on the exercise of share options under the China Gas Share Option Scheme	4,000.00
500,000	China Gas Shares issued on 24 February 2010 on the exercise of share options under the China Gas Share Option Scheme	5,000.00
1,500,000	China Gas Shares issued on 22 March 2010 on the exercise of share options under the China Gas Share Option Scheme	15,000.00
400,000	China Gas Shares issued on 5 May 2010 on the exercise of share options under the China Gas Share Option Scheme	4,000.00
<u>3,361,436,151</u>		<u>33,614,361.51</u>
<u>339,728,029</u>	Maximum number of new China Gas Shares to be issued under the Offers (assuming that each of the Share Offer, Option Offer and Convertible Offer is accepted in full)	<u>3,397,280.29</u>

Apart from 18,810,000 China Gas Shares and 9,012,131 China Gas Shares allotted and issued since 31 March 2009 and up to the Latest Practicable Date, in respect of the exercise of outstanding share options and conversion of convertible bonds of China Gas respectively, no China Gas Shares have been issued or repurchased since 31 March 2009 (being the date to which its latest published audited accounts were prepared). All of the China Gas Shares currently in issue rank pari passu in all respects with each other, including rights and entitlements as to dividends, voting rights and return of capital.

**(b) Options, derivatives, warrants and conversion rights**

As at the Latest Practicable Date, there were outstanding share options of China Gas granted under the share option scheme adopted by China Gas on 6 February 2003 entitling the eligible participants to subscribe for up to an aggregate of 944,814,711 China Gas Shares with the exercise price ranging from HK\$0.71 to HK\$2.60 per China Gas Share, details of which are set out below:

Name of optionholder	Exercise period	Exercise price (HK\$)	No. of outstanding options held
Mr. Liu Ming Hui	1 September 2004 to 8 January 2014	0.80	5,000,000
	22 November 2004 and 5 October 2014 ( <i>Note 1</i> )	0.71	130,000,000
	3 August 2009 to 2 August 2019 ( <i>Note 2</i> )	2.10	100,000,000
Mr. Xu Ying	1 September 2004 to 8 January 2014	0.80	5,000,000
	22 November 2004 and 5 October 2014 ( <i>Note 1</i> )	0.71	90,000,000
	3 August 2009 to 2 August 2019 ( <i>Note 2</i> )	2.10	100,000,000
Mr. Zhu Wei Wei	1 September 2004 to 8 January 2014	0.80	4,000,000
	20 March 2005 to 5 October 2014	0.71	6,000,000
	3 August 2011 to 2 August 2014	2.10	4,000,000
Mr. Li Xiao Yun	1 September 2004 to 8 January 2014	0.80	5,000,000
	20 October 2010 to 19 October 2015	1.50	5,000,000
	3 August 2011 to 2 August 2014	2.10	5,000,000
Mr. Ma Jin Long	1 September 2004 to 8 January 2014	0.80	5,940,711
	3 August 2011 to 2 August 2014	2.10	4,000,000
Mr. Zhao Yu Hua	1 September 2004 to 8 January 2014	0.80	1,000,000
	1 January 2005 to 5 October 2014	0.71	700,000
	3 August 2011 to 2 August 2014	2.10	3,000,000
Dr. Mao Er Wan	1 September 2004 to 8 January 2014	0.80	1,000,000
	3 August 2011 to 2 August 2014	2.10	3,000,000
Ms. Wong Sin Yue, Cynthia	3 August 2011 to 2 August 2014	2.10	3,000,000
Mr. Feng Zhuo Zhi	3 August 2011 to 2 August 2014	2.10	3,000,000
Mr. R.K. Goel	3 August 2011 to 2 August 2014	2.10	3,000,000
Mr. William Rackets*	3 August 2011 to 2 August 2014	2.10	3,000,000
Mr. Joe Yamagata	3 August 2011 to 2 August 2014	2.10	3,000,000
Mr. Kim Joong Ho*	3 August 2011 to 2 August 2014	2.10	3,000,000

