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 document 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).

中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

**RESPONSE 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
Zhongyu Gas Holdings Limited**

第一上海
FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED

Independent Financial Adviser to the Independent Board Committee

博大資本國際有限公司
Partners Capital International Limited

A letter from the Board is set out on pages 8 to 17 of this document. A letter from the Independent Board Committee containing its recommendation to the Shareholders, the Bondholders and the Optionholders is set out on pages 18 to 19 of this document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 20 to 55 of this document.

31 May 2010

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

The following expected timetable for the Offers is extracted from the Offer Document. 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 the Offer Document refer to Hong Kong time.

Despatch date of the Offer Document and the commencement of the Offers *(Note 1)*	Monday, 17 May 2010
Despatch of the response document	Monday, 31 May 2010
Latest time and date for acceptance of the Offers *(Note 2)*	4:00 p.m. on Monday, 14 June 2010
First Closing Date *(Note 2)*	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 and the Company	by 7:00 p.m. on Monday, 14 June 2010
Latest date for posting of share certificates and cheques to the Shareholders, Bondholders and 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 3)*	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 4)*	4:00 p.m. on Monday, 28 June 2010
Latest date for posting of share certificates and cheques to the Shareholders, Bondholders and 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 3)*	Thursday, 8 July 2010
Latest time by which the Offers can become or be declared unconditional as to acceptances *(Note 5)*	7:00 p.m. on Friday, 16 July 2010

Notes:

(1) The Offers are made on Monday, 17 May 2010, namely the date of posting of the 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, 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.

(3) The consideration payable for the Shares, the Convertible Bonds and the Share Options under the Offers will be posted by ordinary post to the Shareholders, the Bondholders or the 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.

(4) 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 Shareholders, the Bondholders and the 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.**

(5) 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 the 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 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 Shares, or**
- **there are insufficient Shares in public hands to maintain an orderly market,**

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

DEFINITIONS

In this 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;
"Amendment Agreement"	means the amendment agreement dated 25 March 2009 entered into between (i) the Company as the issuer and (ii) CQS Convertible and Quantitative Strategies Master Fund Limited, (iii) CQS Asia Master Fund Limited, (iv) Perry Capital LLC and (v) TRG Special Opportunity Master Fund, Ltd. as the bondholders in respect of the repurchase of 40% of the outstanding principal amount of bonds in consideration of (a) 110% of the principal amount of such repurchase bonds in the amount of US$15,400,000, (b) an upfront fee of US$150,000, and (c) accrued and unpaid interests up to the date of completion of the amendment agreement (further details of which are set out in the Company's circular dated 15 April 2009);
"associates"	has the meaning ascribed to it in the Listing Rules;
"Board"	means the board of directors of the Company;
"Bondholder(s)"	means holder(s) for the time being of the Convertible Bond(s);
"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;
"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 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;
"CNG"	means compressed natural gas;

"Company"	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);
"Completion Date"	means the date on which the transfer of the Shares to the Offeror, the acquisition of the Convertible Bonds 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 the Company to all Shareholders, Bondholders and 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 the Company;
"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 the Offer Document;
"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 the Company to the Bondholders on 25 June 2007 (and as amended pursuant to an amendment agreement dated 25 March 2009);
"Director(s)"	means the director(s) of the Company for the time being;
"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;
"First Shanghai Capital"	means First Shanghai Capital Limited, a licensed corporation under the SFO licensed to carry out type 6 (advising on corporate finance) regulated activity, which is the financial adviser to the Company in connection with the Offers;
"GEM"	means the Growth Enterprise Market of the Stock Exchange;
"Group"	means the Company and its subsidiaries;
"Hezhong"	means Hezhong Investment Holding Company Limited, a company incorporated in the British Virgin Islands with limited liability and the controlling shareholder of the Company, 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;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	means the independent committee of the Board comprising Mr. Xu Yongxuan, a non-executive Director, and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, all of whom are independent non-executive Directors, who have been appointed to make recommendations to the Shareholders, the Optionholders and the Bondholders in respect of the Offers;
"Independent Financial Adviser" or "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 Independent Board Committee in relation to the Offers;
"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, the Offeror and the Company 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 Shares and the China Gas Shares before the publication of the Joint Announcement;
"Latest Practicable Date"	means 28 May 2010, being the latest practicable date prior to the printing of this response document for ascertaining certain information referred to in this response 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;
"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;
"Management Owners"	means Mr. Wang and Mr. Hao, each being a 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 Director and the beneficial owner of 40% of the issued share capital of Hezhong;
"Mr. Wang"	means Mr. Wang Wenliang, a Director and the beneficial owner of 60% of the issued share capital of Hezhong;
"Offer Document"	means the offer document dated 17 May 2010 issued by the Offeror and China Gas to all the Shareholders, the Bondholders and the Optionholders in connection with the Offers in accordance with 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;
"Offer Period"	has the meaning ascribed to it in the Takeovers Code;
"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;
"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 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 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 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;
"Optionholders"	means registered holders for the time being of the Share Options;
"PRC"	means the People's Republic of China which, for the purposes of this response document, excludes Hong Kong, Taiwan and Macau;
"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;
"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;

"RMB"	means Renminbi, the lawful currency of the PRC;
"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;
"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 the Company other than those 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 Share accepted under the Share Offer;
"Share Option Scheme"	means the share option scheme adopted by the Company 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;
"Shareholders"	means registered holders for the time being of the Shares;
"Shares"	means ordinary shares of HK$0.01 each in the issued share capital of the Company;
"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;

"Takeovers Panel"	means the Takeovers and Mergers Panel of the SFC;
"Unconditional Date"	means the date on which the Offers become or are declared unconditional in all respects; and
"%"	means per cent.

In the event of inconsistency, the English text of this response document shall prevail over the Chinese text.

中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8070)

Executive Directors:
Mr. Wang Wenliang *(Chairman)*
Mr. Hao Yu *(Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Lui Siu Keung *(Chief Financial Officer)*

Non-executive Director:
Mr. Xu Yongxuan *(Vice Chairman)*

Independent non-executive Directors:
Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit Nos. 04-06, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

31 May 2010

To the Shareholders, the Optionholders and the Bondholders

Dear Sir or Madam,

**RESPONSE 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**

INTRODUCTION

On 26 January 2010, China Gas, the Offeror and the Company jointly announced that on 17 January 2010 (and as supplemented on 22 January 2010 and 26 January 2010), the Offeror proposed to the Board that it intended to make a conditional voluntary cash and securities exchange offer (i) to acquire all of the issued shares in the share capital of the Company (other than those Shares already held by the Offeror and the Concert Parties); (ii) for the acquisition of all the 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 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 Shares owned by them as at the date of the Irrevocable Undertaking, and any Shares of which they will become the legal or beneficial owners thereafter. As at the Latest Practicable Date, 945,755,542 Shares are held by Hezhong and 1,166,000 Shares are held by Mr. Wang, together representing approximately 47.97% of the issued share capital of the Company. As at the Latest Practicable Date, Hezhong and the Management Owners had not yet accepted the Share Offer. The Offeror is expecting Hezhong and the Management Owners to accept the Share Offer in accordance with their obligations under the Irrevocable Undertaking, and Hezhong and the Management Owners also intend to accept the Share Offer.

On 1 March 2010, a joint announcement was issued by China Gas, the Offeror and the Company 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 Shares was suspended. On 31 March 2010, an announcement was issued by the Company 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 the Company had not provided its 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 the Company 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 the Company of its audited financial statements for such period in accordance with the Listing Rules.

On 6 May 2010, China Gas and the Offeror made an 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 Shares remained suspended.

The purpose of this document is to provide you with, among other things, information relating to the Group and the Offers, the recommendation of the Independent Board Committee to the Shareholders, the Optionholders and the Bondholders regarding the Offers, and the advice of the Independent Financial Adviser to the Independent Board Committee on the Offers.

THE OFFERS

MCSL is making the Offers on behalf of the Offeror on the following basis:

Principal terms of the Offers

The Share Offer:

For each 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:

<u>(A) In respect of Share Options with exercise price of HK$0.80:</u>

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

<u>(B) In respect of Share Options with exercise price of HK$0.56:</u>

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

<u>(C) In respect of Share Options with exercise price of HK$0.31:</u>

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

The Share Offer values each Share at approximately 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 Share, plus the cash amount of HK$0.1743 being offered for each Share.

As at the Latest Practicable Date, there were 1,974,007,684 Shares in issue.

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

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the 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 the Company in due course.

The Company 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 the Shares at a price of HK$0.70 (as at the Latest Practicable Date) per Share at an exchange rate of US$1.00 to HK$7.8233, and if so converted would result in the aggregate of 223,522,856 new Shares being issued.

Pursuant to the terms of the Convertible Bonds, a mandatory redemption of not less than US$1,050,000 of the Convertible Bonds shall occur on 25 June 2010. The Company has sent out a mandatory redemption notice on 24 May 2010 pursuant to the terms of the Convertible Bonds to redeem such Convertible Bonds in the principal amount of US$4,400,000 and where the redemption price paid is US$4,840,000. The balance of the principal amount of the Convertible Bonds remaining after such mandatory redemption will be US$15,600,000.

In the event that the Convertible Bonds or part thereof are converted after the Latest Practicable Date and new Shares are issued pursuant to such conversion, such Shares will form part of the Share Offer and the Shareholders holding such Shares shall be eligible to receive the Share Offer Consideration in respect of such Shares under the Offers.

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 the Company), the Bondholders will have the right to require the Company 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 Bondholders by the Company, as the case may be. The Company shall then be obliged to pay the 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 the Company as described above, in the event any Bondholder who did not accept the Convertible Bond Offer exercises his right to require the Company to redeem his outstanding Convertible Bonds, the Company shall be obligated to redeem the outstanding Convertible Bonds from such Bondholder at the early redemption amount 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, in the event the Convertible Bond Offer is not accepted by the Bondholders, the date fixed for redemption will be 18 July 2010 and the early redemption amount will be US$11,734.44 (based on an exchange rate of US$1.00 to HK$7.7625, for approximately 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.

Other than the above, the Company has no other Shares, Convertible Bonds, Share Options, options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Shares.

As set out in the letter from MCSL to the Offer Document, 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.

The Offers are conditional on the satisfaction or (if applicable) waiver of the Conditions. Your attention is drawn to the letter from MCSL and Appendix I to the Offer Document for further terms of the Offers and the procedures for acceptance.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) for illustration purpose only, immediately following completion of the Offers is as follows:

			For illustration purpose only					
Name of Shareholder	As at the Latest Practicable Date		Immediately following completion of the Offers (assuming minimum acceptance) (1)		Immediately following completion of the Offers (assuming maximum acceptance) (2)		Immediately following completion of the Offers (assuming minimum level of public float) (3)	
	No. of Shares held	*Approx. % of issued Shares*	*No. of Shares held*	*Approx. % of issued Shares*	*No. of Shares held*	*Approx. % of issued Shares*	*No. of Shares held*	*Approx. % of issued Shares*
Offeror (and its Concert Parties)	–	–	988,977,850	50.10	1,974,007,684	100.00	1,480,505,763	75.00
Hezhong	945,755,542	47.91	–	–	–	–	–	–
Mr. Wang	1,166,000	0.06	–	–	–	–	–	–
Other Shareholders	1,027,086,142	52.03	985,029,834	49.90	–	–	493,501,921	25.00
Total	**1,974,007,684**	**100.00**	**1,974,007,684**	**100.00**	**1,974,007,684**	**100.00**	**1,974,007,684**	**100.00**

Notes:

(1) Assuming that none of the Share Options are exercised and none of the Convertible Bonds are converted into Shares prior to completion of the Share Offer, and that the Offeror and the Concert Parties will hold 50.1% of Shares in issue following the Completion Date.

(2) Assuming that none of the Share Options are exercised and none of the Convertible Bonds are converted into Shares prior to completion of the Share Offer, and that the Offers are accepted in full. The information is before any action required to restore the minimum public float of 25%.

(3) Assuming that none of the Share Options are exercised and none of the Convertible Bonds are converted into Shares prior to completion of the Share Offer, and that the Offeror and the Concert Parties will hold 75% of the Shares in issue following the Completion Date.

Information on the Group

The Company was incorporated in the Cayman Islands on 12 February 2001 as an exempted company with limited liability under the Cayman Islands Companies Law. The Company was listed on GEM on 5 June 2001, trading under the stock code 8070.

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

Based on audited financial statements of the Group as set out in its annual report for the year ended 31 December 2008, the Group recorded consolidated total revenue of approximately HK$703 million, consolidated net loss before tax of approximately HK$78 million and consolidated net loss after tax of approximately HK$92 million, for the year ended 31 December 2008.

Based on the unaudited financial statements of the Group as set out in its third quarterly report for the nine months ended 30 September 2009, the Group recorded consolidated total revenue of approximately HK$543.8 million, consolidated net profit before tax of approximately HK$78.6 million and consolidated net profit after tax of approximately HK$58.5 million, for the nine months ended 30 September 2009.

It is noted on page 15 of the Offer Document in the letter from the China Gas Board, it was mentioned that there is uncertainty regarding the Company's trading suspension. As set out in the announcement of the Company dated 25 May 2010, after continuous efforts made by the Directors, on 18 May 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31 December 2009. On 24 May 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. Accordingly, the Company will publish its annual results and the annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 as soon as possible. As at the Latest Practicable Date, based on the Company's discussion with its auditor, the Directors expected that the annual results and annual report of the Company for the year ended 31 December 2009 would not be published on or before the First Closing Date, 14 June 2010. The Directors target to publish its annual results and the annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 before the end of the Offer Period, i.e. 28 June 2010 as may be extended in the event that the Offers become or are declared unconditional on the First Closing Date. Further announcement will be made by the Company on the expected publication date of the annual results and annual report for the year ended 31 December 2009.

As at the Latest Practicable Date, the following outstanding items of the Company's audit process for the year ended 31 December 2009 had not yet been finalized due to the reasons set out in the Company's announcements dated 31 March 2010 and 23 April 2010:–

(1) the progress of completion of acquisition of certain assets and liabilities which mainly comprised of gas pipeline networks in the area of Jiaozuo City in which a subsidiary has paid RMB37 million deposit to local government;

(2) the status of repayment and recoverability of loan receivables up to the Latest Practicable Date;

(3) discounted cash flow projections based on financial budgets approved by the management covering a 15-year period or a 29-year period for the purpose of ascertaining the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payment; and

(4) auditor's completion of their subsequent event review as part of their routine audit procedures.

The Directors consider that finalization of these outstanding audit items might result in material changes to the financial position of the Group since 31 December 2008, being the date to which the latest published audited consolidated financial statements of the Company were made up.

On 26 May 2010, the Company had also informed the legal advisers to the Offeror and China Gas that it had received:

(a) letters of objection (the "Letters from Joint Venture Partners") from the joint venture partners of 5 of its 19 operating subsidiaries in the PRC which stated that they object to the Offers and the change in control of the Company, and that if the Company proceeds with the Offers, they would refuse to co-operate with the new management and that the local government may revoke the concession rights of the Company's subsidiaries in the PRC;

(b) in addition to the letters of objection from the above-mentioned 5 joint venture partners, another joint venture partner of 焦作中燃城市燃氣發展有限公司 (a PRC subsidiary of the Company) has also verbally expressed its objection to the Offers and a change in control of the Company;

(c) letters (the "Letters from Local Governments") from 3 of the 9 PRC local governments where the Company has operations stating that they would revoke the concession rights of the Company's subsidiaries if the Company proceeds with the Offers without their consent; and

(d) letters of objection (the "Letters from Banks") from banks who, in aggregate, have lent RMB137,000,000 to the Group. The banks have notified the Company's subsidiaries that the banks are aware of the Offers and that if the Offers complete, resulting in a change in control of the Company, the banks would seek a full repayment of loans made to such subsidiaries of the Company.

The Company has sought PRC legal advice in relation to the above and has received a PRC legal opinion on 28 May 2010. The PRC legal opinion states, among other things, that (i) consent from the relevant joint venture partners to the Offers and/or a change in control of the Company is not required as a matter of PRC law, (ii) such a change in control of the Company should not affect the legal validity of the concession rights granted by the local government authorities, and (iii) there is no requirement to obtain consent to the Offers and/or a change in control of the Company under PRC law or the relevant loan agreements between the Company's subsidiaries and the banks, and there is no stipulation under PRC law or the relevant loan agreements that the banks may call for repayment of the loans in full if there is a change in control of the Company.

However, as set out in the PRC legal opinion, notwithstanding that there is no requirement under PRC law to obtain consents from the joint venture partners and/or the local government authorities, there is a risk that (a) the joint venture partners may still refuse to co-operate with a new management if there is a change in control of the Company; and (b) the local government authorities may revoke the concession rights of the subsidiaries in the PRC which would affect the operation of the Group. As a result, the Directors consider that if the above events materialize, it might result in material changes to the financial or trading position or outlook of the Group.

Information on the Offeror and China Gas

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 directors of the Offeror are Xu Ying, Liu Ming Hui and 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.

China Gas's and the Offeror's intentions in relation to the Company and the Enlarged Group

As set out in the letter from the China Gas Board in the Offer Document, 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 Group, following completion of the Offers. Neither China Gas nor the Offeror intends to make any changes to the current business operations of the Group following completion of the Offers. 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 the Group as a result of the Offers.

As set out in the letter from the China Gas Board in the Offer Document, China Gas and the Offeror intend to nominate additional directors to the Board following completion of the Offers. Any changes to the Board will be made in compliance with the Takeovers Code, the Listing Rules and the constitutional documents of the Company. Further announcement(s) will be made upon the appointment of new directors of the Company 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 the Group, including but not limited to the possibility of undertaking new investments and/or conducting fund raising exercises to increase capital.

Regarding the intentions of the Offeror in respect of the Group and its employees, the Board will render reasonable co-operation to the Offeror in this regard to ensure the smooth running of the business of the Group.

MAINTAINING LISTING/PUBLIC FLOAT OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the 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 Shares, or**

- **there are insufficient Shares in public hands to maintain an orderly market,**

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

As set out in the letter from the China Gas Board in the Offer Document, the Offeror intends for the Company to remain listed on the Stock Exchange. The Offeror Directors and the Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

RECOMMENDATION

The Independent Board Committee comprising Mr. Xu Yongxuan, a non-executive Director, and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, all of whom are independent non-executive Directors, has been established to recommend to the Shareholders, the Optionholders and the Bondholders as to whether the terms of the Offers are fair and reasonable and as to acceptances of the Offers. The Independent Board Committee has approved the appointment of Partners Capital International Limited as the Independent Financial Adviser which advises the Independent Board Committee in respect of the Offers.

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on pages 18 to 19 of this document and the letter of advice from the Independent Financial Adviser set out on pages 20 to 55 of this document, which contains, among other things, its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the China Gas Board, the letter from MCSL set out in the Offer Document, the accompanying forms of acceptance and appendix I to the Offer Document which contain further details of the Offers and the procedures for acceptance in respect of the Offers.

Your attention is also drawn to the additional information set out in the other appendices contained in the Offer Document and the appendices set out in this response document.

Yours faithfully,
By order of the Board
Zhongyu Gas Holdings Limited
Wang Wenliang
Chairman

中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

31 May 2010

To the Shareholders, the Optionholders and the Bondholders

Dear Sir or Madam,

**RESPONSE 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**

We refer to the response document dated 31 May 2010 issued by the Company, of which this letter forms part. Terms defined in the response document shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Shareholders, the Optionholders and the Bondholders are concerned. Partners Capital International Limited has been appointed as the Independent Financial Adviser to advise us in this respect, details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from the Independent Financial Adviser in the response document.

We also wish to draw your attention to the letter from the Board in the response document, the letter from the China Gas Board, the letter from MCSL and the additional information set out in the appendices to the Offer Document and the response document.

Taking into account the terms of the Offers and the advice from the Independent Financial Adviser, we consider that the terms of the Offers are fair and reasonable so far as the Shareholders, the Optionholders and the Bondholders are concerned and recommend the Shareholders, the Optionholders and the Bondholders to accept the Offers.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Mr. Xu Yongxuan	**Mr. Wang Shunlong**	**Dr. Luo Yongtai**	**Mr. Hung, Randy King Kuen**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

博大資本國際有限公司
Partners Capital International Limited

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

To the Independent Board Committee

31 May 2010

Dear Sirs,

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 owned 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

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Offers, particulars of which are set out in the document (the "Response Document") dated 31 May 2010 to the Shareholders, the Bondholders and the Optionholders, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in the Response Document.

As set out in the letter from the Board (the "Letter from the Board"), the Offeror proposed to the Board that it intends to make a conditional voluntary cash and securities exchange offer for (i) the acquisition of all the issued shares in the share capital of the Company (other than those shares already held by the Offeror and the Concert Parties; (ii) the acquisition of all the Convertibles Bonds; and (iii) the cancellation of all the outstanding Share Options.