\* resigned as a China Gas Director on 13 April 2010

Name of optionholder	Exercise period	Exercise price (HK\$)	No. of outstanding options held
Employees and others	1 September 2004 to 8 January 2014	0.80	36,480,000
	20 March 2005 to 5 October 2014	0.71	85,000,000
	20 October 2010 to 19 October 2015	1.50	151,800,000
	27 January 2011 to 26 January 2016	1.52	6,500,000
	19 September 2008 to 22 August 2017	2.32	3,000,000
	3 September 2009 to 6 August 2018	1.77	1,500,000
	3 September 2010 to 6 August 2018	1.77	1,500,000
	3 August 2011 to 2 August 2014	2.10	53,394,000
	3 August 2009 to 2 August 2019 (Note 2)	2.10	100,000,000
	14 October 2009 to 16 September 2014	2.60	5,000,000
	17 September 2012 to 16 September 2014	2.60	5,000,000
			<b><u>944,814,711</u></b>

*Notes:*

- (1) The exercise of options is subject to a condition that the consolidated net asset value of China Gas Group which shall be certified by the auditors appointed by China Gas as at the date of exercise of the options is not less than HK\$1 billion.
- (2) The exercise of options is subject to a condition that the profit after taxation of China Gas Group as stated in the latest audited report of China Gas shall not be less than HK\$1.5 billion.

Save as disclosed herein, there are no other outstanding options, derivatives, warrants or conversion rights affecting China Gas Shares as at the Latest Practicable Date.

**(c) Listing**

The China Gas Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of China Gas is listed or dealt in, nor is any listing of or permission to deal in the China Gas Shares being proposed or to be sought on, any other stock exchange.

As at the Latest Practicable Date, there are 3,361,436,151 China Gas Shares in issue and share options involving 944,814,711 China Gas Shares outstanding. Other than the above, China Gas has no other China Gas Shares, share options, options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into China Gas Shares.

**(d) Reorganisation of capital**

There has been no reorganisation of capital of China Gas during the two financial years preceding the commencement of the Offer Period.

**3. MARKET PRICES**

- (a) During the Relevant Period, the highest closing price of the China Gas Shares as quoted on the Stock Exchange was HK\$4.99 per China Gas Share on 13 January 2010, and the lowest closing price of the China Gas Shares as quoted on the Stock Exchange was HK\$2.00 per China Gas Share on 27 July 2009.
- (b) The table below sets out the closing prices of the China Gas Shares as quoted on the Stock Exchange: (i) on the Latest Practicable Date; (ii) on the Last Trading Date; and (iii) on the last trading day of each of the calendar months during the Relevant Period:

<b>Date</b>	<b>Closing price per China Gas Share (HK\$)</b>
31 July 2009	2.08
31 August 2009	2.10
30 September 2009	2.47
30 October 2009	3.16
30 November 2009	3.36
31 December 2009	4.24
15 January 2010 (Last Trading Date)	4.83
18 January 2010 to 26 January 2010	suspended
29 January 2010	4.15
26 February 2010	4.07
31 March 2010	4.36
30 April 2010	4.46
Latest Practicable Date	4.00

*Note:*

The table below shows the closing prices of Zhongyu Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Date; and (iii) the Latest Practicable Date:

Date	Closing price per Zhongyu Share HK\$
31 July 2009	0.54
31 August 2009	0.46
30 September 2009	0.54
30 October 2009	0.62
30 November 2009	0.81
31 December 2009	0.77
15 January 2010	0.89
29 January 2010	0.79
26 February 2010	0.79
31 March 2010	N/A*
14 May 2010 (being the Latest Practicable Date)	N/A*

\* Trading in the Zhongyu Shares has been suspended since 22 March 2010

#### 4. DISCLOSURE OF INTERESTS

##### (A) Directors' interests and short positions in the securities of China Gas and the Offeror

As at the Latest Practicable Date, the interests and short positions of the China Gas Directors and chief executive of China Gas and the Offeror and their associates in the China Gas Shares, underlying shares and debentures of China Gas and the Offeror which were required to be disclosed in this Offer Document pursuant to the requirements of the Takeovers Code, were as follows:

##### (a) China Gas Shares

The table below sets out the interests in the China Gas Shares and shares of the Offeror held by the China Gas Directors and chief executive of China Gas:

Name of China Gas Director	<i>Note</i>	Nature of interest	Number of China Gas Shares held	Approximate percentage of issued shares (%)
Mr. Liu Ming Hui	<i>I</i>	Personal	391,624,000 (L) 118,500,000 (S)	11.65 3.53
Ms. Wong Sin Yue, Cynthia		Personal	1,000,000 (L)	0.03

*Notes:*

1. On 8 March 2005, a sale and purchase agreement was entered into between Hai Xia Finance Holdings Limited (“**Hai Xia**”) and Mr. Liu Ming Hui, pursuant to which Mr. Liu Ming Hui agreed to sell and Hai Xia agreed to purchase 190,000,000 China Gas Shares from Mr. Liu Ming Hui in five tranches for a cash consideration in an aggregate amount of HK\$330,000,000. Details of the transactions were set out in the announcement of China Gas dated 9 March 2005. As at the Latest Practicable Date, the sale and purchase of 71,500,000 China Gas Shares has been completed, and the outstanding number of shares to be sold and purchased is 118,500,000 China Gas Shares.

*(b) Share options of China Gas*

As at the Latest Practicable Date, the China Gas Directors’ interests in share options of China Gas which remain outstanding are summarised below:

Name of China Gas Director	Number of options in China Gas held	Nature of interest	Number of underlying China Gas Shares	Approximate percentage of issued shares (%)
Mr. Liu Ming Hui	235,000,000	Beneficial owner	235,000,000	7.00
Mr. Xu Ying	195,000,000	Beneficial owner	195,000,000	5.81
Mr. Zhu Wei Wei	14,000,000	Beneficial owner	14,000,000	0.42
Mr. Li Xiao Yun	15,000,000	Beneficial owner	15,000,000	0.45
Mr. Ma Jin Long	9,940,711	Beneficial owner	9,940,711	0.30
Mr. Zhao Yu Hua	4,700,000	Beneficial owner	4,700,000	0.14
Dr. Mao Er Wan	4,000,000	Beneficial owner	4,000,000	0.12
Ms. Wong Sin Yue, Cynthia	3,000,000	Beneficial owner	3,000,000	0.09
Mr. Feng Zhuo Zhi	3,000,000	Beneficial owner	3,000,000	0.09
Mr. R.K. Goel	3,000,000	Beneficial owner	3,000,000	0.09
Mr. William Rackets*	3,000,000	Beneficial owner	3,000,000	0.09
Mr. Joe Yamagata	3,000,000	Beneficial owner	3,000,000	0.09
Mr. Kim Joong Ho*	3,000,000	Beneficial owner	3,000,000	0.09
	<b><u>495,640,711</u></b>		<b><u>495,640,711</u></b>	

\* resigned as a China Gas Director on 13 April 2010

*Notes:* The share options were granted under the share option scheme adopted by China Gas on 6 February 2003 and the holders thereof are entitled to subscribe for China Gas Shares at an exercise price and exercise period as disclosed in the section headed “Options, derivatives, warrants and conversion rights” above.

Save as disclosed above, as at the Latest Practicable Date, none of the China Gas Directors, the chief executive of China Gas, the Offeror Directors or the chief executive of the Offeror had or was deemed to have any interests or short positions in the China Gas Shares, underlying shares or debentures of China Gas or the Offeror which were required to be disclosed in this Offer Document pursuant to the requirements of the Takeovers Code.

**(B) Substantial shareholders' interests and short positions in the securities of China Gas and the Offeror**

As at the Latest Practicable Date, the following persons (other than a China Gas Director or chief executive of China Gas or the Offeror) were substantial shareholders of China Gas (as defined in the Listing Rules) and had an interest or short position in the China Gas Shares or underlying shares of China Gas or the Offeror which would fall to be disclosed to China Gas under any applicable laws and the amount of each such person's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

*Long position in China Gas Shares*

Name of shareholder	Note	Nature of interest	Number of China Gas Shares	Approximate percentage of issued share capital (%)
Ms. Xu Xau Lan	1	Deemed Interest	626,624,000 (L) 118,500,000 (S)	18.64 3.53
Hai Xia	2	Beneficial Owner	346,000,003 (L) 150,000,003 (S)	10.29 4.46
China Petroleum & Chemical Corporation		Beneficial Owner	210,000,000	6.25
GAIL (India) Limited		Beneficial Owner	210,000,000	6.25
Oman Oil Company, S.A.O.C.		Beneficial Owner	237,567,060	7.07