MCSL, on behalf of the Offeror, is making the Offers on the following basis:

The Share Offer:

For each 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 Share Options with exercise price of HK$0.80:

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

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

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

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

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

Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the Offer Document.

THE INDEPENDENT BOARD COMMITTEE

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Mr. Xu Yongxuan, a non-executive Director, and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, all of whom are independent non-executive Directors, has been established to make recommendation to the Shareholders, the Bondholders and the Optionholders as to whether the terms of the Offers are fair and reasonable and as to acceptances of the Offers.

We have been appointed by the Board to advise the Independent Board Committee in respect of the Offers and such appointment has been approved by the Independent Board Committee.

We are not in the same group as the financial or other professional adviser (including a stockbroker) to the Offeror or the China Gas Group or the Group and is not connected with the directors, chief executive and substantial shareholders of the Offeror or the China Gas Group or the Group or any of their respective subsidiaries or their respective associates or their respective party acting, or presumed to be acting, in concert and we had not had, any connection, financial or otherwise, with either the Offeror or the China Gas Group or the Group, or the controlling shareholder(s) of either of them, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice. Therefore, Partners Capital is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Partners Capital will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Group or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Offer Document and the Response Document and have assumed that all information and representations made or referred to in the Offer Document and the Response Document as provided by the Offeror and/or the Directors were true at the time they were made and continue to be true as at the date of the Offer Document and the Response Document. We have also relied on our discussion with the Directors and the management of the Company, given in writing or orally, regarding the Company and the Offers, including the information and representations contained in the Response Document. We have also assumed that all statements of belief, opinion and intention made by the Directors, the management of the Company and the Offeror respectively in the Offer Document and/or the Response Document were reasonably made after due enquiry.

According to the announcement of the Company dated 25 May 2010, the annual results and annual report of Company for the year ended 31 December 2009 and the quarterly results for the three months ended 31 March 2010 had not been published as at the Latest Practicable Date due to the reasons stated in such announcement. However, we have reviewed the unaudited management accounts of the Group for the year ended 31 December 2009 and for the three months ended 31 March 2010 respectively. We were advised that the unaudited management accounts of the Group are subject to audit and may be materially different from the audited financial information to be published. We consider that the absence of such latest audited financial information of the Group has placed limitations to our analysis (in terms of financial and operational performance review and assessment on the Share Consideration Value against the Comparables (as defined below)) which in turn has an impact on our opinion. Save for the lack of the latest audited financial information of the Group, we consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Response Document and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Response Document nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Offeror. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Offeror, the China Gas Group and their respective associates nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Shareholders, the Optionholders and the Bondholders of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Shareholders, the Bondholders and the Optionholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offers and, if in any doubt, should consult their own professional advisers.

THE SHARE OFFER

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Share Offer, we have considered the following principal factors and reasons:

(i) Review of financial performance

The Group

Incorporated in the Cayman Islands on 12 February 2001 as an exempted company with limited liability under the Cayman Islands Companies Law, the Company was listed on GEM on 5 June 2001. The Company was a human resource management solution provider before it engaged in the natural gas operation in 2003. In 2007, the Group streamlined the principal businesses of the Group to focus mainly on the coalbed methane and natural gas businesses. The Company is a vertically integrated gas operator from upstream resources development to downstream distribution in the PRC. Its existing principal business includes exploration, exploitation and development of coalbed methane, sale of piped gas, natural gas from CNG filling stations for vehicles and bottled liquefied petroleum gas ("LPG") as well as the development and construction of gas pipeline network.

Since 2005, over 70% revenue of the Group has been generated from natural gas related business (including sales of piped gas and LPG, connection revenue from gas pipeline construction and operation of natural gas filling stations), in particular in Henan Province and Shandong Province in the PRC, each financial year up to 2008 and for the nine months ended 30 September 2009. As at 30 September 2009, the Group has the accumulated number of residential households of 282,813, representing a penetration rate of approximately 32% (represented by the percentage of accumulated number of residential households over the estimated connectable residential households) and industrial/commercial users of 1,195 users, substantial of which are located in Henan Province, the PRC.

With an aim to obtain sufficient and cost-effective gas supply for the Group's downstream gas projects located in Henan province, the PRC, the Group entered into the upstream coalbed methane market via a joint venture, which principally engaged in the exploration, exploitation, development and production of methane in Henan Province, the PRC, in 2007. As at 30 September 2009, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce coalbed methane.

We summarise below the financials of the Group for the two financial years ended 31 December 2008, six months ended 30 June 2009 and nine months ended 30 September 2009:

HK$'000	For the year ended 31 December 2007	2008	For the six months ended 30 June 2009	For the nine months ended 30 September 2009
Turnover	294,518	703,020	347,913	543,787
–Sales of piped gas	141,754	407,850	229,142	338,705
–Connection revenue from gas pipeline construction	123,693	234,405	76,730	132,371
–Sales of LPG	25,415	37,110	14,195	22,366
–Operation of compressed natural gas filling station	1,793	19,249	22,635	41,126
–Other operations	1,863	4,406	5,211	9,219
Gross profit	102,686	226,497	98,631	165,548
Profit/(Loss) before taxation	(18,199)	(78,242)	59,120	78,558
Net profit/(loss)	(22,711)	(91,565)	44,808	58,511
Total assets	1,516,045	1,521,682	1,575,606	N/A
Total liabilities	754,199	760,307	781,416	N/A
Net assets	761,846	761,375	794,190	N/A

Source: 2008 annual report, 2009 interim report and 2009 third quarterly report of the Company

According to the announcement of the Company dated 31 March 2010, due to the fact that the senior management of some of the major PRC subsidiaries of the Company have not provided the external auditors with responses to the auditors' follow-up questions for the purpose of finalising the audit, the Company was not in a position to announce its annual results and distribute its annual report for the year ended 31 December 2009. According to the announcement of the Company dated 25 May 2010, given that the senior management of some of the major subsidiaries of Company have not provided the external auditors with responses to their follow-up questions for the purpose of finalising the audit and as a result, the annual results and annual report of Company for the year ended 31 December 2009 and the quarterly results for the three months ended 31 March 2010 had not been issued by 31 March 2010 and 15 May 2010, respectively. Hence, as at the Latest Practicable Date, the above financial information has not been published by the Company and we were not able to perform any analysis of the Group for the financial results for the year ended 31 December 2009 and for the three months ended 31 March 2010. Notwithstanding the aforesaid, we have requested the Company and were provided with the unaudited management accounts of the Group for the year ended 31 December 2009 and the three months ended 31 March 2010 for reference. We have reviewed such management accounts and we were advised that such unaudited and unpublished figures are subject to audit or review by auditors and should not be disclosed before such financial information has been published by the Company. In addition, given that the auditors have not finished its audit work or review work and may make certain audit adjustments to the accounts of the Group which may have material impact to the financial statements of the Company resulting that such information may not reflect the existing state of the Group and should not be used for direct comparison against those published financial statements of the Company. Meanwhile, as discussed with the Company, the business operations of the Group have been carried out in its normal course up till the Latest Practicable Date.

Further details of the financial information relating to the Group are set out in Appendix I to the Response Document. However, according to the announcement of the Company dated 25 May 2010, after continuous efforts made by the Directors, on 18 May 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31 December 2009. On 24 May 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. Accordingly, the Company will publish its annual results and the annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 as soon as possible. As set out in the Letter from the Board, as at the Latest Practicable Date, based on the Company's discussion with its auditor, the Directors expected that the annual results and annual report of the Company for the year ended 31 December 2009 would not be published on or before the First Closing Date, 14 June 2010. Furthermore, as advised by the Company, the Company targets to publish its latest financial information (the annual results of the Group for the year ended 31 December 2009 and the first quarterly results for the three months ended 31 March 2010) before the end of the Offer Period (i.e. 28 June 2010 as may be extended in the event that the Offers become or are declared unconditional on the First Closing Date).

- For the year ended 31 December 2007

  Turnover of the Group increased to approximately HK$294.5 million in 2007 by approximately 276.8% as compared to that of the preceding year. The tremendous growth in turnover was mainly attributable to the sustained expansion of the Group's downstream gas distribution in the PRC, including sales of natural gas and connection fee income. Selling and distribution costs increased by approximately 174.0% to approximately HK$7.7 million in 2007, which was mainly due to increase in the staff costs and related expenses resulting from increase in headcount and increase in repairs and maintenance expenses. Administrative expenses increased by approximately 221.7% to approximately HK$58.1 million in 2007 which was mainly due to increase in the staff costs and related expenses resulting from increase in headcount and increase in rental expenses and professional fees. The Group recorded a substantial increase in finance costs by approximately 680.6% to approximately HK$27.5 million in 2007 which were mainly due to increase in (i) non-cash effective interest expenses charged on convertible bonds; (ii) interest paid on convertible bonds and (iii) interest on bank borrowings, resulting from the increase in average bank borrowings and average bank interest rate. An impairment loss on the amounts due from customers for contract work of approximately HK$21.6 million was recognised in 2007, which were considered unlikely to be recovered by the Company. As a result of the above, net loss of approximately HK$22.7 million was recorded in 2007 as compared to net profit of approximately HK$7.1 million in 2006.

- For the year ended 31 December 2008

Turnover of the Group increased by 138.7% to approximately HK$703.0 million in 2008 from approximately HK$294.5 million in 2007. Such increase was mainly attributable to the Group's expansion into downstream gas distribution business in the PRC by acquiring three gas projects, resulting in robust growth in demand for piped gas and gas pipeline construction. Selling and distribution costs increased by approximately 203.2% to approximately HK$23.2 million in 2008, which was mainly due to expenses related to increase in (i) headcounts and/or increase in number of subsidiaries; (ii) repairs and maintenance expenses; and (iii) insurance cost. Administrative expenses increased by approximately 90.0% to approximately HK$110.4 million in 2008, which was mainly due to increase in (i) the staff costs and related expenses resulting from increase in headcount; (ii) office related expenses; (iii) stamp duty; (iv) vehicle expense; (v) depreciation cost; (vi) provision for doubtful debts; (vii) amortization cost and (viii) bank charges. The Group recorded a significant increase in finance costs by approximately 91.4% to approximately HK$52.7 million in 2008 which were mainly due to (i) non-cash effective interest expenses charged on convertible bonds; and (ii) interest on bank borrowings. An impairment loss was recognized on other intangible assets of approximately HK$107.5 million resulting from the uncertainty of sufficient quantities of potentially economic coalbed methane reserves and natural gas to be supplied to the compressed natural gas filling stations. As a result of the above, net loss of approximately HK$91.6 million was recorded by the Group in 2008, compared to net loss of approximately HK$22.3 million in 2007.

- For the nine months ended 30 September 2009

Turnover of the Group increased by 24.5% to approximately HK$543.8 million for the nine months ended 30 September 2009 from approximately HK$436.9 million for the corresponding period in 2008. The growth in turnover was mainly attributable to the robust growth in sales of piped gas, connection revenue from gas pipeline construction and sales of natural gas from operation of CNG filling stations. Operating expenses, including selling and distribution costs and administrative expenses increased by 18.2% to approximately HK$95,147,000 for the nine months ended 30 September 2009 from approximately HK$80,506,000 for the corresponding period in 2008. The increase was mainly attributable to the increase in PRC staff salary cost and amortisation of other intangible assets. Finance costs increase by 12.5% to approximately HK$36,671,000 for the nine months ended 30 September 2009 from approximately HK$32,584,000 for the corresponding period in 2008. The increase was mainly attributable to the increase in non-cash effective interest expense charged on convertible bonds. As a result of the above, the Group recorded a net profit of approximately HK$58.6 million as compared to net profit of approximately HK$63.3 million for the corresponding period in 2008.

- Financial Position as at 30 June 2009

The Group recorded net assets of approximately HK$794.2 million as at 30 June 2009 or approximately HK$0.40 per Share (based on the 1,974,007,684 Share in issue as at the Latest Practicable Date), compared to that of approximately HK$761.4 million or approximately HK$0.39 per Share as at 31 December 2008 (based on the 1,974,007,684 Share in issue as at the Latest Practicable Date). Such increase was mainly due to the increase in value of property, plant and equipment and decrease in outstanding amount of convertible bonds. The assets of the Group mainly consisted of (i) property, plant and equipment of approximately HK$614.9 million; (ii) bank balances and cash of approximately HK$478.7 million; (iii) goodwill of approximately HK$99.3 million arising from a subsidiary engaged in sales of piped gas and connection of pipeline construction; and (iv) other intangible assets of approximately HK$123.4 million whilst the liabilities mainly consisted of (i) the aggregate of bank borrowings and borrowings of approximately HK$329.9 million; (ii) trade payables and other payables in the aggregate amount of approximately HK$154.6 million; and (iii) convertible bonds of approximately HK$130.0 million. Gearing ratio of the Company was maintained at around 0.58 as at 30 June 2009 (represented by a ratio of total interest-bearing debts to net assets). Nevertheless, we have reviewed the unaudited management accounts of the Group for the nine months ended 30 September 2009 and we note that the financial position of the Group, as reflected in the balance sheet, did not vary materially from that of the Group as at 30 June 2009 in general. However, Shareholders should note that the above unaudited information may not reflect the existing state of the Group and are for reference purposes only. In addition, Shareholders are reminded that the annual results of the Group for the year ended 31 December 2009 has not been published and is subject to audit where there may have accounting adjustments to the financial statements which may have material impact on the financial positions of the Group. Hence, Shareholders should closely follow the status in respect of the audit and publication of the annual results of the Group.

The Offeror and the China Gas Group (information of which is reproduced from the Offer Document and/or the financial reports of China Gas)

Incorporated in the British Virgin Islands on 10 December 2009, the Offeror, a wholly-owned subsidiary of China Gas, is principally engaged in investment holding.

China Gas was incorporated in Bermuda on 22 August 1995 as an exempted company with limited liabilities and was listed on the Main Board of the Stock Exchange on 20 October 1995. 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.

Over 50% revenue of China Gas has been generated from gas pipeline construction and sales of piped gas for more than 5 years whilst the importance of liquefied petroleum gas business has been increasing since 2008 upon the acquisition of a company, which is principally engaged in the liquefied petroleum gas import business and sales of petroleum products. China Gas has an extensive business operation in the PRC. As set out in the interim report of China Gas for the six months ended 30 September 2009, as at 30 November 2009, China Gas had secured 114 city pipeline projects (with exclusive concession rights) in 18 provinces, autonomous regions and directly administered cities, eight long distance natural gas pipeline projects, 72 compressed natural gas vehicle filling stations, one natural gas development projects, as well as 45 liquefied petroleum gas distribution projects in the PRC.

In addition, as at 30 September 2009, China Gas has the accumulated number of residential households of 4,197,905, representing 28.3% of the total connectable domestic households in the PRC, and the aggregate accumulated acquired and connected industrial/commercial users amounted to 30,983 users in the PRC.

We summarise below the financials of the China Gas Group for the two financial years ended 31 March 2009 and for the six months ended 30 September 2008 and 2009:

	For the year ended 31 March		For the six months ended 30 September	
HK$'000	**2008**	**2009**	**2008**	**2009**
Revenue	2,552,075	6,323,823	1,649,787	3,937,292
–Sales of piped gas	1,691,159	2,678,377	1,039,417	1,577,112
–Gas connection	615,282	1,127,403	412,950	559,269
–Sales of liquefied petroleum gas	–	2,272,173	–	1,748,104
–Sales of coke and gas appliances	244,146	244,086	196,850	52,327
–Others	1,488	1,784	480	480
Gross profit	746,119	1,429,349	553,100	934,031
Profit before taxation	201,349	205,431	136,059	541,171
Net profit	187,571	133,959	111,986	490,778
Total assets	11,306,127	18,086,766	18,427,262	19,451,891
Total liabilities	7,620,120	14,069,495	13,768,101	14,973,948
Net assets	3,686,007	4,017,271	4,659,161	4,477,943

Source: China Gas Company's 2009 annual report, 2008/09 interim report and 2009/10 interim report

Further details of the financial information relating to the China Gas Group are set out in Appendix II to the Offer Document.

- For the year ended 31 March 2008

Turnover of the China Gas Group amounted to approximately HK$2,552.1 million in 2008, increased by approximately 106.4% over the same period last year. Such increase was mainly attributable to the increase in number of its customers, leading to an approximately 165.8% increase in demand for piped gas to approximately 1,148.9 million cubic meters. Distribution costs and administrative costs increased by approximately 147.3% and approximately 96.9% to approximately HK$110.3 million and approximately HK$342.6 million, respectively, in 2008. Finance cost advanced by approximately 122.7% to approximately HK$240.0 million in 2008. No specific reasons for the increases in costs and expenses were set out in the annual report of China Gas. As a result of changing in fair value of its financial derivative instruments, the China Gas Group recorded a loss in fair value of its financial derivative instruments of approximately HK$166.9 million in 2008, representing approximately 3,774.7% increase over the previous year. Due to the fact of the above items, the China Gas Group recorded a decrease in net profit from approximately HK$236.2 million in 2007 to HK$166.3 million in 2008. The net profit of the China Gas Group for the year ended 31 December 2008 was restated at approximately HK$187.6 million in 2009 annual report.

- For the year ended 31 March 2009

Turnover of the China Gas Group increased by 147.8% to approximately HK$6,323.8 million in 2009 over the previous year amid the global financial tsunami. Such increase was mainly the results of (i) the completion of acquiring a company which principally engaged in the liquefied petroleum gas import business and sales of LPG products which brought approximately HK$2,272.2 million revenue; (ii) increase in completion of piped gas networks; and (iii) the substantial increase in demand for piped natural gas from industrial users. The sales volume of natural gas rose by approximately 104.2% over the previous whereas the accumulated connected residential users, accumulated connected industrial users and accumulated connected commercial users grew by approximately 66.2%, 127.5% and 47.5% respectively over the previous year. The number of city gas projects increased from 68 projects for financial 2008 to 110 projects for financial year 2009. Distribution costs and administrative costs increased by approximately 199.5% and approximately 36.8% to approximately HK$330.4 million and approximately HK$468.5 million, respectively, in 2009. Finance cost advanced by approximately 70.7% to approximately HK$409.8 million in 2009. No specific reasons for the increases in costs and expenses were set out in the annual report of China Gas. Impairment loss of approximately RMB366.3 million was made as the result of the drop in fair value of the interest swap contracts entered by China Gas. Due to the fact of the above items, in particular the said impairment loss, the China Gas Group recorded a decrease in net profit from approximately HK$187.6 million in 2008 to approximately HK$134.0 million in 2009.

- For the six months ended 30 September 2009

Mainly due to the newly acquired business of liquefied petroleum gas started contributing revenue in 2009, the China Gas Group recorded a substantial increase in turnover from approximately HK$1,649.8 million to approximately HK$3,937.3 million in 2009, representing an increase of approximately 138.7% over the corresponding period previous year. Distribution costs and administrative costs increased by approximately 217.2% and approximately 63.6% to approximately HK$210.6 million and approximately HK$257.2 million, respectively, in 2009. Finance cost advanced by approximately 93.0% to approximately HK$275.1 million in 2009. The China Gas Group recorded a gain from change in fair value of derivative financial instruments of approximately HK$163.7 million in 2009, reversing from the loss of approximately HK$49.0 million in 2008. In view of the aforementioned, the China Gas Group recorded an increase in net profit by approximately 338.2% to HK$490.8 million in 2009.

- Financial Position as at 30 September 2009

The China Gas Group recorded net assets of approximately HK$4,477.9 million as at 30 September 2009 or approximately HK$1.3 per China Gas Share (based on the 3,361,036,151 China Gas Shares in issue as at the Latest Practicable Date), compared to that of approximately HK$4,017.3 million or approximately HK$1.2 per China Gas Share (based on the 3,361,036,151 China Gas Shares in issue as at the Latest Practicable Date) as at 31 March 2009. Such increase was mainly due to net profit recorded for the six months ended 30 September 2009. The assets of the China Gas Group mainly consisted of (i) property, plant and equipment of approximately HK$10,158.1 million; (ii) interest in associates of approximately HK$1,063.2 million; (iii) trade and other receivables of approximately HK$1,600.0 million; and (iv) bank balances and cash and pledged bank deposits in the aggregate amount of approximately HK$2,503.1 million whilst the liabilities of the China Gas Group mainly consisted of (i) the aggregate of bank and other borrowings of approximately HK$11,071.2 million; and (ii) trade and other payables of approximately HK$2,917.4 million. Gearing ratio of the China Gas Group was around 2.48 times as at 30 September 2009 (represented by a ratio of total interest-bearing debts to net assets).

- Further analysis

According to the annual reports of the Company, the gas-related business has accounted for most of the revenue of the Group since the year ended 31 December 2005 and all of the revenue of the Group after its streamlining of software business in 2007. We note that the Group recorded net profits during the financial years 2004 to 2006 but recorded net losses for the two years ended 31 December 2008 before its turnaround for nine months ended 30 September 2009. We also note that the Group mainly operates in Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia and Henan Province. The highest level of turnover of the Group was recorded around HK$700 million over the last five years ended 31 December 2008 whilst the Group recorded consecutive losses over the last two financial years ended 31 December 2008.

On the other hand, according to the annual reports of China Gas, we note that, before its investment in gas operation in 2002, the China Gas Group was principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment. Although the China Gas Group recorded a net loss for the year ended 31 March 2003, the turnover grew by approximately 17 times as compared to that of the previous year. For the year ended 31 March 2004, the turnover grew by about 3.4 times as compared to that of the previous year and the China Gas Group has recorded consecutive net profits since the financial year ended 31 March 2004. The highest level of turnover of the China Gas Group during the last five years ended 31 March 2009 was around HK$8,324 million. Meanwhile, the China Gas Group recorded consecutive profits during the same period and the highest level of profit was recorded around HK$250 million for the year ended 31 March 2007.

We set out below the relevant operational data of both the China Gas Group and the Group:

HK$' million	China Gas Group For the year ended/as at 31 March 2008	China Gas Group For the year ended/as at 31 March 2009	China Gas Group For the six months ended/as at 30 September 2009	The Group For the year ended/as at 31 December 2008	The Group For the six months ended/as at 30 June 2009
Assets position					
Total assets	11,306	18,087	19,452	1,522	1,576
Total liabilities	7,620	14,069	14,974	760	781
Net assets	3,686	4,017	4,478	761	794
Financial performance					
Revenue/turnover	2,552	6,324	3,937	703	348
Gross profit	746	1,429	934	226	99
Net profit/(loss) attributable to shareholders	141	104	432	(93)	35
Key financial ratios					
Gross profit margin	29.24%	22.60%	23.72%	32.22%	28.45%
Net profit/(loss) margin	5.53%	1.64%	10.97%	(13.20%)	10.06%
Growth in net profit	77.75%	91.57%	68.87%	N/A	N/A
Growth in total assets	54.69%	59.97%	5.56%	0.37%	3.55%
Growth in net assets	4.49%	3.22%	11.84%	(0.06%)	4.34%
Return on equity	29.24%	22.60%	23.72%	(14.15%)	N/A
Current ratio (times)	2.19	0.89	0.83	0.98	1.23
Gearing ratio (times)	1.57	2.57	2.48	0.59	0.43
Interest coverage (times)	1.62	1.40	2.69	N/A	3.45
Natural gas user's portfolio (in number)					
Residential users	2,253,044	3,745,370	4,197,905	266,158	258,377
Industrial/commercial users	19,510	28,931	30,983	1,051	1,191

Source: *the 2009 annual report and the 2009/10 interim report of China Gas; the 2008 annual report and 2009 interim report of the Company*

Although both the China Gas Group and the Group are engaged in similar natural gas business, the China Gas Group has a more extensive business presence in the PRC. As measured by the natural gas user's portfolio, the size of operation of China Gas Group is about 15-fold bigger than that of the Group. As illustrated above, we note that the size of total assets as at 30 September 2009 and the revenue for the year ended 31 March 2009 of the China Gas Group were about 10 times larger than those of the Group as at 31 December 2009. In addition, we note that the return on equity of the China Gas Group is relatively higher than that of the Group, demonstrating that the financial performance of the China Gas Group is relatively better. Nonetheless, Shareholders should note that the respective business risks faced by, and strategies and competitive advantages of the

Group and the China Gas Group are different due to differences in size of operation, geographical coverage, financial positions, customer bases and other factors. By accepting the Offers, Shareholders, Optionholders and Bondholders are reminded that they will forego their respective direct interests in the Company and exchange for the indirect and diluted interests in the Company together with direct interests in China Gas Group (i.e. the Enlarged Group).

On the other hand, on 14 October 2009, China Gas entered into a strategic co-operation agreement with CNPC Kunlun Natural Gas Company Limited ("CNPC Kunlun Natural Gas"), a wholly owned subsidiary of PetroChina Company Limited, pursuant to which China Gas and CNPC Kunlun Natural Gas agreed to co-operate with each other as strategic business partners in the natural gas and LPG businesses in the PRC. In respect of the co-operation under the said agreement, both parties will, after taking into account the relevant circumstances, enter into further agreement(s) to agree on the detailed terms and conditions of the business and services co-operation under the said agreement.

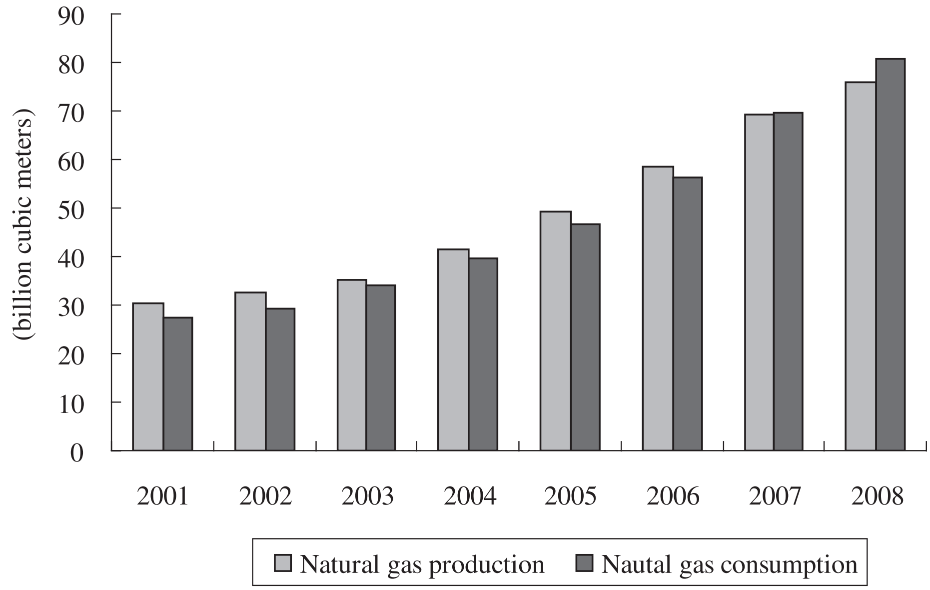
According to the announcement of the Company dated 31 March 2010, due to the fact that the senior management of some of the major PRC subsidiaries of the Company have not provided the external auditors with responses to the auditors' follow-up questions for the purpose of finalising the audit, the Company was not in a position to announce its annual results and distribute its annual report for the year ended 31 December 2009. According to the announcement of the Company dated 25 May 2010, given that the senior management of some of the major subsidiaries of Company have not provided the external auditors with responses to their follow-up questions for the purpose of finalising the audit and as a result, the annual results and annual report of Company for the year ended 31 December 2009 and the quarterly results for the three months ended 31 March 2010 had not been issued by 31 March 2010 and 15 May 2010, respectively. Accordingly, the financial performance and financial position of the Group for the year ended 31 December 2009 was not available for our analysis. Meanwhile, as discussed with the Company, the business operations of the Group have been carried out in its normal course up till the Latest Practicable Date. Nonetheless, up to the Latest Practicable Date, we note that the Company has not published any profit warning or profit surprise announcement subsequent to the year ended 31 December 2009. In addition, according to the announcement of the Company dated 25 May 2010, after continuous efforts made by the Directors, on 18 May 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31 December 2009. On 24 May 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. Accordingly, the Company will publish its annual results and the annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 as soon as possible. Furthermore, as set out in the Letter from the Board, as at the Latest Practicable Date, based on the Company's discussion with its auditor, the Directors expected that the annual results and annual report of the Company for the year ended 31 December 2009 would not be published on or before the First Closing Date, 14 June 2010. Furthermore, as advised by the Company, the Company targets to publish its latest financial information (the annual results of the Group for the year ended 31 December 2009 and the first quarterly results for the three months ended 31 March 2010) before the end of the Offer Period (i.e. 28 June 2010 as may be extended in the event that the Offers become or are declared unconditional on the First Closing Date).

(ii) Future prospects of the China Gas Group and the Group

Natural gas is typically used for power generation, as a feedstock for manufacturing chemicals and fertilisers, and directly for residential and commercial heating and other industrial purposes. City gas distribution companies distribute natural gas through their pipelines to residential, commercial and industrial end-users. Compared with other developed countries, such as the United States, China's penetration level of natural gas is still low.

The continued economic growth and the rapid industrialisation and urbanisation in China have spiked the demand for energy in China. In order to reduce reliance on polluting energy sources such as coal and crude oil, the PRC government has, in recent years, taken many steps to promote the development and utilisation of less polluting energy sources, including natural gas, wind power, solar power and etc. Natural gas is considered a cleaner but relatively new conventional energy source compared to coal and crude oil. The PRC government has therefore been supportive of the development of natural gas. Pursuant to the report "BP Statistical Review of World Energy June 2009" published by BP[1] in June 2009, one of the world's largest oil and gas companies, the annual natural gas consumption in the PRC underwent a compound annual growth rate of approximately 16.7% from 27.4 billion cubic meters in 2001 to 80.7 billion cubic meters in 2008. Our opinion does not rely on the work of BP and the inclusion of the report by BP is for information purposes. We have also reviewed the China Statistics Yearbooks published by the National Bureau of Statistics of the PRC for the years during 2002 to 2009 and noted that the PRC governmental statistics in such Yearbooks published relating to the natural gas industry in the PRC were not complete but those available data matches with those used in the report by BP. The chart below illustrates the natural gas production and consumption in the PRC for the period from 2001 to 2008

[1] BP is one of the world's largest oil and gas companies, serving millions of customers in more than 90 countries across six continents. Their business segments are Exploration and Production, and Refining and Marketing



Source: BP Statistical Review of World Energy June 2009

Pursuant to能源發展"十一五"規劃("The Development of Energy in the 11th Five Year Plan") in the PRC promulgated by國家發展改革委("The National Development and Reform Commission") ("NDRC") in April 2007, NDRC targets to increase the share of natural gas in non-renewable energy consumption of 5.3% in 2005 to 6.8% in 2010.

In addition, the PRC government has promulgated various policies and guidelines to encourage and rationalise the usage of natural gas. For example, on 30 August 2007, the NDRC issued "天然氣利用政策" ("Natural Gas Usage Policy") (the "Policy") for this purpose. The Policy specifically states that municipal residential and commercial users throughout the PRC shall have preferential access to natural gas.

According to中國能源發展報告2009 ("the PRC's Energy Development Report 2009") published by Chinese Academy of Social Science ("CASS"), the highest academic research organization in the fields of philosophy and social sciences as well as a national center for comprehensive studies in the PRC, CASS expects the deficit in gas production in the PRC will be widened to 100 billion cubic meters in 2020. We summarise the expected natural gas production and consumption in the PRC as follows:

(billion cubic meters)	**2010**	**2015**	**2020**
Natural gas production in the PRC (A)	90	140	150
Natural gas consumption in the PRC (B)	110	200	250
Deficit in gas production (A minus B)	20	60	100

Source: *the PRC's Energy Development Report 2009*

As set out in the annual report for the year ended 31 March 2009 and interim report for the six months ended 30 September 2009 of China Gas, the China Gas Board expects that the overall Chinese economy is growing steadily with a strong demand for energy and believes that with a sound development of the overall economy of PRC, coupled with the competitive advantages and leadership position of the China Gas Group in the gas industry, and its effective risk control system, the Group is in a position to achieve better performance in future.

On the other hand, according to the interim report for the six months ended 30 June 2009 and third quarterly report for the nine months ended 30 September 2009 of the Company, the Board is of the view that the natural gas market in the PRC will continue to boom amid the global economic downturn and the Chinese government is supporting the exploration and development of domestic energy sources. The Group has been expanding its downstream natural gas distribution with a focus on high margin commercial and industrial users and compressed natural gas filling stations and the Directors are confident to further enhance the market position as well as the financial performance of the Group.

(iii) Reasons for the Offers

As set out in the letter from the China Gas Board in the Offer Document ("Letter from the China Gas Board"), the China Gas Directors believe there are commercial reasons for a merger between China Gas and the Company as reproduced 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 the Company 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 the Company.

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

The completion of the Offers will enable the China Gas Group to expand its business in Shandong province through the Company, 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 the Group with the 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 the China Gas Group with access to supply of coalbed methane in areas where the 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 the Company's trading suspension

As stated above, trading in the Shares has been suspended since 22 March 2010. In view of such continuing and prolonged suspension, the reasons for which are disclosed in the Company's announcements dated 23 March 2010 and 31 March 2010, and the uncertainty over the timing and prospects of the resumption of trading in the 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 Board over the senior management and employees of key PRC subsidiaries of the Company, including those in Henan province, which is a target growth market for China Gas, and the Company'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 Group may be challenging to realise without the full cooperation of the relevant senior management of subsidiaries of the Company.

Given that China Gas has business operations in 18 provinces, autonomous regions and directly administered cities in the PRC, we concur with the Board that the Company could leverage on the extensive business network of China Gas in the PRC to broaden its customer base to other regions of the PRC. We note that the Company has diversified its business to upstream coalbed methane operation since 2007, however, we note from the Board that substantial capital is required for the development of the coalbed methane operation in the future and the financing capability of China Gas might help to finance the development of the coalbed methane operation in order to hasten its commercial production and help to release the potential value of the coalbed methane to the Company.

Based on the above and taking into account the financial and operational results of both the China Gas Group and the Group and the future prospects of the natural gas industry in the PRC, we consider that the Share Offer can enable the Shareholders to enjoy the stronger earning returns of the China Gas Group generated from a more established customer base whilst retaining its exposure in the business of the Group, via their interests in the China Gas Group. In addition, although it is currently difficult to assess the outcomes and effects of the synergy as a result of the Offers as there is no concrete plan about the merging of operations between the China Gas Group and the Group at present, we consider that if China Gas and the Company would be able to capitalize on the their combined resources, in particular, the financial resources, extensive business presence and expertise, the Enlarged Group may diversify its overall business risk and carry out further vertical integration from upstream resource development to downstream gas distribution in the PRC which would strength its foothold in the natural gas industry.

On the other hand, in view of the recent developments in relation to publication of latest financial results of the Group as set out in the announcement of the Company dated 25 May 2010, we concur with the view of China Gas Board that it is challenging to realise management efficiency and business synergy between the China Gas Group and the Group without full cooperation of the relevant senior management of subsidiaries of the Company and consider that there is an uncertainty as to whether the China Gas Group Board and/or the Board can exercise over the management of all the subsidiaries of the Company in future to realise the management efficiency and business synergy of the Enlarged Group.

Furthermore, as set out in the Letter from the Board, the Company had received letters of objection from the joint venture partners of 5 of its 19 operating subsidiaries in the PRC which stated that they object to the Offers and a change in control of the Company, and that if the Company proceeds with the Offers, they would refuse to co-operate with the new management and that the local government may revoke the concession rights of the Company's subsidiaries in the PRC. Besides, another joint venture partner of another PRC subsidiary of the Company has also verbally expressed its objection to the Offers and a change in control of the Company, and may also seek intervention from the local where the Company has operations government to revoke the concession rights of such PRC subsidiaries if there is a change in control of the Company. In addition, the Company received letters from 3 of 9 PRC local governments where the Company has operations stating that they would revoke the concession rights of certain subsidiaries of the Company if the Company proceeds with the Offers without their consent. Moreover, the Company has received letters of objection from banks, who, in aggregate, have lent RMB137,000,000 to the Group and these banks have notified the Company's subsidiaries that they are aware of the Offers and that if the Offers complete, resulting in change of control of the Company, they would seek a full repayment of loans made to such subsidiaries of the Company (altogether, the "Recent Incidents"). The Company has sought PRC legal advice in relation to the above and has received a PRC legal opinion on 28 May 2010. The PRC legal opinion states, among other things, that (i) consent from the relevant joint venture partners to the Offers and/or a change in control of the Company is not required as a matter of PRC law, (ii) such a change in control of the Company should not affect the legal validity of the concession rights granted by the local government authorities and (iii) there is no requirement to obtain consent to the Offers and/or a change in control of the Company under PRC law or the relevant loan agreements between the Company's subsidiaries and the banks, and there is no stipulation in under PRC law or the relevant loan agreements that the banks may call for repayment of the loans in full if there is a change in control of the Company. However, as set out in the PRC legal opinion, (a) the joint venture partners may still refuse to co-operate with a new management if there is a change in control of the Company; and (b) the local government authorities may revoke the concession rights of the subsidiaries in the PRC which would affect the operation of the Group. As a result, the Directors consider that if the above events materialize, it might result in material changes to the financial or trading position or outlook of the Group. Having reviewed the above mentioned documents and based on the above, we consider that the Offers impose an uncertainty to the operations of the Group and/or the Enlarged Group.

(iv) Dilution effects to the Independent Shareholders upon full acceptance of the Share Offer

As at the Latest Practicable Date, there were 1,027,086,142 Shares held by the independent Shareholders which in aggregate accounted for approximately 52.03% of the issued share capital of the Company, based on 1,974,007,684 Shares in issue as at the Latest Practicable Date. On the basis of full acceptance of the Share Offer and without taking into account the Convertible Bond Offer and the Option Offer, the independent Shareholders will hold in aggregate approximately 155,295,425 China Gas Shares upon completion of the Share Offer, representing approximately 4.4% of the issued share capital of China Gas, based on 3,516,731,576 China Gas Shares as enlarged by the issue of the new China Gas Shares under the Share Offer only. The Company will become a wholly owned subsidiary of China Gas should all Shareholders accept the Share Offer. Accordingly, the effective interests in the Group held by the independent Shareholders will be diluted by approximately 91.5% on the basis of full acceptance of the Share Offer. However, the Shareholders are reminded that they will receive a cash amount of HK$0.1743 per Share in addition to 0.1512 new China Gas Share upon acceptance of the Share Offer. Thus, the Shareholders have realized part of their investments in the Company upon acceptance of the Share Offer whilst maintaining part of their investments in the Group indirectly via holding the China Gas Shares.

(v) Share price performance and trading liquidity

The Share Offer Consideration, in particular the implied value of the Share Offer is approximately HK$0.9046 per Share (the "LTD Implied Share Value"), which was determined based on the closing price of HK$4.83 per China Gas Share on the Last Trading Date multiplied by 0.1512 new China Gas Share being offered for each Share, plus the cash amount of HK$0.1743 being offered for each Share, and represents:

(a) a premium of approximately 14.51% over the closing price of HK$0.79 per Share as quoted on the Stock Exchange on the last trading day before the suspension of the trading in the Shares on 22 March 2010;

(b) a premium of approximately 1.64% over the closing price of HK$0.89 per Share as quoted on the Stock Exchange on the Last Trading Date;

(c) a discount of approximately 0.59% to the average closing price of HK$0.91 per Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;

(d) a premium of approximately 1.64% over the average closing price of HK$0.89 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Date;

(e) a premium of approximately 13.07% over the closing price of HK$0.8 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;

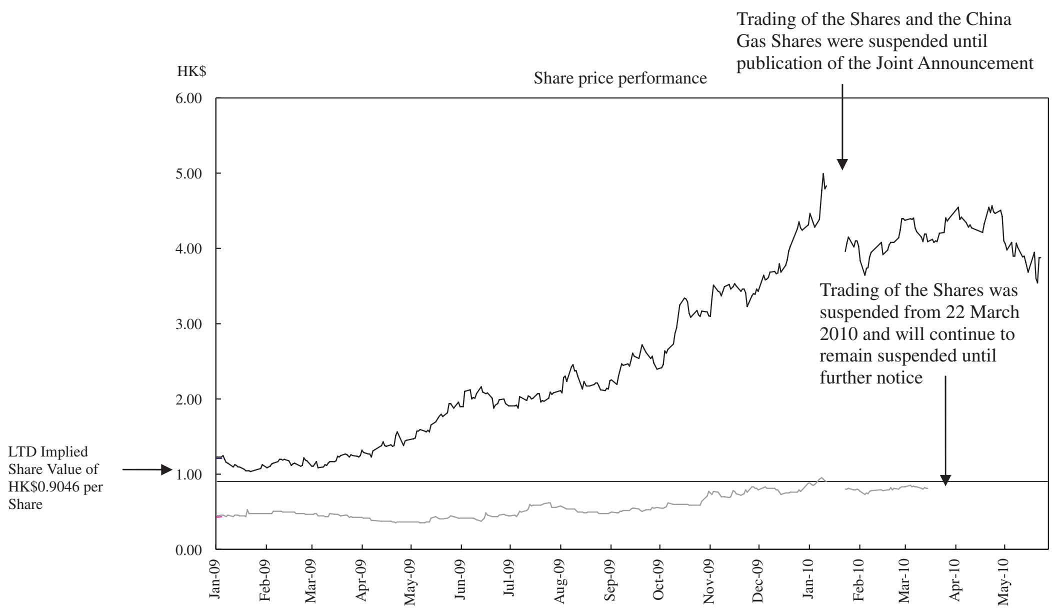
(f) a premium of approximately 20.61% over the closing price of HK$0.75 per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Date; and

(g) a premium of approximately 126.2% over the unaudited consolidated net asset value per Share of approximately HK$0.40 per Share as at 30 June 2009.