*Notes:*

- (1) Ms. Xu Xau Lan is deemed to be interested in the shares and options in China Gas which are held by her spouse, Mr. Liu Ming Hui, the managing director of China Gas.
- (2) On 8 March 2005, a sale and purchase agreement was entered into between Hai Xia and Mr. Liu Ming Hui, pursuant to which Mr. Liu Ming Hui agreed to sell and Hai Xia agreed to purchase 190,000,000 China Gas Shares from Mr. Liu Ming Hui in five tranches for a cash consideration in an aggregate amount of HK\$330,000,000. Details of the transactions were set out in the announcement of China Gas dated 9 March 2005. As at the Latest Practicable Date, the sale and purchase of 71,500,000 China Gas Shares has been completed, and the outstanding number of shares to be sold and purchased is 118,500,000 China Gas Shares.

Save as disclosed above, the China Gas Directors were not aware that there was any person (other than a China Gas Director or chief executive of China Gas or the Offeror) who, as at the Latest Practicable Date, was a substantial shareholder of China Gas or the Offeror (as defined in the Listing Rules) and had an interest or short position in the China Gas Shares or the shares of the Offeror which would fall to be disclosed to China Gas under any applicable laws.

#### 5. DISCLOSURE OF INTERESTS UNDER SCHEDULE I OF THE TAKEOVERS CODE

As at the Latest Practicable Date:

- (a) none of China Gas and the Offeror was interested in any Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu;
- (b) save as disclosed in the section headed “Disclosure of Interests – Substantial shareholders’ interests and short positions in the securities of China Gas and the Offeror” of this Offer Document, none of the China Gas Directors and Offeror Directors owned or controlled any shares, convertible securities, warrants, options or derivatives of China Gas and the Offeror;
- (c) none of the China Gas Directors and Offeror Directors was interested in any Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu;
- (d) save as disclosed in the section headed “Disclosure of Interests – Substantial shareholders’ interests and short positions in the securities of China Gas and the Offeror” of this Offer Document, none of the Concert Parties owned or controlled any shares, convertible securities, warrants, options or derivatives of China Gas and the Offeror;
- (e) none of the Concert Parties owned or controlled any Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu;
- (f) none of Hezhong and the Management Owners, being parties who have given the Irrevocable Undertaking (and apart from whom, no other parties have irrevocably committed themselves to accept or reject the Offers), owned or controlled any shares, convertible securities, warrants, options or derivatives of China Gas and the Offeror;
- (g) Hezhong, Mr. Wang and Mr. Hao, being the only parties who have irrevocably committed themselves to accept the Offers, own 945,755,542 Zhongyu Shares (in the case of Hezhong), 1,166,000 Zhongyu Shares and 10,002,000 Share Options (in the case of Mr. Wang) and 65,004,000 Share Options (in the case of Mr. Hao). Save for the above, Hezhong, Mr. Wang and Mr. Hao do not own any other shareholding in Zhongyu. Save for the Irrevocable Undertaking given by the Management Owners and Hezhong in favour of China Gas and the Offeror, no other person has given any irrevocable commitment in favour of China Gas and the Offeror to accept the Offers in respect of any Zhongyu Shares, Convertible Bonds or Share Options it owns;

- (h) none of China Gas, the Offeror or any of the Concert Parties had borrowed or lent any shares, convertible securities, warrants, options or derivatives of China Gas and the Offeror;
- (i) none of China Gas, the Offeror nor any of the Concert Parties had borrowed or lent any Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu; and
- (j) apart from the Irrevocable Undertaking, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between China Gas, the Offeror or any of the Concert Parties, and any other person in respect of the shares, convertible securities, warrants, options or derivatives of China Gas and the Offeror and Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu.