The trading of the Shares remains suspended as at the Latest Practicable Date.

• *Share price performance*

In view that the 12-month benchmarking period is a commonly used tenure for analysis purpose, for further comparing the LTD Implied Share Value with the market price of the Shares, we plot the closing price level of the Shares and China Gas Shares traded on the Stock Exchange from 1 January 2009 to 15 January 2010 (being the Last Trading Date) and further up to the Latest Practicable Date (the "Review Period") as well as the LTD Implied Share Value as illustrated below:



Source: the Stock Exchange

During the Review Period, the lowest closing price of the China Gas Shares was HK$1.02 per China Gas Share recorded on 23 January 2009 and the highest closing price of the China Gas Shares was HK$4.99 per China Gas Share recorded on 13 January 2010. The trading of the China Gas Shares was suspended on 18 January 2010 pending the publication of the Joint Announcement and the trading resumed on 27 January 2010.

During the Review Period, the lowest closing price of the Shares was HK$0.34 per Share recorded on 27 April 2009, 11 May 2009 and 12 May 2009 and the highest closing price of the Shares was HK$0.94 per Share recorded on 12 January 2010. The trading of the Shares was suspended on 18 January 2010 pending the publication of the Joint Announcement and the trading resumed on 27 January 2010. Due to failure of publishing the annual results of the Company for the year ended 31 December 2009, the trading of the Shares has been suspended from 22 March 2010 until further notice. The closing price of the Shares on 21 March 2010 was HK$0.79. We note that the LTD Implied Share Value represents a premium of approximately 166.1% over the lowest closing price per Share and a discount of approximately 3.8% to the highest closing price per Share during the Review Period. Meanwhile, during the Review Period, there are only 3 trading days on which the closing price of the Shares were higher than the LTD Implied Share Value. The LTD Implied Share Value also represents a premium of approximately 14.5% over the closing price of the Shares of HK$0.79 on 21 March 2010, being the last trading day before the suspension of the Shares on 22 March 2010 ("LPT Share Price").

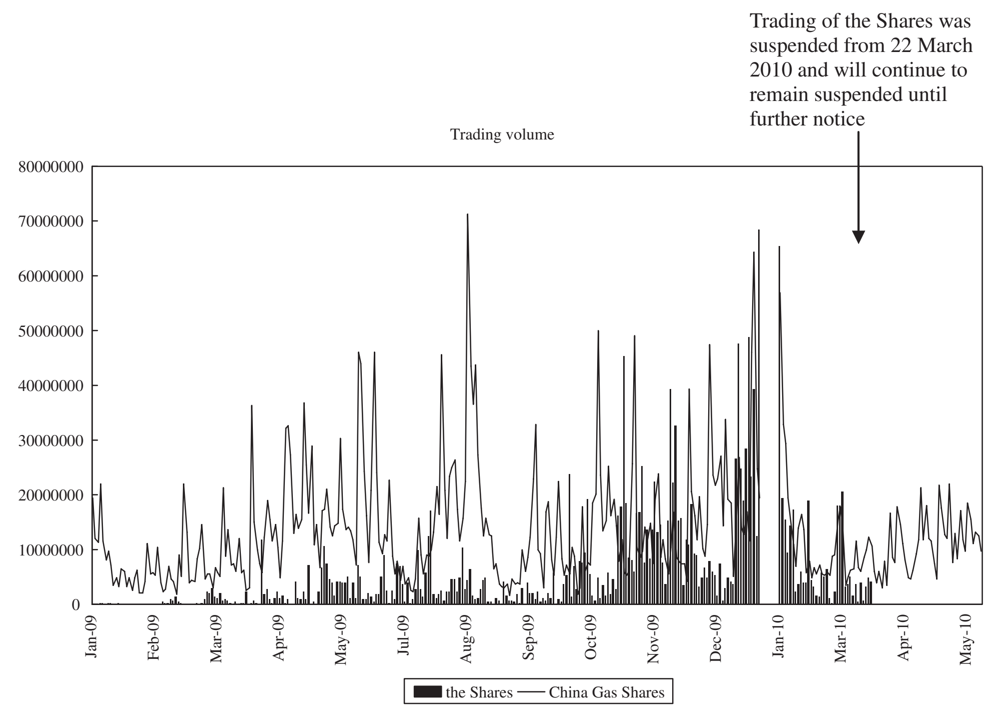
During the period from the Last Trading Date to the Latest Practicable Date, the closing price of the Shares ranged within a band of HK$0.71 to HK$0.85 per Share with an average closing price of approximately HK$0.78 per Share whilst the closing price of China Gas Shares ranged within a band of HK$3.53 to HK$4.56 per China Gas Share with an average closing price of approximately HK$4.13 per China Gas Share. Based on the closing price of China Gas Share of HK$3.87 per China Gas Share as at the Latest Practicable Date for determining the Share Offer Consideration, the implied share offer value ("LPT Implied Share Value") of approximately HK$0.7594 represents a discount of 3.9% to the LPT Share Price.

We note that the LPT Implied Share Value was slightly below the LPT Share Price, however, in view of the fact that the trading of the Shares has been suspension since 22 March 2010, we consider that the comparison between the LPT Implied Share Value and the LPT Share Price is not meaningful. In addition, the LPT Implied Share Value also represents a premium of approximately 89.9% over the unaudited consolidated net asset value per Share of approximately HK$0.40 per Share as at 30 June 2009.

Given the fact that the Share Offer Consideration is determined partially by the price of the China Gas Share, which is subject to price fluctuation during the Offer Period, the Shareholders should note that the Share Offer Consideration under the Share Offer would change accordingly from time to time, and it is uncertain whether the market price of the Shares and/or the China Gas Shares would rise or fall and whether the Share Offer Consideration under the Share Offer would represent a discount or a premium to the market price of the Shares during the Offer Period. The trading of the Shares has been suspended from 22 March 2010 and the closing price of the Shares recorded on last trading day before 22 March 2010 was HK$0.79. It is possible that the implied value of the Share Offer Consideration would be lower than such market price of the Shares if the share price of the China Gas Shares continues to drop. Besides, in view of the fact that the trading of the Shares has been suspended from 22 March 2010 until further notice and the annual results and the annual report of the Company for the year ended 31 December 2009 will not be published before the First Closing Date, the trading of the Shares may remain suspended during the Offer Period. Notwithstanding the aforesaid, as advised by the Company, the Company targets to publish its latest financial information (the annual results of the Group for the year ended 31 December 2009 and the first quarterly results for the three months ended 31 March 2010) before the end of the Offer Period (i.e. 28 June 2010 as may be extended in the event that the Offers become or are declared unconditional on the First Closing Date). In this regard, the Shareholders, in particular those who intend to hold their interests as short-term investment, should monitor closely the trading of the China Gas Shares during the Offer Period. For those Shareholders who wish to realize their investment by accepting the Share Offer and in case that trading of the Shares is resumed during the Offer Period and the market price of the Shares is higher the implied value of the Share Offer Consideration, those Shareholders may consider selling their Shares in the open market. Meanwhile, in view that the trading of the Shares may remain suspended during the Offer Period due to the reason stated above, Shareholders are reminded that the Share Offer represents an exit with certainty for the Shareholders to realise their investments in the Company during the Offer Period and the Shareholders should closely monitor the development regarding the publication of annual results of the Company and other related matters and the overall stock market condition and carefully consider the options between holding the Shares against the investment in the Enlarged Group as a result of accepting the Share Offer.

• Liquidity

For the purpose of assessing the trading liquidity of both the Shares and the China Gas Shares, the following chart shows the respective daily trading volume of the Shares and the China Gas Shares during the Review Period:



Source: the Stock Exchange

Turnover of the Shares

Month	**Monthly highest daily turnover of the Shares** *(in number of Shares)*	**Monthly lowest daily turnover of the Shares** *(in number of Shares)*	**Monthly average daily turnover of the Shares** *(in number of Shares)*	**Number of trading days with no turnover of the Shares** *(in days)*	**Percentage of average daily turnover over total number of the Shares in issue** *(Note 1)* *(%)*	**Percentage of average daily turnover over total number of the Shares held by Independent Shareholders** *(%)*
2009						
January	126,000	0	29,444	4	0.001%	0.003%
February	500,000	0	92,700	6	0.005%	0.009%
March	1,096,000	0	312,995	2	0.017%	0.032%
April	4,408,000	0	543,500	3	0.030%	0.059%
May	3,964,000	0	1,315,579	1	0.066%	0.128%
June	3,362,000	44,000	1,215,364	0	0.061%	0.118%
July	6,420,000	102,000	1,449,818	0	0.075%	0.143%
August	3,938,000	0	991,000	1	0.046%	0.089%
September	8,894,000	4,000	1,073,091	0	0.055%	0.106%
October	7,160,000	302,000	2,314,700	0	0.117%	0.225%
November	17,020,000	1,372,000	6,413,143	0	0.325%	0.624%
December	6,882,000	220,000	2,694,595	0	0.137%	0.262%
2010						
January	25,674,000	4,704,000	12,668,154	0	0.642%	1.233%
February	7,142,000	70,000	2,281,444	0	0.116%	0.222%
March (1 Mar to 19 Mar)	7,682,000	168,000	2,344,800	0	0.119%	0.228%
April *(Note 2)*	N/A	N/A	N/A	N/A	N/A	N/A
May *(Note 2)*	N/A	N/A	N/A	N/A	N/A	N/A

Source: the Stock Exchange

Notes:

1. Based on 1,974,007,684 Shares in issue as at the Latest Practicable Date;

2. The trading of the Shares has been suspended since 22 March 2010 until further notice

Turnover of China Gas Shares

Month	Monthly highest daily turnover of the China Gas Shares	Monthly lowest daily turnover of the China Gas Shares	Monthly average daily turnover of the China Gas Shares	Number of trading days with no turnover of the China Gas Shares	Percentage of average daily turnover over total number of the China Gas Shares in issue *(Note)*	Percentage of average daily turnover over total number of the China Gas Shares held by independent China Gas Shareholders
	(in number of Shares)	*(in number of Shares)*	*(in number of Shares)*	*(in days)*	*(%)*	*(%)*
2009						
January	21,994,000	2,596,000	8,189,461	0	0.244%	0.393%
February	21,998,000	1,780,000	6,319,226	0	0.188%	0.303%
March	21,306,000	2,558,000	7,655,099	0	0.228%	0.367%
April	36,410,000	2,982,000	15,735,268	0	0.468%	0.755%
May	36,670,500	6,720,000	18,015,079	0	0.536%	0.864%
June	46,080,000	4,314,000	17,132,468	0	0.510%	0.822%
July	45,446,000	2,326,000	14,026,968	0	0.417%	0.673%
August	71,202,168	1,722,000	17,562,113	0	0.522%	0.842%
September	32,894,350	2,924,000	11,008,576	0	0.327%	0.528%
October	49,843,400	1,948,000	14,897,574	0	0.443%	0.715%
November	48,922,000	5,292,000	13,388,962	0	0.398%	0.642%
December	47,403,000	4,253,100	18,230,187	0	0.542%	0.874%
2010						
January	64,268,000	11,495,000	28,373,049	0	0.844%	1.361%
February	19,357,900	4,824,000	9,067,513	0	0.270%	0.435%
March	17,724,000	3,118,000	8,649,163	0	0.257%	0.415%
April	21,190,000	4,660,000	11,389,359	0	0.339%	0.546%
May (2 May to the Latest Practicable Date)	21,948,000	4,728,000	12,961,812	0	0.386%	0.622%

Source: the Stock Exchange

Note: Based on 3,361,436,151 China Gas Shares in issue as at the Latest Practicable Date.

As illustrated above, we note that the trading of the China Gas Shares has been more active than that of the Shares. During the period from January 2009 to December 2009, the daily average trading volume of China Gas Shares ranged from roughly 6 million China Gas Shares to roughly 18 million China Gas Shares, representing approximately 0.19% to 0.54% of the total number of China Gas Shares in issue and approximately 0.30% to 0.88% of the total number of China Gas Shares held by independent China Gas Shareholders respectively. During January 2010 (where the Joint Announcement was published in the same month), the daily average trading volume of China Gas Shares reached roughly 28 million China Gas Shares, representing approximately 0.84% of the total number of China Gas Shares in issue and approximately 1.36% of the total number of China Gas Shares held by independent China Gas Shareholders respectively. Thereafter, the daily average trading volume of China Gas Shares dropped to roughly 10 million China Gas Shares, representing approximately 0.3% of the total number of China Gas Shares in issue and approximately 0.5% of the total number of China Gas Shares held by independent China Gas Shareholders respectively.

Meanwhile, during most of the time in the Review Period, the trading of Shares has been very thin, other than November 2009 and January 2010, the daily average trading volume of the Shares did not exceed 3 million Shares, representing approximately 0.15% of the total number of Shares in issue and approximately 0.29% of the total number of the Shares held by the Independent Shareholders respectively. During November 2009 and January 2010 (where the Joint Announcement was published in the same month), the daily average trading volume of the Shares were roughly 6.4 million Shares and 12.7 million Shares respectively, representing approximately 0.33% and 0.64% of the total number of Shares in issue respectively and approximately 0.63% and 1.24% of the total number of the Shares held by the Independent Shareholders respectively. Nevertheless, we note that the Company did not issue any announcement relating to unusual price and trading volume movement in November 2009. Given that the liquidity of the Shares was relatively thin during the Review Period as compared to the China Gas Shares, we consider that the Share Offer provides an alterative way for the investors holding large lots of the Shares to realize their holdings and to exchange for the China Gas Shares with higher liquidity.

In addition, Shareholders are reminded that the trading of the Shares has been suspended from 22 March 2010 until further notice and the trading of the Shares may remain suspended during the Offer Period. Accordingly, the Share Offer can provide an exit with certainty for the Shareholders if they wish to realize their investments during the Offer Period when the trading of the Shares continues to be suspended.

(vi) Valuation approach

We have identified a total of three companies listed on the Main Board or GEM of the Stock Exchange, being all companies which are principally engaged in similar businesses of both China Gas and the Company (the "Comparables") and within similar market capitalisation range with respect to that of the Company, therefore, it represents the exhaustive list of comparable companies. We consider that the Comparables are fair and representative comparables in terms of geographical presence of the principal business (all operating primarily in the PRC market and their revenue has been primarily generated from the PRC market) and market capitalisation.

However, in the absence of the latest audited financial information of the Company for the year ended 31 December 2009, we consider that we are not in a position to perform an apple-to-apple comparison from the price to earning multiple approach. We have compared the valuation of the Group based on the Share Offer Consideration, in particular the LTD Implied Share Value against those of the Comparables and the results are set forth below:

Comparables for the Company

Company name/ (Stock code)	**Closing price as at Last Trading Date** *(HK$)*	**Market capitalization as at Last Trading Date** *(in HK$ million)*	**Historical PE Multiple as at Last Trading Date** *(times) (Note 1)*	**PB Multiple as at Last Trading Date** *(times) (Note 2)*	**Dividend Yield as at Last Trading Date** *(%) (Note 3)*
Chinese People Holdings Co. Ltd. (681)	0.430	1,755.36	48.86	1.99	N/A
Zhengzhou Gas Co. Ltd. (3928)	16.900	2,115.04	122.52	2.37	0.61
Tianjin Tianlian Public Utilities Co. Ltd (8290)	1.410	1,620.94	22.90	2.39	1.21
		Mean	64.76	2.25	0.91
		Median	48.86	2.37	0.91
		Maximum	122.52	2.39	1.21
		Minimum	22.90	1.99	0.61
The Company (the LTD Implied Share Value)	0.9046 *(Note 4)*	1,781.61	N/A	2.57	N/A
The Company (the LPD Implied Share Value)	0.7594 *(Note 5)*	1,495.64	N/A	2.15	N/A

Source: www.hkex.com.hk

Notes:

1. The earnings per share figures used were the then latest full year figures published before the Last Trading Date. The Historical PE Multiple was calculated by dividing the share price as at the Last Trading Date over the earnings per share figures for full year published before the Last Trading Date.

2. The net assets per share figures used were the then latest published net assets published before the Last Trading Date.

3. The dividend yield was calculated using the then latest full year dividend declared before the Last Trading Date over the share price.

4. The LTD Implied Share Value.

5. The LPD Implied Share Value.

Price-earnings Multiple ("Historical PE Multiple")

As the Group and the China Gas Group are engaged in natural gas related businesses in the PRC, reference to price to earnings multiple is the most common approach adopted by the investment community in valuing such kind of revenue-generating entities. We consider that the data published before the Joint Announcement should be the primary parameter to determine whether the terms of the Offers are fair and reasonable as the investment community can access the same information in general which should be reflected in the share prices. According to the above table, the Historical PE Multiple of the Comparables ranges from approximately 22.90 times to approximately 122.52 times. However, given that the Group has been loss making for the two years ended 31 December 2008 and the Group has not published its latest audited financial information for the year ended 31 December 2009, it would not be feasible and meaningful to assess the LTD Implied Share Value using the price to earnings multiple approach.

Price to book multiple ("PB Multiple")

In terms of valuing the Group and the China Gas Group which are engaged in natural gas related businesses in the PRC, the PB Multiple approach is not as predominant as the Historical PE Multiple approach. Nonetheless, we consider that it is relevant to set out our assessment in terms of the PB Multiple. Upon comparison, we note that the PB Multiple of the Company as represented by the LTD Implied Share Value of approximately 2.57 times falls above the range of 1.99 times to 2.39 times, and it is higher than the mean and median of the Comparables.

Dividend yield

We note that less than half of the Comparables paid dividends to their shareholders for the latest 12-month period before the Last Trading Date.

China Gas has been paying dividends to the China Gas Shareholders since the year ended 31 March 2006. The Company has not paid out any dividend since financial year 2003 and it is uncertain as to whether the Group will pay out dividend for the financial year ended 31 December 2009. Accordingly, it would not be applicable to assess the LTD Implied Share Value by means of the dividend yield approach.

Based on the above analysis and from the sole perspective assessment of the Share Offer Consideration, in particular the LTD Implied Share Value with reference to the Comparables by valuation approach in terms of PB Multiple, we consider that the Share Offer Consideration, in particular, as represented by the LTD Implied Share Value, is fair and reasonable so far as the Independent Shareholders are concerned. Meanwhile, we note that the China Gas Group has been paying consecutive dividend whereas no dividend has been paid by the Group over the last few years. However, the Shareholders should note that the Share Offer Consideration is subject to the market price of China Gas Shares and thus, the monetary value of the Share Offer Consideration will vary during the Offer Period.

(vii) Precedent cases

In order to assess the fairness and reasonableness of the Share Offer Consideration, in particular the LTD Implied Share Value, by reference to the market price of the Shares, we have identified six voluntary conditional offer cases of companies listed on the Main Board or GEM of the Stock Exchange (the "Precedent Cases") during the period from 1 January 2009 up to the Last Trading Date. However, given the differences in various aspects of each offeree companies, such as, (i) market capitalization; (ii) financial background; and (iii) nature of business, the Precedent Cases should be considered in conjunction with other factors stated above and such analysis is illustrated below for information purpose only.

				Premium/(discount) over/(to) closing price or average closing price			
Date of announcement	**Offeror**	**Offeree (Stock code)**	**Offer price (HK$) per share**	**Last trading date immediately prior to the relevant announcement** *(%)*	**10 trading days immediately prior to the relevant announcement** *(%)*	**30 trading days immediately prior to the relevant announcement** *(%)*	**Premium/ (discount) over/(to) net asset value** *(%)*
19 Oct 09	Lotte Shopping Holdings (Hong Kong) Co., Limited	Times Ltd. (1832)	5.575	25.28	29.65	33.69	226.02 *(Note 1)*
29 Sept 09	Red Dynasty Investments Limited *(Note 2)*	Shell Electric Mfg. (Holdings) Company Limited (81)	5.00	33.33	30.50	37.00	(15.82)
19 Aug 09	Gain Better Investments Limited *(Note 3)*	Leroi Holdings Limited (221)	0.2525 *(Note 4)*	(12.93)	(13.23)	(20.60)	300.79 *(Note 5)*
1 Jun 09	Ever Holdings Limited	Oriental Press Group Limited (18)	0.95	15.90	17.30	23.40	(18.10)
6 May 09	Charming Future Holdings Limited	Royale Furniture Holdings Limited (1198)	0.33	(1.49)	(4.62)	(6.99)	(65.63)
9 Feb 09	Sum Tai Holdings Limited	Same Time Holdings Limited (451)	1.23	12.84	15.38	16.26	(83.64)
			Mean	12.16	12.50	13.79	57.27
			Median	14.37	16.34	19.83	(16.96)
			Maximum	33.33	30.50	37.00	300.79
			minimum	(12.93)	(13.23)	(20.60)	(83.64)
26 Jan 10	China Gas	The Company (8070)	0.9046 *(Note 6)*	1.64	1.64	13.07	126.15 *(Note 7)*

Source: the Stock Exchange

Notes:

1. The net asset value per share was calculated based on net asset value of RMB1,307,652,000 as at 30 June 2009 and 873,990,000 share in issue as at 19 October 2009;

2. Red Dynasty Investments Limited is wholly owned by China Overseas Land & Investment Limited, the shares of which are listed on the Main Board of the Stock Exchange

3. Gain Better Investments Limited is wholly owned by Wai Yuen Tong Medicine Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange

4. It was a share exchange offer on the basis of 2 shares of Leroi Holdings Limited for 5 shares of Wai Yuen Tong Medicine Holdings Limited and the implied offer price as calculated by the share price of HK$0.101 of Wai Yuen Tong Medicine Holdings Limited at the last trading day was HK$0.2525

5. The net asset value per share was HK$0.063

6. It was a share exchange offer with cash compensation and the implied offer price was HK$0.9046;

7. The net asset value per Share was calculated based on net asset value of HK$794,190,000 as at 30 June 2009 and 1,971,001,6840 Shares in issue as at 26 January 2010.

Upon comparison, we note that the Share Offer Consideration, in particular the LTD Implied Share Value, represents a premium of approximately 126.15% over the unaudited consolidated net asset value per Share as at 30 June 2009 of approximately HK$0.40 and falls within the ranges and well above the mean and median of that of the Precedent Cases. Although the Share Offer Consideration represents premia over the closing price on the Last Trading Day, the average closing prices of the last 5, 10 and 30 trading days prior to and including the Last Trading Day respectively, the premia falls below the mean and median of those of the Precedent Cases.

(viii) China Gas's intentions regarding the Group and the Enlarged Group

As set out in the Letter from the China Gas Board, China Gas and the Offeror intend to continue with the existing business of the China Gas Group, as well as with the existing business of the Group, following completion of the Offers. Neither China Gas nor the Offeror intends to make any changes to the current business operations of the Group following completion of the Offers. China Gas and the Offeror do not have any plans for redeployment of the fixed assets of the Company. 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 the Group as a result of the Offers.

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

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

Accordingly, we consider that there should not be any material change to the operations and management of the Group following the completion of the Offers.

(ix) Prolonged suspension

According to the announcement of the Company dated 31 March 2010, due to the fact that the senior management of some of the major PRC subsidiaries of the Company have not provided the external auditors with responses to the auditors' follow-up questions for the purpose of finalising the audit, the Company was not in a position to announce its annual results and distribute its annual report for the year ended 31 December 2009. In addition, according to the announcement of the Company dated 14 May 2010, as the annual results and annual report are yet to be finalized and published, the Company will not be in a position to announce its quarterly results for the three months ended 31 March 2010 within 45 days after such date as required by the GEM Listing Rules. In addition, according to the announcement of the Company dated 25 May 2010, after continuous efforts made by the Directors, on 18 May 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31 December 2009. On 24 May 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. Accordingly, the Company will publish its annual results and the annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 as soon as possible. As set out in the Letter from the Board, as at the Latest Practicable Date, based on the Company's discussion with its auditor, the Directors expected that the annual results and annual report of the Company for the year ended 31 December 2009 would not be published on or before the First Closing Date, 14 June 2010. Due to the above, the trading of the Shares has been suspended from 22 March 2010 and remains suspended until further notice. Furthermore, as advised by the Company, the Company targets to publish its latest financial information (the annual results of the Group for the year ended 31 December 2009 and the first quarterly results for the three months ended 31 March 2010) before the end of the Offer Period (i.e. 28 June 2010 as may be extended in the event that the Offers become or are declared unconditional on the First Closing Date).

In view of the above, we consider that the trading of the Shares may remain suspended during the Offer Period and the Share Offer represents an exit with certainty for the Shareholders to realise their investments in the Company during the Offer Period and we would advise the Shareholders to closely monitor the development regarding the publication of annual results of the Company and other related matters, the timetable for resumption of the trading in the Shares and the overall stock market condition and carefully consider the options between holdings the Shares against the investment in the Enlarged Group as a result of accepting the Share Offer.

RECOMMENDATION

Having considered the principal factors set out above, in particular, the following:

(i) the financial and operating performance of the China Gas Group (such as returns on equity, size of operation, level of turnover and the natural gas user's portfolio) of the China Gas Group is stronger than that of the Group;

(ii) the potential benefits arising from the Offers to be brought about to the Enlarged Group;

(iii) the PB Multiple represented by the LTD Implied Share Value falls above the median of those of the Comparables;

(iv) the LTD Implied Share Value represents a premium over approximately 1.64% over the closing price of HK$0.89 per Share as quoted on the Stock Exchange on the Last Trading Date and a premium of approximately 126.2% over the unaudited consolidated net asset value per Share of approximately HK$0.40 per Share as at 30 June 2009;

(v) the China Gas Group has been paying consecutive dividend whereas no dividend has been paid by the Group over the last few years;

(vi) the trading liquidity of the Shares is much thinner than that of the China Gas Shares; and

(vii) the prolonged suspension of the Shares since 22 March 2010 until further notice and the Share Offer represents the only opportunity with certainty for the Shareholders to realise their investments in the Company during the Offer Period,

we consider that the terms of the Share Offer are fair and reasonable so far as the Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to accept the Share Offer.

Nonetheless, we wish to bring to the attention of the Shareholders that the Share Offer Consideration is subject to the market price of China Gas Shares and thus, the monetary value of the Share Offer Consideration will vary during the Offer Period. Based on the closing price of China Gas Share of HK$3.87 per China Gas Share as at the Latest Practicable Date, the LPT Implied Share Value would be approximately HK$0.7594 whereas the trading of the Shares has been suspended from 22 March 2010 until further notice. The closing price of the Shares on 21 March 2010 was HK$0.79.

In any event, the Shareholders should note the possibility that the generally thin trading volume of the Shares recorded during the Review Period may render them difficult to dispose of their Shares in the market after the close of the Offers and the resumption of trading in the Shares without exerting downward pressure on the price of the Shares. There is no certainty that the current trading volume and/or the current trading price level of the Shares will be sustainable in the long term and the trading of the Shares may remain suspended during the Offer Period due to the reasons stated above. All the Shareholders who wish to realise whole or part of their Shares are reminded that they should closely monitor the development regarding the publication of annual results of the Company and other related matters, the timetable for resumption of the trading in the Shares and the overall stock market condition and consider accepting the Share Offer if the trading of the Shares continues to be suspended during the Offer Period. As advised by the Company, the Company targets to publish its latest financial information (the annual results of the Group for the year ended 31 December 2009 and the first quarterly results for the three months ended 31 March 2010) before the end of the Offer Period (i.e. 28 June 2010 as may be extended in the event that the Offers become or are declared unconditional on the First Closing Date). Shareholders should also note that the Offer Period will be extended upon the Offers are declared unconditional, it is possible that the Company will publish its latest financial results during such period and result in resumption of trading in the Shares. In the event that the trading of the Shares is resumed during the Offer Period due to the aforesaid or other reasons, all the Shareholders who wish to realise whole or part of their Shares are reminded that they should closely monitor the market price and the liquidity of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Share Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Share Offer Consideration.

In any case, the Shareholders should read carefully the procedures for accepting the Share Offer as detailed in the Response Document and are strongly advised that the decision to realise or to hold their investment in the Shares is subject to individual circumstances and investment objectives.

THE OPTION OFFER

As at the Latest Practicable Date, there are 142,712,000 Share Options outstanding which entitling the holders thereof to subscribe for up to an aggregate of 142,712,000 Shares at an exercise price of (i) HK$0.80, in respect of 48,400,000 Shares; (ii) HK$0.56, in respect of 66,000,000 Shares; and HK$0.31, in respect of 28,312,000. MCSL is making, on behalf of the Offeror, the Option Offer on the following basis:

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

For every Share Options
with exercise price of HK$0.80 . . . . HK$0.0202 in cash and
0.0175 new China Gas Share

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

For every Share Options
with exercise price of HK$0.56 . . . . HK$0.0664 in cash and
0.0576 new China Gas Share

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

For every Share Options
with exercise price of HK$0.31 . . . . HK$0.1146 in cash and
0.0994 new China Gas Share

We note that the principle of equality of treatment has been applied under the Option Offer. Given that the exercise prices of the outstanding Share Options are lower than the Share Offer Consideration and thus are "in-the-money", a "see through" price has been adopted to make the Option Offer, being the intrinsic value for the outstanding Share Options which essentially represents the differences between the exercise prices of the Share Options at stated above and the Share Offer Price.

In this respect, we consider that the basis of determining the Option Offer Consideration is acceptable and accordingly the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Optionholders to consider accepting the Option Offer.

The Optionholders are reminded that the trading of the Shares may remain suspended during the Offer Period. In any event, in case that the trading of the Shares is resumed during the Offer Period, the Optionholders are advised to exercise their Share Options and dispose of the Shares so converted in the open market if the net proceeds from the sales of such converted Shares in the open market after deducting all transaction costs would exceed the net amount receivable under the Option Offer. The Optionholders should exercise caution in doing so and monitor the market closely.

On the other hand, for those Optionholders who wish to retain some or all of their Share Options and/or exercise some or all of their subscription rights under the Share Options and retain their Shares, they should closely monitor the development regarding the publication of annual results of the Company and other related matters, the timetable for resumption of the trading in the Shares and the overall stock market condition and carefully consider the future intention of the Offeror regarding the Group, details of which are set out in the Offer Document. The Optionholders should note that, in accordance with the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the 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.

THE CONVERTIBLE BOND OFFER

As at the Latest Practicable Date, there are Convertible Bonds with an outstanding nominal amount of US$20,000,000. The Convertible Bonds are convertible into Shares at a price of HK$0.70 per Shares at a exchange rate of US$1.0 to HK$7.8233, and if so converted would result in the aggregate of 223,522,856 new Shares being issued. As set out in the Letter from the Board, pursuant to the terms of the Convertible Bonds, a mandatory redemption of not less than US$1,050,000 of the Convertible Bonds shall occur on 25 June 2010. The Company has sent out a mandatory redemption notice on 24 May 2010 pursuant to the terms of the Convertible Bonds to redeem such convertible Bonds in the principal amount of US$4,400,000 and where the redemption price paid is US$4,840,000. The balance of the principal amount of the Convertible Bonds remaining after such mandatory redemption will be US$15,600,000. MCSL is making, on behalf of the Offeror, the Convertible Bonds Offer on the following basis:

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

On the basis of each US$10,000 nominal amount of the outstanding Convertible Bonds will be offered for HK$19,480.0170 in cash and 16,898.3280 new China Gas Shares and the conversion price of the Convertible Bonds of HK$0.7 per Share, each underlying Share which may fall to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds will be valued at HK$0.2046 under the Convertible Bond Offer, which is same as the Share Offer Consideration.

In this respect, we consider that the basis of determining the Convertible Bond Offer Consideration is acceptable and accordingly the terms of the Convertible Bond Offer are fair and reasonable so far as the Bondholders are concerned. Accordingly, we recommend the Bondholders to consider accepting the Convertible Bond Offer.

Bondholders are reminded that, 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 the Company), the Bondholders will have the right to require the Company 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 Bondholders by the Company, as the case may be. The Company shall then be obliged to pay the 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 the Company as described above and in the event any Bondholder who did not accept the Convertible Bond Offer exercises its right to require the Company to redeem his outstanding Convertible Bonds, the Company will be required to redeem the outstanding Convertible Bonds from such Bondholder at the early redemption amount as described above.

The Bondholders are also reminded that the trading of the Shares may remain suspended during the Offer Period and are strongly advised that the decision to accepting the Convertible Bond Offer or exercising their rights to require the Company to redeem their outstanding Convertible Bonds or to convert the Convertible Bonds and hold their investment in the Shares is subject to individual circumstances and investment objectives.

Yours faithfully,
For and on behalf of
Partners Capital International Limited
Alan Fung
Managing Director

1. FINANCIAL SUMMARY

The following is a summary of (i) the audited financial results of the Group for each of the three financial years ended 31 December 2008; and (ii) the assets and liabilities as at 31 December 2006, 2007 and 2008 as extracted from the audited financial statements of the Group for the relevant years. The auditors of the Company did not issue any qualified opinion on the financial statements of the Group for the three years ended 31 December 2008. The Company had no exceptional or extraordinary items for each of the three years ended 31 December 2008.

(i) Results

	Year ended 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	703,020	294,518	78,159
(Loss)/Profit before tax	(78,242)	(18,199)	7,736
Income tax expenses	(13,323)	(4,109)	–
(Loss)/Profit for the year from continuing operations	(91,565)	(22,308)	7,736
Discontinued operations			
(Loss)/Profit for the year from discontinued operations	–	(403)	(638)
(Loss)/Profit for the year	(91,565)	(22,711)	7,098
(Loss)/Profit attributable to:			
Equity holders of the Company	(92,797)	(26,183)	6,856
Minority interests	1,232	3,472	242
	(91,565)	(22,711)	7,098
Dividends	–	–	–
Profit/(Loss) per share			
From continuing and discontinued operations:			
Basic	(4.79) cent	(1.52) cent	0.52 cent
From continuing operations:			
Basic	(4.79) cent	(1.49) cent	0.57 cent

	As at 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Total assets	1,521,682	1,516,045	280,479
Total liabilities	(760,307)	(754,199)	(88,983)
	761,375	761,846	191,496
Equity attributable to the equity holders of the parent	655,787	696,597	183,324
Minority interests	105,588	65,249	8,172
	761,375	761,846	191,496

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2008 extracted from the annual report of the Company for the year ended 31 December 2008:

Consolidated Income Statement
For the year ended 31st December, 2008

	NOTES	**2008** *HK$'000*	**2007** *HK$'000*
Continuing operations Turnover	*7*	703,020	294,518
Cost of sales		(476,523)	(191,832)
Gross profit		226,497	102,686
Other income	*9*	14,094	11,256
Selling and distribution costs		(23,237)	(7,663)
Administrative expenses		(110,414)	(58,105)
Other expenses		(40,094)	(9,657)
Finance costs	*10*	(52,740)	(27,548)
Impairment loss recognised on amounts due from customers for contract work		(12,938)	(21,551)
Impairment loss recognised on other intangible assets	*21*	(107,485)	–
Change in fair value of derivative financial instruments	*36*	28,075	(7,617)
Loss before tax		(78,242)	(18,199)
Income tax expenses	*11*	(13,323)	(4,109)
Loss for the year from continuing operations		(91,565)	(22,308)
Discontinued operations			
Loss for the year from discontinued operations	*12*	–	(403)
Loss for the year	*13*	(91,565)	(22,711)
Attributable to:			
Equity holders of the Company		(92,797)	(26,183)
Minority interests		1,232	3,472
		(91,565)	(22,711)
Dividends	*16*	–	–
Loss per share	*17*		
From continuing and discontinued operations:			
Basic		4.79 cent	1.52 cent
From continuing operations:			
Basic		4.79 cent	1.49 cent

Consolidated Balance Sheet
At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Investment properties	18	4,617	4,074
Property, plant and equipment	19	564,478	457,175
Goodwill	20	99,312	94,512
Other intangible assets	21	120,161	213,899
Deposits paid	22	42,494	40,440
Prepaid lease payments	23	59,069	44,133
		890,131	854,233
Current assets			
Inventories	25	38,960	34,000
Trade receivables	26	57,417	27,478
Deposits, prepayments and other receivables		29,751	29,922
Prepaid lease payments	23	1,527	1,076
Amounts due from customers for contract work	27	15,737	26,348
Loan receivables	28	–	133,190
Trust monies placed with a financial institution	29	–	42,964
Amounts due from related companies	30	–	118
Pledge bank deposit	31	13,826	1,171
Bank balances and cash	31	474,333	365,545
		631,551	661,812
Current liabilities			
Deferred income and advance received		46,670	31,499
Derivative financial instruments	32	101,961	130,036
Trade payables	33	68,725	59,398
Other payables and accrued charges		55,634	47,608
Amounts due to customers for contract work	27	10,872	1,348
Amounts due to related companies	30	–	1,105
Bank borrowings	34	114,675	201,091
Convertible bonds	36	233,141	–
Tax payables		11,586	3,579
		643,264	475,664
Net current (liabilities) assets		(11,713)	186,148
Total assets less current liabilities		878,418	1,040,381

Consolidated Balance Sheet
At 31st December, 2008

	NOTES	**2008** *HK$'000*	**2007** *HK$'000*
Capital and reserves			
Share capital	*35*	19,341	19,440
Reserves		636,446	677,157
Equity attributable to equity holders of the parent		655,787	696,597
Minority interests		105,588	65,249
Total equity		761,375	761,846
Non-current liabilities			
Bank borrowings	*34*	99,642	58,521
Convertible bonds	*36*	–	203,358
Deferred taxation	*37*	17,401	16,656
		117,043	278,535
		878,418	1,040,381

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Merger reserve	Property revaluation reserve	Other reserve	Translation reserve	Accumulated profits (losses)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note a)		*(Note b)*					
At 1st January, 2007	13,252	145,901	4,816	3,740	–	7,607	7,436	572	183,324	8,172	191,496
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	44,866	–	44,866	581	45,447
Revaluation upon change of intended use of properties	–	–	–	–	1,747	–	–	–	1,747	–	1,747
Share of valuation surplus by minority shareholders	–	–	–	–	(182)	–	–	–	(182)	182	–
Deferred taxation liability on revaluation of buildings	–	–	–	–	(437)	–	–	–	(437)	–	(437)
Net income recognised directly in equity	–	–	–	–	1,128	–	44,866	–	45,994	763	46,757
Loss for the year	–	–	–	–	–	–	–	(26,183)	(26,183)	3,472	(22,711)
Total recognised income for the year	–	–	–	–	1,128	–	44,866	(26,183)	19,811	4,235	24,046
Recognition of equity-settled share-based payments	–	–	9,657	–	–	–	–	–	9,657	–	9,657
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	28,675	28,675
Issue of shares	6,165	509,898	–	–	–	–	–	–	516,063	–	516,063
Disposal of subsidiaries	–	–	–	(3,740)	–	–	–	3,740	–	–	–
Exercise of share options	50	1,911	(402)	–	–	–	–	–	1,559	–	1,559
Shares repurchased and cancelled	(27)	(2,578)	–	–	–	–	–	–	(2,605)	–	(2,605)
Transaction costs attributable to issue of shares	–	(31,212)	–	–	–	–	–	–	(31,212)	–	(31,212)
Contributions from minority shareholders upon incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	24,167	24,167
At 31st December, 2007	19,440	623,920	14,071	–	1,128	7,607	52,302	(21,871)	696,597	65,249	761,846

	Attributable to equity holders of the parent										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Merger reserve HK$'000 (Note a)	Property revaluation reserve HK$'000	Other reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	51,730	–	51,730	3,314	55,044
Net income recognised directly in equity	–	–	–	–	–	–	51,730	–	51,730	3,314	55,044
Loss for the year	–	–	–	–	–	–	–	(92,797)	(92,797)	1,232	(91,565)
Total recognised income (loss) for the year	–	–	–	–	–	–	51,730	(92,797)	(41,067)	4,546	(36,521)
Recognition of equity-settled share-based payments	–	–	7,104	–	–	–	–	–	7,104	–	7,104
Business combination by contract alone without acquiring interest *(Note 39)*	–	–	–	–	–	–	–	–	–	35,793	35,793
Exercise of share options	26	969	(204)	–	–	–	–	–	791	–	791
Shares repurchased and cancelled	(89)	(6,541)	–	–	–	–	–	–	(6,630)	–	(6,630)
Shares repurchased and not yet cancelled *(Note 35)*	(36)	(972)	–	–	–	–	–	–	(1,008)	–	(1,008)
At 31st December, 2008	**19,341**	**617,376**	**20,971**	**-**	**1,128**	**7,607**	**104,032**	**(114,668)**	**(655,787)**	**105,588**	**761,375**

Notes:

(a) The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the group reorganisation completed on 21st May, 2001 and the nominal value of the share capital of the Company issued in exchange thereof.