#### 6. DEALINGS IN SECURITIES OF CHINA GAS, THE OFFEROR AND ZHONGYU

During the Relevant Period:

- (a) none of China Gas, the Offeror or the Concert Parties has dealt for value in the Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu;
- (b) none of the China Gas Directors or Offeror Directors has dealt for value in the Zhongyu Shares, convertible securities, warrants, options or derivatives of Zhongyu; and
- (c) none of Hezhong and the Management Owners has dealt for value in the China Gas Shares, the shares of the Offeror, convertible securities, warrants, options or derivatives of China Gas and the Offeror.
- (d) Mr. Ma Jin Long and Ms. Wong Sin Yue, Cynthia exercised a total of 5,000,000 share options of China Gas and disposed of a total of 4,000,000 China Gas Shares, particulars of which are set out below:

##### Exercise of share options of China Gas

Name of China Gas Director	Date of exercise	Number of options of China Gas exercised	Exercise price (HK\$)
Mr. Ma Jin Long	25 September 2009	1,300,000	0.80
	23 October 2009	2,000,000	0.80
Ms. Wong Sin Yue, Cynthia	29 December 2009	1,000,000	0.80
	29 December 2009	700,000	0.71

## Sale of China Gas Shares

Name of China Gas Director	Date of disposal	Number of China Gas Share sold	Price per China Gas Share (HK\$)
Mr. Ma Jin Long	21 October 2009	1,300,000	3.30
	12 November 2009	2,000,000	3.38
Ms. Wong Sin Yue, Cynthia	4 January 2010	20,000	4.23
		20,000	4.24
		20,000	4.29
		20,000	4.31
		30,000	4.27
		30,000	4.30
		30,000	4.33
	5 January 2010	80,000	4.21
		20,000	4.38
		20,000	4.39
		20,000	4.40
	6 January 2010	40,000	4.37
		50,000	4.42
		20,000	4.38
		80,000	4.39
		30,000	4.40
		20,000	4.45
	30,000	4.46	
	50,000	4.47	
	20,000	4.48	
	50,000	4.49	

Save as disclosed herein, none of the China Gas Directors, Offeror Directors or the Concert Parties has dealt for value in the China Gas Shares, the shares of the Offeror, convertible securities, warrants, options or derivatives of China Gas and the Offeror during the Relevant Period.

**7. INDEBTEDNESS****Borrowings**

As at 28 February 2010, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Offer Document, the China Gas Group had outstanding bank and other borrowings of approximately HK\$12,665,998,000.

**Pledge of assets**

As at 28 February 2010, the China Gas Group had pledged certain property, plant and equipment and prepaid lease payments having a net carrying value of HK\$400,424,000 and HK\$39,056,000 respectively, investment properties having a carrying value of HK\$25,300,000, trade receivables having a carrying value of HK\$58,220,000 and pledged bank deposits of HK\$611,584,000, and certain subsidiaries of the China Gas Group have pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the China Gas Group.

**Capital commitments**

As at 28 February 2010, the China Gas Group has capital commitments in respect of acquisitions for subsidiaries and an associate, property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided amounting to HK\$178,103,000, HK\$234,615,000 and HK\$118,499,000 respectively.

**Contingent liabilities**

As at 28 February 2010, the China Gas Group has no significant contingent liabilities.

**Disclaimer**

Save as disclosed in this section and apart from intra-group liabilities, as at 28 February 2010, the China Gas Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

As at the Latest Practicable Date, there were no material changes in relation to the indebtedness and contingent liabilities of the China Gas Group subsequent to 28 February 2010.

**8. LITIGATION**

As at the Latest Practicable Date, no member of the China Gas Group was engaged in any litigation or arbitration or claim of material importance and the China Gas Directors and the Offeror Directors were not aware of any litigation or claim of material importance pending or threatened by or against any member of the China Gas Group.

**9. MATERIAL CONTRACTS**

Apart from the Irrevocable Undertaking, there are no contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the China Gas Group within two years preceding the commencement of the Offer Period (i.e. 26 January 2010) and up to and including the Latest Practicable Date and are or may be material.

**10. SERVICE CONTRACTS**

As at the Latest Practicable Date, save for Mr. Xu Ying and Mr. Liu Ming Hui who each had entered into a service agreement with China Gas commencing from 1 April 2008 for a period of three years, none of the China Gas Directors and the Offeror Directors had entered into any service contract with China Gas or any of its subsidiaries or associated companies which (a) (including both continuous and fixed term contracts) were entered into or amended within six months before the commencement of the Offer Period; (b) were continuous contracts with a notice period of 12 months or more; or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period.