(b) Other reserve represents the discount on acquisition arising from the acquisition of China City Gas Construction Explore Company Limited and China City Gas Construction Holdings Company Limited from the ultimate holding company accounted for by the Group as a deemed contribution which was credited to the other reserve.

Consolidated Cash Flow Statement
For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Operating activities			
Loss before tax		(78,242)	(18,602)
Adjustments for:			
Depreciation of property, plant and equipment		27,369	13,220
Share-based payment expense		7,104	9,657
Amortisation of other intangible assets		9,346	1,611
Amortisation of prepaid lease payments		1,476	726
Loss on disposal of a subsidiary		–	839
Loss on disposal of property, plant and equipment		212	1,067
Impairment loss recognised on other intangible assets		107,485	–
Allowance for doubtful debts			
– trade receivable		1,723	148
– other receivable		6,690	–
Impairment loss recognised on amounts due from customers for contract work		12,938	21,551
Interest income		(7,336)	(8,882)
Finance costs		52,740	27,548
Change in fair value of derivative financial instruments		(28,075)	7,617
Change in fair value of investment properties		(337)	–
Operating cash flows before movements in working capital		113,093	56,500
(Increase) decrease in inventories		(1,541)	463
Increase in trade receivables		(31,480)	(19,810)
(Increase) decrease in deposits, prepayments and other receivables		(4,456)	71,071
Decrease (increase) in amounts due from customers for contract work		3,851	(4,087)
Increase (decrease) in deferred income and advance received		10,480	(8,359)
Increase in trade payables		2,350	7,157
Increase (decrease) in other payables and accrued charges		7,366	(41,656)
Increase (decrease) in amounts due to customers for contract work		9,073	(3,535)
Cash generated from operations		108,736	57,744
Interest received		3,432	4,624
Income taxes paid		(5,417)	(1,263)
Net cash from operating activities		106,751	61,105

	NOTES	2008 HK$'000	2007 HK$'000
Investing activities			
Purchases of property, plant and equipment		(72,023)	(82,138)
Decrease (increase) in loan receivables		133,190	(133,190)
Proceeds on disposal of property, plant and equipment		712	1,252
Acquisition of subsidiaries, net of cash and cash equivalents acquired	40 & 41	–	(174,344)
Disposal of subsidiaries, net of cash and cash equivalents disposed	42	–	(393)
Business combination by contract alone without acquiring additional interest, net of cash and cash equivalent acquired	39	10,011	–
Repayments from related companies		118	3,736
Decrease (increase) in trust monies placed with a financial institution		42,964	(42,964)
Increase in pledged bank deposits		(12,655)	(1,171)
Addition of prepaid lease payments		(9,761)	(4,201)
Development costs paid		–	(40,065)
Interest received		3,904	4,258
Net cash from (used in) investing activities		96,460	(469,220)
Financing activities			
New loans raised		70,429	48,075
Contributions from minority shareholders upon incorporation of subsidiaries		–	24,167
Interest paid		(25,378)	(18,123)
Repayments of borrowings		(155,367)	(86,766)
Advance from related companies		–	943
Repayments to related companies		(1,105)	(876)
Proceed from issue of ordinary shares		791	437,894
Shares issue expenses		–	(31,212)
Proceed on issue of convertible bonds		–	312,000
Payment on repurchase of shares		(7,638)	(2,605)
Net cash (used in) from financing activities		(118,268)	683,497
Net increase in cash and cash equivalents		84,943	275,382
Cash and cash equivalents at 1st January		365,545	65,815
Effect of foreign exchange rate changes		23,845	24,348
Cash and cash equivalents at 31st December, represented by bank balances and cash		474,333	365,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For year ended 31st December, 2008

1. GENERAL

The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hezhong Investment Holding Company Limited ("Hezhong"), incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the Group's annual report.

The functional currency of the Company is Renminbi.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries.

The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas and coalbed gas projects in the People's Republic of China ("PRC").

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements is Hong Kong dollars. The directors consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

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

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

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

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

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

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives [7]
HK(IFRIC) - INT 13	Customer loyalty programmes [4]
HK(IFRIC) - INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation [5]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners [3]
HK(IFRIC) - INT 18	Transfer of assets from customers [6]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

2 Effective for annual periods beginning on or after 1st January, 2009.

3 Effective for annual periods beginning on or after 1st July, 2009.

4 Effective for annual periods beginning on or after 1st July, 2008.

5 Effective for annual periods beginning on or after 1st October, 2008.

6 Effective for transfers on or after 1st July, 2009.

7 Effective for annual periods ending on or after 30th June, 2009.

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

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Business combinations

The acquisition of business 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 is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combination by contract alone without acquiring additional interest

If the Group obtains control over a business by contract alone without acquiring additional interest, the assets and liabilities of the business are measured at the carrying values as at the date control is obtained.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1st January, 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 of another entity after 1st January, 2001, the Group has discontinued amortisation from 1st January, 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. (See the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1st January. 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

For the purposes 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 an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. 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 subsequent periods.

On subsequent disposal of the relevant cash generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Jointly controlled entity

Joint venture arrangement 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 a jointly controlled entity.

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

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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.

Connection revenue from gas pipeline construction is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Software project income is recognised by reference to the stage of completion of the project at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Software maintenance service income is recognised on a straight-line basis over the life of the maintenance service agreements. The unearned portion of the maintenance service income received is stated as deferred income in the consolidated balance sheet.

Interest income from a financial asset including financial assets at fair value through profit or loss 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.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or 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 their estimated residual value, using the straight-line method.

Construction in progress represents buildings, machinery and pipelines under construction for the Group's own use purposes and is carried at cost less any recognised impairment loss. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to the relevant categories of property, plant and equipment when they are ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised as a revaluation increase in accordance with HKAS 16 "Property, plant and equipment" in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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

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 properties are included in profit or loss for the period in which they arise.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advance received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated balance sheet under trade receivables.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those 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.

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 leases 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 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 a reduction of rental expense over the lease term on a straight-line basis.

Leasehold 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 classified as a finance lease and accounted for as property, plant and equipment. Leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease except for those that are classified and accounted for as investment properties under the fair value model.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes managed by the PRC government are charged as an expense when employees have rendered services entitling them to the contributions.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses.

Government grant

Government grants with no future related cost are recognised as income when they are unconditional and become receivable and are reported separately as "other income".

Intangible assets acquired in a business combination

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

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

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 tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount 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 in a jointly controlled entity, 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 profit 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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 mainly classified as loans and receivables and the accounting policies adopted are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables (including trade receivables, refundable deposits, other receivables, loan receivables, trust monies placed with a financial institution, amounts due from related companies, pledged bank deposit 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).

Impairment of loan and receivables

Loan and receivables are assessed for indicators of impairment at each balance sheet date. Loan and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loan and receivables, the estimated future cash flows of the loan and receivables have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- the receivables become past due for a long period of time;
- 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 the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence of impairment and is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

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 FVTPL 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.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL 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 includes any interest paid on the financial liabilities.

Convertible bonds 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 the Company's own equity instruments is a conversion option derivative. The redemption option derivatives represent the redemption at the option of the bondholders before the maturity date and will be settled by fixed amount of cash upon exercise of such option by the bondholders. 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 their relative fair value. 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.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to related companies and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

The amount of proceeds resulting from share repurchase are deducted against share capital and share premium accounts directly. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own instruments.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

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

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At 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 estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties rendered services, unless the goods or services qualify for recognition as assets.

Inventories

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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 exchange 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations in the PRC are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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 year, 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 (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1st January, 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

Goodwill and fair value adjustments on identifiable assets acquired on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Impairment 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 and intangible assets not yet available for use 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.

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.

Revenue recognition of gas connection contract

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 and net profit recognised in each accounting period over the contract term.

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. The Group is entitled to issue progress billing based on the stage of completion. However, the management will also consider the likelihood of collection from its customers before issuing the billing. In determining whether impairment is required, the Group takes into consideration of the construction progress and the progress payments received from its customers. Impairment is recognised for those contracts that may not be honored by the customers and is recognised on the difference between the estimated future cash flows expected to be received discounted using the effective interest rate and the carrying value. During the year, the Group has recognised impairment loss on amounts due from customers for contract work of HK$12,938,000 (2007: HK$21,551,000).

Impairment of intangible assets

Determining whether the exclusive rights of operation and other operating rights (details are set out in note 21) are impaired requires an estimation of the value in use of the cash-generating units to which these intangible assets has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. In respect of the development costs incurred for extraction of coalbed methane gas, the Group reviews its carrying amount to determine whether they may impair. It also requires the Group to estimate the future economic benefits associated with coalbed methane gas business.

Where the actual future cash flows from the exclusive rights of operation and other operating rights are less than expected, a material impairment loss may arise. Where the actual future cash flows are more than expected, a reversal of impairment loss may arise. As at 31st December, 2008, the carrying amount of intangible asset is HK$ 120,161,000 (net of accumulated impairment loss of HK$107,485,000) (2007: HK$213,899,000 without any impairment loss being recognised). Details are disclosed in note 21.

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES

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 debt, which includes the borrowings and convertible bonds disclosed in notes 34 and 36 respectively, and equity attributable to equity holders of the Company, comprising issued capital and retained profits.

The management of the Group review the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through new share issues, repurchase of shares and the issue of new debt or the redemption of the existing debt.

The Group's overall strategy remains unchanged from prior year.

Categories of financial instruments

	2008	**2007**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	552,961	583,465
Financial liabilities		
Amortised cost	558,207	559,598
Derivative financial liabilities (held for trading)	101,961	130,036
	660,168	689,634

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, refundable deposits, other receivables, loan receivables, trust monies placed with a financial institution, amounts due from related companies, pledged bank deposit and bank balances, trade payables, other payables, amounts due to related companies, convertible bonds (including derivative financial instruments) and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Interest rate risk

The Group's fair value interest rate risk relates primarily to certain fixed-rate bank borrowings (see note 34 for details of these borrowings), fixed-rate loan receivables and trust monies placed with a financial institution (see note 28 and 29 for details) and convertible bonds (see note 36 for details). The Group has not used any derivative contracts to hedge these exposure to interest rate risk. The directors of the Company consider that the Group's exposure to interest rate risk is not significant as the fixed-rate bank borrowings, fixed-rate loan receivables and trust monies placed with a financial institution are within short maturity period.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings (see note 34 for details of these borrowings). The Group has not used any interest rate swaps in order to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of all variable bank borrowings are based on base interest rate fixed by People's Bank of China plus a premium.

The impact on the Group's cash flow is due in part to its sensitivity to interest rates which has been determined based on the exposure to the floating-rate bank loans and variable-rate bank balances at the balance sheet date and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. If interest rates on bank loans and bank balances had been 50 basis points (2007: 100 basis points) higher/lower and all other variables were held constant, the potential effect on post-tax loss for the year is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Decrease/increase in post-tax loss for the year	1,375	907

The Group is required to estimate the fair values of the derivative components embedded in the convertible notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively by the changes in market interest rate.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk on financial instruments arising from mandatory redemption option derivative held by the bondholders. In the opinion of the directors, the fair values of the conversion option held by the bondholders and early redemption option held by the Company are insignificant, any change in market interest rate may not have sufficient financial impact in the fair value of financial instruments as a whole. Accordingly, they have been excluded from sensitivity analysis.

If the market interest rate had been 5% higher/lower and all other variables were held constant, the Group's post-tax loss for the year (as a result of changes in fair value of mandatory redemption option derivative held by bondholders) would increase/decrease by HK$5,014,000 (2007: HK$3,599,000).

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The directors considered that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

As at balance sheet date, the Group has convertible bonds denominated in United State Dollars ("USD") and certain bank balances denominated in USD and Hong Kong dollars ("HKD") amounting to HK$233,141,000 (2007: HK$203,358,000), HK$50,940,000 (2007: HK$82,763,000) and HK$11,196,000 (2007: HK$2,051,000) respectively, which is the currency other than the functional currency of the respective group entities.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Except for convertible bonds and bank balances denominated in USD and HKD, the directors considered that the sensitivity of the Group's exposure towards the change in foreign exchange rates is minimal as the assets and liabilities of the Group, denominated in currency other than functional currency of a particular group entity were insignificant as at the balance sheet dates. The sensitivity analysis of convertible bonds and bank balances denominated in USD and HKD were as follows.

The Group is mainly exposed to the foreign currency risk in HKD and USD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and 5% increase and decrease in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HKD bank balances and convertible bonds, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax loss where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against in the USD and HKD, there would be an equal and opposite impact on the profit or loss.

	2008	**2007**
	HK$'000	*HK$'000*
USD convertible bonds	9,734	8,389
USD bank balances	(2,127)	(3,414)
HKD bank balances	(468)	(86)

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Price risk on embedded conversion option

The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company's share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax loss for the year (as a result of changes in fair value of conversion option component of convertible bonds) would increase/decrease by HK$4,758,000 and (2007: increase/decrease by HK$3,104,000).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible bonds involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features especially the embedded conversion option and mandatory redemption option held by the bondholders are interdependent.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2008 in relation to each class of recognised financial assets is the carrying amount 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 balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution. The directors of the Company consider that the Group does not have any other significant concentration of credit risk.

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the 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 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 approximately HK$11,713,000 as at 31st December, 2008. 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 and the subsequent event set out in note 47(b).

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. The bank balances have maturity less than three months. In additional to issuance of new shares, the Group also relies on bank borrowings as a significant source of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities, including the derivative component of the convertible bonds. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average effective interest rate	Less than 3 month	3 months to 1 year	1 - 5 years	Total undiscounted cash flow	Carrying amount at 31.12.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008						
Non-derivative financial liabilities						
Trade payables	N/A	24,105	44,620	–	68,725	68,725
Other payables	N/A	42,024	–	–	42,024	42,024
Bank borrowings						
– fixed rate	7.47%	36,173	52,313	–	88,486	82,280
– variable rate	7.00%	–	34,630	121,368	155,998	132,037
Convertible bond *(note 36) (note)*	1.00%	–	400,920	–	400,920	335,102
		102,302	532,483	121,368	756,153	660,168

	Weighted average effective interest rate	Less than 3 month	3 months to 1 year	1 - 5 years	Total undiscounted cash flow	Carrying amount at 31.12.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007						
Non-derivative financial liabilities						
Trade payables	N/A	48,627	10,771	–	59,398	59,398
Other payables	N/A	36,125	–	–	36,125	36,125
Bank borrowings						
– fixed rate	8.45%	–	50,987	–	50,987	47,014
– variable rate	9.5%	–	168,714	79,662	248,376	212,598
Amounts due to related companies	N/A	1,105	–	–	1,105	1,105
Convertible bond *(note 36) (note)*	1.00%	–	3,120	400,920	404,040	333,394
		85,857	233,592	480,582	800,031	689,634

Note: The amount of undiscounted cash flow represents the redemption amount of the convertible bond assumed no early conversion taken place before its maturity. The carrying amount represents the liability components carried at amortised cost with an effective interest rate of 16.18% and the fair value of derivatives embedded in the convertible bonds (details are set out in note 32).

Fair value

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

- 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 or using prices from observable current market transactions.

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values except for the convertible bonds with the carrying amount of HK$233,141,000 (2007: HK$203,358,000) as stated in note 36 which has fair value of HK$243,245,000 (2007: HK$214,529,000).

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the year for both continuing and discontinued operations, is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Continuing operations		
Sales of piped gas	407,850	141,754
Connection revenue from gas pipeline construction	234,405	123,693
Sales of liquefied petroleum gas	37,110	25,415
Operation of compressed natural gas ("CNG") filling station	19,249	1,793
Sales of stoves and related equipment	4,406	1,863
	703,020	294,518
Discontinued operations		
Software project income	–	1,213
Software maintenance service income	–	603
Sales of computer hardware	–	136
	–	1,952
	703,020	296,470

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Sales of piped gas, connection revenue from gas pipeline construction, sales of piped gas, sales of liquefied petroleum gas, operation of CNG filling stations and sales of coalbed methane gas ("CBM"). These divisions are the basis on which the Group reports its primary segment information. On 3rd May, 2007, the Group completed the discontinuation of development and sale of software maintenance services and sales of computer hardware operations.

Segment information about these business is presented below:

Income statement for the year ended 31st December, 2008

	Sales of piped gas 2008 *HK$'000*	Connection revenue from gas pipeline construction 2008 *HK$'000*	Sales of liquefied petroleum gas 2008 *HK$'000*	Operation of CNG filling stations 2008 *HK$'000*	Sales of CBM 2008 *HK$'000*	Other operations 2008 *HK$'000*	Consolidated 2008 *HK$'000*
Turnover	407,850	234,405	37,110	19,249	–	4,406	703,020
Segment results	38,413	91,540	(5,813)	(64,923)	(82,553)	132	(23,204)
Unallocated corporate income							8,298
Unallocated corporate expenses							(38,671)
Finance costs							(52,740)
Change in fair value of derivative financial instruments							28,075
Loss before tax							(78,242)
Income tax expenses							(13,323)
Loss for the year							(91,565)

Income statement for the year ended 31st December, 2007

	Continuing operations							Discontinued operations				
	Sales of piped gas 2007 HK$'000	Connection revenue from gas pipeline construction 2007 HK$'000	Sales of liquefied petroleum gas 2007 HK$'000	Operation of CNG filling stations 2007 HK$'000	Sales of CBM 2007 HK$'000	Other operations 2007 HK$'000	Total 2007 HK$'000	Development and sale of software 2007 HK$'000	Software maintenance services 2007 HK$'000	Sales of computer hardware 2007 HK$'000	Total 2007 HK$'000	Consolidated 2007 HK$'000
Turnover	141,754	123,693	25,415	1,793	–	1,863	294,518	1,213	603	136	1,952	296,470
Segment results	18,685	35,157	(2,524)	444	(6,607)	237	45,392	172	192	136	500	45,892
Unallocated corporate income							8,881				1	8,882
Unallocated corporate expenses							(37,307)				(65)	(37,372)
Finance costs							(27,548)				–	(27,548)
Change in fair value of derivative financial instruments							(7,617)				–	(7,617)
(Loss) profit before tax							(18,199)				436	(17,763)
Income tax expenses							(4,109)				–	(4,109)
Loss on disposal of discontinued operation, net of tax							–				(839)	(839)
Loss for the year							(22,308)				(403)	(22,711)

Balance sheet as at 31st December, 2008

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	822,242	80,063	13,489	55,615	7,060	1,207	979,676
Unallocated corporate assets							542,006
Consolidated total assets							1,521,682
LIABILITIES							
Segment liabilities	101,170	45,226	16,215	2,826	–	5,183	170,620
Unallocated corporate liabilities							589,687
Consolidated total liabilities							760,307

Balance sheet as at 31st December, 2007

	Continuing operations						
	Sales of piped gas	Connection revenue from gas pipeline construction	Sales of liquefied petroleum gas	Operation of CNG filling stations	Sales of CBM	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	712,251	67,023	11,351	97,403	45,070	2,860	935,958
Unallocated corporate assets							580,087
Consolidated total assets							1,516,045
LIABILITIES							
Segment liabilities	83,359	27,143	17,643	–	–	–	128,145
Unallocated corporate liabilities							626,054
Consolidated total liabilities							754,199

Other information for the year ended 31st December, 2008

	Sales of piped gas 2008	Connection revenue from gas pipeline construction 2008	Sales of liquefied petroleum gas 2008	Operations of CNG filling stations 2008	Sales of CBM 2008	Other operations 2008	Unallocated 2008	Consolidated 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	104,377	–	–	13,511	3,143	–	987	122,018
Loss on disposal of property, plant and equipment	212	–	–	–	–	–	–	212
Amortisation of prepaid lease payment	1,361	–	–	115	–	–	–	1,476
Depreciation of property, plant and equipment	24,190	–	1,326	68	1,283	–	502	27,369
Amortisation of other intangible assets	3,754	–	–	3,085	2,507	–	–	9,346
Allowance for doubtful debts	6,739	–	213	–	–	–	1,461	8,413
Impairment loss recognised on amounts due from customers for contract work	–	12,938	–	–	–	–	–	12,938
Impairment loss recognised on other intangible assets	–	–	–	67,892	39,593	–	–	107,485
Increase in fair value of investment properties	–	–	–	–	–	–	337	337
Share-based payment expenses	–	–	–	–	–	–	7,104	7,104

Other information for the year ended 31st December, 2007

	Continuing operations							Discontinued operations	
	Sales of piped gas	Connection revenue from gas pipeline construction	Sales of liquefied petroleum gas	Operation of CNG filling stations	Sales of CBM	Other operations	Development and Unallocated	sales of software	Consolidated
	2007	2007	2007	2007	2007	2007	2007	2007	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	172,713	173,307	–	92,546	45,655	–	159,198	–	643,419
Loss on disposal of property, plant and equipment	1,067	–	–	–	–	–	–	–	1,067
Amortisation of prepaid lease payment	726	–	–	–	–	–	–	–	726
Depreciation of property, plant and equipment	9,887	–	2,806	–	505	–	–	22	13,220
Amortisation of other intangible assets	1,611	–	–	–	–	–	–	–	1,611
Allowance for doubtful debts	148	–	–	–	–	–	–	–	148
Impairment loss recognised on amounts due from customers for contract work	–	21,551	–	–	–	–	–	–	21,551
Share-based payment expenses	–	–	–	–	–	–	9,657	–	9,657

Geographical segments

All the sales revenue of the Group for the year ended 31st December, 2008 are derived from the PRC. For the year ended 31st December, 2007, sales revenue from Group's continuing operations derived from the PRC was HK$294,518,000 and revenue from the Group's discontinued operations derived from Hong Kong was HK$1,952,000.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, goodwill and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to property, plant and equipment, goodwill and intangible assets	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	979,676	935,958	155,003	642,346
Hong Kong	–	–	5	1,073
	979,676	935,958	155,008	643,419

9. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	3,432	4,623
Interest income from loan receivables	3,904	4,258
Government subsidy *(note)*	1,258	–
Increase in fair value of investment properties	337	–
Sundry income	5,163	2,375
	14,094	11,256
Discontinued operations		
Bank interest income	–	1
Sundry income	–	11
	–	12

Note: During the year ended 31st December, 2008, the Group has received a reward of HK$1,258,000 from the government in Jiyuan City for promoting the use of natural gas. There are no conditions attached to the subsidy granted to the Group.

10. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Interest on		
Bank borrowings wholly repayable within five years	22,258	16,563
Effective interest expense on convertible bonds	32,903	15,337
Total borrowing costs	55,161	31,900
Less: Amounts capitalised in construction in progress	(2,421)	(4,352)
	52,740	27,548

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.2% (2007: 8.7%) to expenditure on qualifying assets.

11. INCOME TAX EXPENSES

	2008	2007
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	13,424	4,118
Deferred tax *(note 37):*		
Current year	(101)	(9)
	13,323	4,109

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

On 16th 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 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. Therefore, the PRC Enterprise Income Tax is calculated at a tax rate of 25% (2007: 33%), which is the prevailing tax rate in the PRC.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2009 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

The tax charge for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	Hong Kong		PRC		Total	
	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss) profit before tax						
Continuing operations	(24,300)	(41,944)	(53,942)	23,745	(78,242)	(18,199)
Discontinued operations	–	(341)	–	(62)	–	(403)
	(24,300)	(42,285)	(53,942)	23,683	(78,242)	(18,602)
Taxation at the domestic income tax rate	(4,010)	(7,400)	(13,486)	7,815	(17,496)	415
Tax effect of expenses not deductible for tax purpose	8,115	7,454	16,973	–	25,088	7,454
Tax effect of income not taxable for tax purpose	(4,686)	(497)	–	–	(4,686)	(497)
Tax effect of estimated tax losses not recognised	581	533	27,456	8,039	28,037	8,572
Utilisation of estimated tax losses previously not recognised	–	(90)	–	–	–	(90)
Effect of tax exemptions granted to PRC subsidiaries and a jointly controlled entity	–	–	(5,421)	(7,654)	(5,421)	(7,654)
Income tax on concessionary rate	–	–	(12,199)	(4,091)	(12,199)	(4,091)
Tax charge for the year	–	–	13,323	4,109	13,323	4,109

12. DISCONTINUED OPERATIONS

On 30th April, 2007, the Group entered into a sale agreement to dispose of a subsidiary, Cyber Dynamic Enterprise Limited ("Cyber Dynamic") and its subsidiaries which carried out all of the Group's operations related to sales of software and software maintenance services. The disposal was effected in order to streamline the principal businesses of the Group to focus mainly on the coalbed methane and natural gas businesses. The disposal resulted a net loss of HK$839,000 and was completed on 10th May, 2007, on which date control of Cyber Dynamic was passed to the acquirer.

The loss for the year from the discontinued operation is analysed as follows:

	2007
	HK$'000
Profit of software operation for the year	436
Loss on disposal of software operation *(see note 42)*	(839)
	(403)

The results of the software operations for the period from 1st January, 2007 to 10th May, 2007, which have been included in the consolidated income statement, were as follows:

	Period from 1.1.2007 to 10.5.2007
	HK$'000
Revenue	1,952
Cost of sales	(462)
Other income	12
Selling and distribution costs	(349)
Administrative expenses	(593)
Other expenses	(124)
Profit before tax	436
Income tax expense	–
Profit for the period	436

During the year ended 31st December, 2007, Cyber Dynamic contributed HK$795,000 to the Group's net operating cash flows, paid HK$393,000 in respect of investing activities.

The carrying amounts of the assets and liabilities of Cyber Dynamic at the date of disposal are disclosed in note 42.

13. LOSS FOR THE YEAR

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the year has been arrived at after charging (crediting):						
Auditor's remuneration	1,500	1,600	–	–	1,500	1,600
Amortisation of other intangible assets (included in cost of sales)	9,346	1,611	–	–	9,346	1,611
Amortisation of prepaid lease payments	1,476	726	–	–	1,476	726
Depreciation of property, plant and equipment	27,369	13,198	–	22	27,369	13,220
Loss on disposal of property, plant and equipment	212	1,067	–	–	212	1,067
Loss on disposal of subsidiaries	–	–	–	839	–	839
Research and development cost (included in other expenses)	32,990	–	–	–	32,990	–

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Allowance for doubtful debts						
– trade receivables	1,723	148	–	–	1,723	148
– other receivables	6,690	–	–	–	6,690	–
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$6,736,000 (2007: HK$4,284,000))	64,079	27,932	–	1,150	64,079	29,082
Employee share option benefits other than directors	3,718	1,915	–	–	3,718	1,915
Exchange loss	4,102	–	–	–	4,102	–
Operating lease rentals in respect of rented premises	2,969	1,171	–	157	2,969	1,328
Cost of inventories recognised as expense	369,447	138,232	–	–	369,447	138,232
Gross rental income from investment properties with minimal outgoings	(618)	–	–	–	(618)	–

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2007: 10) directors were as follows:

	2008	2007
	HK$'000	*HK$'000*
Fees	2,440	2,640
Other emoluments:		
– Salaries and other benefits	1,598	320
– Contributions to retirement benefits scheme	12	4
– Employee share option benefits	3,386	7,742
Total emoluments	7,436	10,706

The emoluments of directors are analysed as follows:

	2008					2007				
	Employee share option benefits	Salaries and other benefits	Fees	Contributions to retirement benefits scheme	Total	Employee share option benefits	Salaries and other benefits	Fees	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wang Wenliang	–	–	1,200	–	1,200	–	–	1,200	–	1,200
Hao Yu	2,584	–	720	–	3,304	7,742	–	720	–	8,462
Lu Zhaoheng	241	378	–	–	619	–	–	120	–	120
Lui Siu Keung	241	1,220	–	12	1,473	–	320	–	4	324
Xu Yongxuan	–	–	240	–	240	–	–	240	–	240
Wang Lei	–	–	–	–	–	–	–	80	–	80
Nicholas John Ashley Rigg	–	–	–	–	–	–	–	–	–	–
Wang Shunlong	–	–	100	–	100	–	–	100	–	100
Luo Yongtai	160	–	100	–	260	–	–	100	–	100
Hung, Randy King Kuen	160	–	80	–	240	–	–	80	–	80
	3,386	1,598	2,440	12	7,436	7,742	320	2,640	4	10,706

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

No directors waived any emoluments during the year.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: three) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emolument of the remaining one (2007: two) individual was as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other benefits	336	672
Contributions to retirement benefits scheme	20	17
	356	689

Their emoluments were within the band of Nil to HK$1,000,000.

16. DIVIDENDS

No dividend was paid or proposed during 2008, nor has any dividend been proposed since the balance sheet date (2007: nil).

17. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
For continuing and discontinued operations		
Loss		
Loss for the purposes of basic loss per share	(92,797)	(26,183)

	2008	2007
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic loss per share	1,939,290	1,727,476

From continuing operations

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to equity holders of the Company	(92,797)	(26,183)
Add: Loss for the year from discontinued operations	–	403
Loss for the purposes of basic loss per share from continuing operations	(92,797)	(25,780)

The denominators used are the same as those detailed above for both basic loss per share.

From discontinued operations

Basic loss per share for discontinued operations for the year ended 31st December, 2007 is HK0.02 cent based on the calculation of the loss for the year from discontinued HK$403,000 and the same denominators detailed above for the basic loss per share.

Notes:

Diluted loss per share has not been presented for both years because:

(a) The exercise of the Company's outstanding share options would result in a decrease in loss per share from continuing operations.

(b) The conversion of the Company's outstanding convertible bonds would decrease the loss per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivative components of the convertible bonds.

18. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2007	–
Transferred from property, plant and equipment *(note 19)*	4,074
At 31st December, 2007	4,074
Exchange adjustments	206
Increase in fair value recognised in the consolidated income statement	337
At 31st December, 2008	4,617

Note: Buildings and prepaid lease payments having an aggregate carrying value of HK$2,327,000 were revalued on 31st December, 2007 by 河南九鼎資產評估有限公司. The resulting surplus of HK$1,747,000 was credited to properties revaluation reserve. The buildings and prepaid lease payments were transferred from property, plant and equipment to investment properties on the same date.

The fair value of the Group's investment properties at 31st December, 2008 and 2007 have been arrived at on the basis of a valuation carried out on that date by 河南九鼎資產評估有限公司, which has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to rental yield for similar properties in the same locations and conditions.

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.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1st January, 2007	13,002	19,781	3,340	64,486	14,438	862	4,922	120,831
Acquired on acquisition of subsidiaries	16,517	134,190	296	86,462	17,363	1,086	4,210	260,124
Exchange adjustments	1,529	6,344	132	7,793	1,556	42	676	18,072
Additions	31,539	29,364	1,887	1,207	10,529	874	11,090	86,490
Disposals	(938)	–	(402)	(695)	(528)	–	(231)	(2,794)
Transfer	10,120	(164,944)	–	153,709	1,115	–	–	–
Disposal of subsidiaries	–	–	(296)	–	(1,582)	(374)	–	(2,252)
Transfer to investment properties	(2,545)	–	–	–	–	–	–	(2,545)
At 31st December, 2007	69,224	24,735	4,957	312,962	42,891	2,490	20,667	477,926
Acquired on business combination by contract alone without acquiring additional interest *(note 39)*	5,802	1,152	1,267	22,194	4,834	–	741	35,990
Exchange adjustments	3,844	453	141	18,004	2,425	114	1,244	26,224
Additions	2,167	56,372	3,210	221	2,231	2,069	8,174	74,444
Disposals	(68)	–	–	–	(93)	(67)	(1,833)	(2,061)
Transfer	5,337	(40,244)	–	27,874	7,033	–	–	–
At 31st December, 2008	86,306	42,468	9,575	381,255	59,321	4,606	28,993	612,523
DEPRECIATION								
At 1st January, 2007	678	–	871	2,018	3,500	536	1,564	9,167
Exchange adjustments	110	–	41	574	245	11	241	1,222
Provided for the year	1,458	–	328	6,525	1,903	200	2,806	13,220
Eliminated on disposals	(61)	–	(50)	(21)	(215)	–	(128)	(475)
Eliminated on disposals of subsidiaries	–	–	(296)	–	(1,503)	(366)	–	(2,165)
Eliminated on transfer to investment properties	(218)	–	–	–	–	–	–	(218)
At 31st December, 2007	1,967	–	894	9,096	3,930	381	4,483	20,751
Exchange adjustments	113	–	44	462	200	15	228	1,062
Provided for the year	3,126	–	694	12,041	6,178	658	4,672	27,369
Eliminated on disposals	(3)	–	–	–	(40)	(17)	(1,077)	(1,137)
At 31st December, 2008	5,203	–	1,632	21,599	10,268	1,037	8,306	48,045
CARRYING VALUES								
At 31st December, 2008	81,102	42,468	7,943	359,656	49,053	3,569	20,687	564,478
At 31st December, 2007	67,257	24,735	4,063	303,866	38,961	2,109	16,184	457,175

The buildings of the Group are situated outside Hong Kong with medium-term lease.

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:

Buildings	Over the shorter of 30 years or the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	6% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 18%

At 31st December, 2008, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$24,190,000 (2007: HK$22,993,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group has pledged certain buildings in the PRC having a net book value of approximately HK$27,216,000 (2007: HK$25,873,000) to secure certain bank borrowings granted to the Group.

20. GOODWILL

	2008	**2007**
	HK$'000	*HK$'000*
Cost and carrying amount		
At 1st January	94,512	732
Exchange adjustments	4,800	–
Arising on acquisition of subsidiaries	–	93,780
At 31st December	99,312	94,512

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired.

As explained in note 8, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill has been allocated to an individual cash generating unit, including a subsidiary engaged in sales of piped gas ("Unit A") amounted to HK$48,663,000 (2007: HK$46,311,000) and connection of pipeline constructions ("Unit B") amounted to HK$50,649,000 (2007: HK$48,201,000).

During the year ended 31st December, 2008 and 2007, management of the Group determines that there is no impairment of Unit A and Unit B.

The basis of the recoverable amounts of Unit A and Unit B and its major underlying assumptions are summarised below:

The recoverable amount of Unit A and Unit B has been determined based on a value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 15-year period at a discount rate of 13% (2007: 11.3%) was used. The cash flows of Unit A and Unit B beyond the 5-year period of the financial budgets are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A and Unit B to exceed the aggregate recoverable amount of Unit A and Unit B.

21. OTHER INTANGIBLE ASSETS

	Exclusive Development costs	**Other rights of operation**	**operating rights**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1st January, 2007	–	12,484	–	12,484
Exchange adjustments	–	925	–	925
Additions	40,065	–	–	40,065
Acquired on acquisition of subsidiaries *(notes 40 and 41)*	–	70,414	92,546	162,960
At 31st December, 2007	40,065	83,823	92,546	216,434
Exchange adjustments	2,035	4,912	4,700	11,647
Acquired on business combination by contract alone without acquiring additional interest *(note 39)*	–	11,584	–	11,584
At 31st December, 2008	42,100	100,319	97,246	239,665
AMORTISATION				
At 1st January, 2007	–	843	–	843
Exchange adjustments	–	81	–	81
Charge for the year	–	1,611	–	1,611
At 31st December, 2007	–	2,535	–	2,535
Exchange adjustments	–	138	–	138
Charge for the year	2,507	3,754	3,085	9,346
Impairment loss recognised	39,593	–	67,892	107,485
At 31st December, 2008	42,100	6,427	70,977	119,504
CARRYING VALUES				
At 31st December, 2008	–	93,892	26,269	120,161
At 31st December, 2007	40,065	81,288	92,546	213,899

Note: Development costs represent costs incurred for extraction of coalbed methane gas in the PRC. Amortisation shall begin when the relevant gas wells are available for mass extraction and will be based on the expected length of extraction on a straightline basis.

The exclusive rights of operation represent sales and distribution of natural gas in certain cities in Henan province and Linyi City and is amortised on a straight-line method over the period of 30 years.

Other operating rights represent the licences possessed by Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), and Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") (collectively named as "Acquired Companies") to operate eight CNG refill stations in Jiyuan City, Luohe City and Sanmenxia City and is amortised on a straight line method over a period of 30 years. Details are set out in note 41.

The Group tests intangible assets annually or more frequently if there are indications that intangible assets might be impaired.

As explained in note 8, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of intangible assets has been allocated to an individual cash-generating unit, including subsidiaries engaged in Unit A amounted to HK$93,892,000 (2007: HK$81,288,000), operation of CNG filling stations ("Unit C") amounted to HK$94,161,000 (2007: HK$92,546,000) and sales of CBM ("Unit D") amounted to HK$39,593,000 (2007: HK$40,065,000).

During the year ended 31st December, 2008, the Group recognised an impairment loss of HK$39,593,000 (2007: HK$nil) and HK$67,892,000 (2007: HK$nil) for Unit D and Unit C respectively and also determine that there is no impairment for Unit A.

The recoverable amounts of Unit A and Unit C have been determined based on a value in use calculation. For impairment assessment purposes, cash flow projections are prepared under the following assumptions:

	Unit A	**Unit C**
Period of cash flow projections	15 years	29 years
Growth rate beyond 5-year period extrapolated in the financial budgets	2%	0%

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Due to the insufficient quantities of natural gas to be supplied to the CNG filling stations in the PRC, the carrying amount of Unit C exceeds its value in use based on the cash flow projections. An impairment of HK$67,892,000 was recognised.

As for Unit D, the management originally anticipated that the commercial production of CBM will commence by the fourth quarter of 2008 after the completion of the de-watering and releasing process. The production is delayed because the dewatering process was longer than expected and will not be completed within the next one year. In view of the delay, the expected future economic benefits associated with Unit D is considered as less than probable. Accordingly, the management has recognised full impairment on the carrying amount of the development costs previously capitalised of HK$39,393,000 and additional research and development costs of HK$32,990,000 were charged to the consolidated income statement.

22. DEPOSITS PAID

At 31st December, 2008 and 2007, the amount represents deposits paid to the Finance Bureau of Jiaozuo City for the purpose of acquiring certain assets and liabilities which mainly comprised of gas pipeline network in the area of Jiaozuo City. On 5th March, 2009, the Group entered into a sale and purchase agreement with the Seller. Details are set out in note 47.

23. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC with medium-term lease and amortised over the terms of relevant leases ranging from 30 to 50 years.

At 31st December, 2008, the Group is in process of obtaining land use right certificate from relevant government authority for its land in the PRC amounting to HK$9,012,000 (2007: HK$8,893,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificate for its land in the PRC.

The Group has pledged certain leasehold land in the PRC having a net book value of approximately HK$24,107,000 (2007: HK$24,210,000) to secure certain bank borrowings granted to the Group.

24. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

As at 31st December, 2007, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Country of registration/principal place of operations	Registered capital	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Linyi Zhong Yu City Gas Construction Development Company Limited ("Linyi Zhong Yu JV")	Sino-foreign joint venture	PRC	RMB42,000,000	51%	57% *(Note)*	Trading of natural gas and pipeline construction

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

	2008	2007
	HK$'000	*HK$'000*
Current assets	–	22,992
Non-current assets	–	53,852
Current liabilities	–	39,509
Income	–	31,325
Expenses	–	23,364

Note: At 31st December, 2007, the Group holds 51% of the registered capital of Linyi Zhong Yu JV and controls 57% of the voting power in directors' meetings, with the remaining held by The Department of City Natural Gas Engineering of Linyi City ("CNGE"). Pursuant to the shareholders' agreement, the board of directors of Linyi Zhong Yu JV comprised 7 directors, of which 4 of them were nominated by the Group. For all the decisions approved in the directors' meetings, approval from a minimum of 5 directors must be obtained. Therefore, Linyi Zhong Yu JV was classified as a jointly controlled entity of the Group as at 31st December, 2007.

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu JV held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any 4 directors effective from 1st January, 2008. Accordingly, the Group obtained control in Linyi Zhong Yu JV which was accounted for as a subsidiary of the Group on the same date. Details of this transaction are set out in note 39.

25. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Construction materials	33,815	28,286
Finished goods	5,145	5,714
	38,960	34,000

26. TRADE RECEIVABLES

The Group allows an average credit period of 30 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:

	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	46,154	25,301
Over 30 days	11,263	2,177
	57,417	27,478

The trade receivables of HK$46,154,000 (2007: HK$25,301,000) were neither past due nor impaired. These customers were local reputable real estate developers and corporate entities in Henan City and no significant counterparty default was noted in the past.

As at 31st December, 2008, trade receivables of HK$11,263,000 (2007: HK$2,177,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 198 days (2007: 60 days).

Ageing of trade receivables which are past but not impaired

	2008	2007
	HK$'000	*HK$'000*
31 – 90 days	4,457	1,526
91 – 180 days	3,534	175
181 – 365 days	3,272	476
	11,263	2,177

Movement in the allowance for doubtful debts

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of year	1,312	1,164
Increase in allowance recognised in consolidated income statement	1,723	148
Amounts written off as uncollectible	(829)	–
Balance at the end of year	2,206	1,312

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the report date. The trade receivables past due but not provided for 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 believe that there is no further credit provision required in excess of the allowance for doubtful debts.