**11. QUALIFICATIONS AND CONSENTS**

The names and qualifications of each of the experts who are named in this Offer Document or have given their opinion, letters or advice to China Gas and/or the Offeror which are contained in this Offer Document and/or who have been named in this Offer Document are set out below:

<b>Name</b>	<b>Qualification</b>
Macquarie	a licensed corporation under the SFO licensed to conduct Type 6 (advising on corporate finance) regulated activity
MCSL	a licensed corporation under the SFO licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities

Each of Macquarie and MCSL has given, and has not withdrawn, its respective written consent to the issue of this Offer Document with the inclusion herein of its letter and the references to its name, in the form and context in which they are included.

**12. MATERIAL CHANGES**

As at the Latest Practicable Date, there were no material changes in the financial or trading position or outlook of the China Gas Group subsequent to 31 March 2009, the date to which the latest audited consolidated financial statements of the China Gas Group were made.

**13. GENERAL**

- (a) The registered office of China Gas is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The head office and principal place of business of China Gas is 16/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (b) The correspondence address of China Gas and the Offeror in Hong Kong is 16/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (c) As at the Latest Practicable Date, the China Gas Directors were Mr. Li Xiao Yun, Mr. Xu Ying, Mr. Liu Ming Hui, Mr. Zhu Wei Wei, Mr. Ma Jin Long, Mr. Feng Zhuo Zhi, Mr. Joe Yamagata, Mr. R.K. Goel, Mr. Moon Duk Kyu, Mr. Mulham Al Jarf, Mr. Zhao Yu Hua, Dr. Mao Er Wan and Ms. Wong Sin Yue Cynthia, and the company secretary of China Gas was Ms. Yang Yan Tung, Doris, and the Offeror Directors are Mr. Xu Ying, Mr. Liu Ming Hui and Mr. Zhu Wei Wei.
- (d) As at the Latest Practicable Date, no arrangement had been entered into by China Gas or the Offeror and their respective concert parties for the transfer, charge or pledge to any other person of any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of Zhongyu acquired pursuant to the Offers.
- (e) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement), save for the Irrevocable Undertaking, existed between China Gas, the Offeror or any person acting in concert with any of them and any of the Zhongyu Directors, recent Zhongyu Directors, Zhongyu Shareholders or recent Zhongyu Shareholders which has any connection with or dependence upon the Offers.
- (f) As at the Latest Practicable Date, apart from the Irrevocable Undertaking, no persons had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with China Gas, the Offeror, any person acting in concert with any of them or an associate of China Gas and the Offeror.
- (g) As at the Latest Practicable Date, none of the China Gas Directors and the Offeror Directors would be affected in terms of their emoluments by the acquisition of the Zhongyu Shares or by any other associated transaction.
- (h) There are no benefits which will be given to any Zhongyu Director as compensation for loss of office or otherwise in connection with the Offers.
- (i) As at the Latest Practicable Date, there was no agreement or arrangement to which China Gas or the Offeror was a party which related to the circumstances in which it might or might not invoke or seek to invoke a pre-condition or a condition to the Offers.
- (j) The statutory auditors of China Gas during the three financial years ended 31 March 2009 were Deloitte Touche Tohmatsu.

- (k) The address of Macquarie and MCSL is Level 18, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (l) The English text of this Offer Document shall prevail over the Chinese text in the case of inconsistency.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection (i) on the websites of China Gas and the SFC at <http://www.chinagasholdings.com.hk> and <http://www.sfc.hk> respectively; and (ii) at the principal place of business of China Gas in 16/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) while the Offers remain open for acceptance:

- (a) the memorandum of association and bye-laws of China Gas;
- (b) the memorandum of association and articles of association of the Offeror;
- (c) the annual reports of China Gas for the two years ended 31 March 2009;
- (d) the interim report of China Gas for the six months ended 30 September 2009;
- (e) the letter from the China Gas Board, the text of which is set out on pages 10 to 19 of this Offer Document;
- (f) the letter from MCSL, the text of which is set out on pages 20 to 38 of this Offer Document;
- (g) the letters of written consent from each of Macquarie and MCSL referred to in the section headed “Qualifications and Consents” in Appendix III to this Offer Document; and
- (h) the material contracts referred to in the section headed “Material Contracts” in Appendix III to this Offer Document, being the Irrevocable Undertaking.