27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2008	2007
	HK$'000	*HK$'000*
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits	311,806	148,740
Less: Progress billings	(272,452)	(102,189)
Less: Impairment losses recognised *(Note)*	(34,489)	(21,551)
	4,865	25,000
Analysed for reporting purposes as:		
Amounts due from customers for contract work	15,737	26,348
Amounts due to customers for contract work	(10,872)	(1,348)
	4,865	25,000

At 31st December, 2008, advances received from customers for contract work amounted to HK$24,863,000 (2007: HK$23,952,000) which was included in deferred income and advance received.

Note: During the year ended 31st December, 2008 and 2007, the directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified certain projects have slow construction progress. In the opinion of the directors, the recoverability of such amounts are uncertain and accordingly, impairment losses were recognised in full.

28. LOAN RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Fixed-rate loan receivables	–	133,190

As at 31st December, 2007, all the loan receivables were denominated in RMB and have contractual maturity dates of one year. The effective interest rates (which was equal to contractual interest rate) were ranged from 4.20% to 7.29% per annum.

All the loan receivables were entrusted by the Guangdong Development Bank (a financial institution in the PRC) to certain independent third parties and were fully received during the year ended 31st December, 2008.

29. TRUST MONIES PLACED WITH A FINANCIAL INSTITUTION

As at 31st December, 2007, the amount represented trust monies placed with a company incorporated in the PRC that was engaged in the business of assets management. The amount was denominated in RMB and had contractual maturity date of 38 days. The effective interest rate was 5.2% per annum. The trust monies were refunded to the Group upon maturity.

30. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	2008	2007
	HK$'000	*HK$'000*
Amount due from a jointly controlled entity	–	118
Amount due to a jointly controlled entity	–	1,105

The amounts are unsecured and interest-free. The amounts due from/to related companies are non-trade in nature and are repayable within one year/repayable on demand, respectively.

31. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.72% to 2.75% per annum. At 31st December, 2008, the bank balances and cash of approximately HK$412,197,000 (2007: HK$281,753,000) were denominated in Renminbi which are not freely convertible into other currencies.

As at 31st December, 2008, the bank balances and cash consisted of approximately HK$50,940,000 and HK$11,196,000 (2007: HK$82,763,000 and HK$2,051,000) denominated in USD and HKD respectively.

Pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB12,250,000 (approximately HK$13,826,000) (2007: RMB1,090,000 (approximately HK$1,171,000)) with a bank as a condition precedent to the supply of natural gas from its suppliers. The pledged bank deposits carry interest at average market rate of 3.33% per annum.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	2008	2007
	HK$'000	*HK$'000*
Derivative financial liabilities	101,961	130,036

The derivative financial liabilities comprise of three embedded options as follows.

Embedded conversion option represents the bondholders' option to convert the convertible bond issued on 25th June, 2007 (as detailed in note 36) into equity of the Company, but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

Early redemption option and mandatory redemption option represent the Company's option to early redeem and the redemption at the option of certain bondholders prior to the maturity date on 25th June, 2012 ("Maturity Date"), in respect of convertible bond issued on 25th June, 2007.

The fair value of the embedded conversion option is calculated using the Monte Carol Simulation Model. The inputs into the model were as follows:

	2008	2007
Conversion price *(note 36)*	HK$0.968	HK$1.456
Expected volatility *(note a)*	58.16%	46.14%
Expected life *(note b)*	3.48 years	3 years
Risk free rate *(note c)*	0.91% per annum	4.39% per annum

Notes:

(a) Expected volatility for embedded conversion option was determined by calculating the historical volatility of the Company's share price over 250 trading days.

(b) Expected life was the expected remaining life of the embedded conversion option.

(c) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

The fair value of the early redemption option and mandatory redemption option is determined by application of Trinomial method, using effective yield at 5.42% (2007: 5.42%) per annum and time to maturity equal to the expected remaining life of the option.

During the year, a gain of HK$28,075,000 (2007: loss of HK$7,617,000) was recognised as a change in fair value of derivative financial instruments.

33. TRADE PAYABLES

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

	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	44,620	15,109
31 – 90 days	7,085	26,709
91 – 180 days	2,886	6,807
Over 180 days	14,134	10,773
	68,725	59,398

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

34. BANK BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Bank loans		
Secured	132,037	144,361
Unsecured	82,280	115,251
	214,317	259,612
Carrying amount repayable:		
On demand or within one year	114,675	201,091
More than one year, but not exceeding two years	37,597	15,127
More than two years but not exceeding five years	62,045	43,394
	214,317	259,612
Less: Amounts due within one year shown under current liabilities	(114,675)	(201,091)
	99,642	58,521

The exposure of the Group's fixed-rate borrowings are as follows:

	2008	2007
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	82,280	47,014

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

	2008	2007
Effective interest rate:		
Fixed-rate borrowings	6.8% – 10%	6.1% – 10.8%
Variable-rate borrowings	4.9% – 8.4%	6.3% – 12.7%

As at 31st December, 2008, certain bank loans were secured by the Group's prepaid lease payment and buildings with the carrying amounts of HK$24,107,000 (2007: HK$24,210,000) and HK$27,216,000 (2007: HK$25,873,000) respectively.

35. SHARE CAPITAL

	Number of shares		Amount	
	2008	2007	2008	2007
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised	10,000,000	10,000,000	100,000	100,000
Issued and fully paid				
At beginning of year	1,943,964	1,325,186	19,440	13,252
Issue of new shares *(note a)*	–	265,000	–	2,650
Issue of new shares *(note b)*	–	279,000	–	2,790
Issue of shares for acquisition of subsidiaries *(notes c)*	–	72,480	–	725
Exercise of share options *(note 38)*	2,550	5,028	26	50
Share repurchased and cancelled *(note d)*	(8,852)	(2,730)	(89)	(27)
Share repurchased and not yet cancelled *(note e)*	(3,560)	–	(36)	–
At end of year	1,934,102	1,943,964	19,341	19,440

Notes:

(a) Pursuant to a placing and subscription agreement dated 1st March, 2007, the substantial shareholder of the Company, Hezhong, agreed to place, through a placing agent, 265,000,000 shares beneficially owned by Hezhong to not less than six placees at a price of HK$0.42 per share. On the same date, the Company had conditionally agreed to allot and issue, and Hezhong had agreed to subscribe for 265,000,000 new Shares at a price of HK$0.42 per share. The placement was completed on 8th March, 2007 and the total proceeds raised as a result of the placement were HK$111,300,000.

(b) Pursuant to a placing and subscription agreement dated 25th May, 2007, the substantial shareholder of the Company, Hezhong, agreed to place, through a placing agent, 279,000,000 shares beneficially owned by Hezhong to not less than six placees at a price of HK$1.165 per share. On the same date, the Company had conditionally agreed to allot and issue, and Hezhong had agreed to subscribe for 279,000,000 new shares at a price of HK$1.165 per share. The placement was completed on 7th June, 2007 and the total proceeds raised as a result of the placement were HK$325,035,000.

(c) On 14th August, 2007, the Group allotted and issued 72,480,000 new shares of HK$0.01 each as a partial consideration to acquire the entire issued share capital and outstanding shareholder's loan of Glory Path Investment Limited ("Glory Path"). Details of the acquisitions are set out in note 40.

(d) During the year ended 31st December, 2008, the Company repurchased a total of 8,852,000 (2007: 2,730,000) shares through the Stock Exchange at a price ranged from HK$0.73 to HK$0.83 (2007: HK$0.90 to HK$0.97) per share at an aggregate consideration of HK$6,630,000 (2007: HK$2,605,000). All shares were cancelled upon repurchase.

(e) The Company repurchased a total of 3,560,000 shares through the Stock Exchange at a price range from HK$0.25 to HK$0.29 per share at an aggregate consideration of HK$1,008,000 in December 2008. All these shares were cancelled subsequent to 31st December, 2008.

All the shares issued during the year ended 31st December, 2008 and 2007 rank pari passu with the then existing shares in all respects.

36. CONVERTIBLE BONDS

On 28th May, 2007, the Company entered into a bond subscription agreement with five institutional subscribers of the Group, whereby they subscribed the USD denominated Bonds ("the Bond") issued at par by the Company in an aggregate principal amount of US$40,000,000. The Bond was issued on 25th June, 2007 ("the Issue Date") and carries interest at 1% per annum and will be matured on the Maturity Date. The conversion price of the Bond is HK$1.456 and will be subject to adjustment in the event of further issues of shares or other dilution events.

During the year ended 31st December, 2008, the conversion price of the Bond was adjusted from HK$1.456 to HK$0.968 effective from 25th June, 2008 in accordance with the terms set out in the bond subscription agreement.

The Bond can be converted at any time after 40 days from the Issue Date up to 5 business day prior to Maturity Date or 7 business days prior to the date of redemption. Unless previously redeemed, converted or purchased and cancelled, the Bonds can be redeemed at 125 per cent of their principal amount on Maturity Date. The Bonds may be redeemed at the option of the relevant holder on 24 months after the Issue Date but before the Maturity Date, at 110 per cent of their principal amount.

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 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 is 16.18% per annum.

(b) Embedded derivatives comprise of three embedded options as follows:

    (i) Embedded conversion option of the Bond represents the option to convert the liability into equity of the Company but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

    (ii) Mandatory redemption option of the Bond represents redemption at the option of the bond holders.

    (iii) Embedded early redemption option of the Bond represents the Company's option to early redeem all or part of the Bond.

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

	Liability	Embedded derivatives	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2007	–	–	–
Issued during the year, net of issued cost	189,581	122,419	312,000
Interest charged	15,337	–	15,337
Interest paid	(1,560)	–	(1,560)
Loss arising on change in fair value	–	7,617	7,617
At 31st December, 2007	203,358	130,036	333,394
Interest charged *(note 10)*	32,903	–	32,903
Interest paid	(3,120)	–	(3,120)
Gain arising on change in fair value	–	(28,075)	(28,075)
At 31st December, 2008	233,141	101,961	335,102

37. DEFERRED TAXATION

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

	Revaluation of properties	Other intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2007	–	–	–
Acquisition of subsidiaries *(note 40)*	–	16,228	16,228
Credit to consolidated income statement	–	(9)	(9)
Charge to equity	437	–	437
At 31st December, 2007	437	16,219	16,656
Exchange adjustments	22	824	846
Charge (credit) to consolidated income statement	84	(185)	(101)
At 31st December, 2008	543	16,858	17,401

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries amounting to HK$91,338,000 as Company controls the dividend policy of these subsidiaries and it is probable that the profit will not be distributed in the foreseeable future.

At 31st December, 2008, the Group had unused estimated tax losses of HK$154,545,000 (2007: HK$41,200,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$149,143,000 (2007: HK$39,319,000) that will expire in various dates up to 2017. Other losses may be carried forward indefinitely.

38. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 21st May, 2001, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 24th October, 2003, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted. The purpose of the New Share Option Scheme is to enable the Company to grant option to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The New Share Option Scheme shall continue in force for the period commencing from 30th September, 2003 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

Under the New Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregated with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 81,080,000 shares. On 25th April, 2005, the Scheme Mandate Limit was refreshed to 106,280,000 shares. On 25th April, 2008, the Scheme Mandate Limit was refreshed to 194,461,354 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Option Scheme (excluding those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued shares from time to time.

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

The exercise price is determined by the directors of the Company, and shall not be less than the higher of (i) the closing price of the Company'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 the Company's shares.

In July 2003, all the holders of share options under the Old Share Option Scheme accepted the mandatory unconditional cash offer made by Hezhong to cancel all the outstanding share options.

On 13th June, 2005, the Company granted 62,574,000 share options to its directors, employees and certain third parties under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 29th March, 2007, the Company granted 71,100,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 3rd April, 2008, the Company granted 48,400,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options of 13,120,000, 15,120,000 and 20,160,000 may be exercised after the second, third and fourth anniversary after the date of grant respectively.

The following table discloses movements of the Company's share options granted under the New Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share *HK$*	Date of grant	Exercisable period	Number of share options At 1st January, 2008	Granted during year	Exercised during year *(note c)*	At 31st December, 2008
Directors	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	28,014,000	–	–	28,014,000
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	66,000,000	–	–	66,000,000
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	–	3,000,000	–	3,000,000
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	–	3,000,000	–	3,000,000
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	–	4,000,000	–	4,000,000
Employees	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	12,504,000	–	(2,550,000)	9,954,000
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	5,100,000	–	–	5,100,000
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	–	11,520,000	–	11,520,000
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	–	11,520,000	–	11,520,000
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	–	15,360,000	–	15,360,000
Others (note a)	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	15,024,000	–	–	15,024,000
				126,642,000	48,400,000	(2,550,000)	172,492,000
Exercisable at the end of the year							124,092,000
Weighted average exercise price				0.45	0.80	0.31	0.55

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Number of share options At 1st January, 2007	Granted during year	Exercised during year *(note c)*	Transfer of category during the year *(note b)*	At 31st December, 2007
Directors	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	28,014,000	–	–	–	28,014,000
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	–	57,000,000	–	9,000,000	66,000,000
Employees	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	17,532,000	–	(5,028,000)	–	12,504,000
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	–	14,100,000	–	(9,000,000)	5,100,000
Others *(note a)*	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	15,024,000	–	–	–	15,024,000
				60,570,000	71,100,000	(5,028,000)	–	126,642,000
Exercisable at the end of the year								55,542,000
Weighted average exercise price				0.31	0.56	0.31	N/A	0.45

Notes:

a. These are individuals who rendered consultancy services in respect of management of natural gas projects to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by other employees.

b. During the year ended 31st December, 2007, Mr. Lui Siu Keung was appointed as an executive director of the Company, who was the Chief Financial Officer of the Company and was categorised under employees previously.

c. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.95 (2007: HK$0.76).

During the year ended 31st December, 2008 and 2007, the estimated fair value of the options granted on 3rd April, 2008 and 29th March, 2007 are HK$15,130,000 and HK$12,870,000 respectively.

These fair value was calculated using the Black-Scholes pricing model (the "Model"). The inputs into the model were as follows:

	2008	**2007**
Closing share price at the date of grant	HK$0.80	HK$0.56
Exercise price	HK$0.80	HK$0.56
Date of grant	3rd April, 2008	29th March, 2007
Expected volatility	52.83% – 62.67%	53.86%
Expected life	2 – 4 years	2 years
Risk-free rate	1.37% – 1.91%	3.76%

Expected volatility was determined by using the historical volatility of the Company's share price over 260 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Company has used the Model to value the share options granted during the year ended 31st December, 2008. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of HK$7,104,000 for the year ended 31st December, 2008 (2007: HK$9,657,000) in relation to share options granted by the Company.

39. BUSINESS COMBINATION BY CONTRACT ALONE WITHOUT ACQUIRING ADDITIONAL INTEREST

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu JV held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any four directors effective from 1st January, 2008. The Group obtained control in Linyi Zhong Yu JV which was changed from a jointly controlled entity to a subsidiary of the Group on the same date. The assets and liabilities of Linyi Zhong Yu JV are measured at carrying values as at the date control is obtained, of which 51% was previously proportionately consolidated by the Group.

The net assets attributable to the minority interests are as follows:

	Carrying amount
	HK$'000
Property, plant and equipment	35,990
Prepaid lease payments	4,324
Intangible assets – exclusive rights of operation	11,584
Inventories	3,419
Trade receivables	182
Deposits, prepayments and other receivables	2,063
Amounts due from customers for contracts work	6,178
Bank balances and cash	10,011
Trade payables	(6,977)
Other payables and accrued charges	(660)
Deferred income and advance received	(4,691)
Amounts due to customers for contract work	(451)
Bank borrowings	(25,179)
	35,793
Minority interests	(35,793)
Total consideration	–
Net cash inflow arising on this transaction:	
Bank balances and cash acquired	10,011

40. ACQUISITION OF BUSINESSES

On 2nd May, 2007, the Group entered into a sale and purchase agreement with Hezhong, pursuant to which the Group agreed to acquire the entire share capital and outstanding shareholder's loan of Glory Path which is principally engaged in development, construction and operation of natural gas in the PRC for a total consideration of RMB294,045,000 (approximately HK$306,824,000). This acquisition has been accounted for using the purchase method. The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	260,124	–	260,124
Prepaid lease payments	23,891	–	23,891
Deposit paid for acquisition of property, plant and equipment	39,100	–	39,100
Intangible assets – exclusive rights of operation	–	70,414	70,414
Inventories	23,484	–	23,484
Trade receivables	7,425	–	7,425
Deposits, prepayments and other receivables	76,892	–	76,892
Amount due from customers for contracts work	11,191	–	11,191
Bank balances and cash	145,586	–	145,586
Trade payables	(36,156)	–	(36,156)
Other payables and accrued charges	(84,310)	–	(84,310)
Deferred income and advance received	(35,519)	–	(35,519)
Amount due to customers for contract work	(3,131)	–	(3,131)
Tax payable	(724)	–	(724)
Deferred taxation	–	(16,228)	(16,228)
Bank borrowings	(240,320)	–	(240,320)
	187,533	54,186	241,719
Minority interests			(28,675)
Goodwill			93,780
Total consideration			306,824
Satisfied by:			
Shares issued *(Note)*			79,728
Cash			227,096
			306,824
Net cash outflow arising on acquisition:			
Bank balances and cash acquired			145,586
Cash consideration paid			(227,096)
			(81,510)

Note: As part of the consideration for the acquisition of Glory Path, 72,480,000 ordinary shares of the Company with par value of HK$0.01 each were issued at a price of HK$1.10 being the closing price on 9th August, 2007, amounted to HK$79,728,000.

Glory Path principally engages in the trading of natural gas and gas pipeline construction in certain cities in the PRC. Goodwill on acquisition of Glory Path amounted to HK$93,780,000 which is attributable on the anticipated profitability of the gas connection and sales of piped gas business of these companies.

Glory Path contributed HK$175,226,000 to the turnover and HK$42,267,000 to the Group's profit before tax for the period between the date of acquisition and 31st December, 2007.

If the acquisition had been completed on 1st January, 2007, total Group's turnover for the year ended 31st December, 2007 would have been HK$441,280,000, and loss for the year ended 31st December, 2007 would have been HK$22,440,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and profit for the year of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2007, nor is it intended to be projection of future results.

41. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES

On 16th December, 2007, the Group acquired certain assets through purchase of the entire equity interests of the Acquired Companies at a total consideration of RMB90,160,000 (approximately HK$96,842,000). The subsidiaries have not commenced businesses at the date of acquisition.

The principal assets of the Acquired Companies is certain operating rights for operation of CNG filling stations in Jiyuan City, Luohe City and Sanmenxia City. The Group is in substance acquiring assets instead of business.

	JYCG	**LYCG**	**SYCG**	**Net assets acquired**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables	17	242	29	288
Operating rights	31,343	40,591	20,612	92,546
Bank balances and cash	2,131	832	1,045	4,008
Total consideration satisfied by cash	33,491	41,665	21,686	96,842
Net cash outflow arising on acquisition:				
Cash consideration paid				(96,842)
Bank balance and cash acquired				4,008
				(92,834)

42. DISPOSAL OF A SUBSIDIARY

As referred to in note 12, on 30th April, 2007, the Group discontinued its software operations at time of disposal of its subsidiary, Cyber Dynamic. The net assets of Cyber Dynamic at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	87
Trade receivables	2,207
Deposits, prepayments and other debtors	897
Inventories	87
Bank balances and cash	433
Other payables and accrued charges	(2,619)
Provision for long service payment	(213)
	879
Loss on disposal	839
Total consideration satisfied by cash	40
Net cash outflow arising on disposal:	
Cash consideration	40
Bank balances and cash disposed of	(433)
	(393)

The impact of Cyber Dynamic on Group's results and cash flows in the current and prior periods is disclosed in note 12.

43. MAJOR NON-CASH TRANSACTIONS

On 31st July, 2007, the Group acquired the entire issued share capital and outstanding shareholder's loan of Glory Path, the purchase consideration of which was partially satisfied by the allotment and issue of the Company's shares. Details of this are set out in note 40.

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu JV held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any four directors effective from 1st January, 2008. The Group obtained control in Linyi Zhong Yu JV which was changed from a jointly controlled entity to a subsidiary of the Group. Details of this are set out in note 39.

44. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Within one year	3,761	5,093
In the second to fifth year inclusive	2,193	2,706
Over five years	542	170
	6,496	7,969

Operating lease payments represent rental payable by the Group in respect of leasehold buildings. Leases for rented premises are negotiated for a period of one to seven 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:

	2008	**2007**
	HK$'000	*HK$'000*
Within one year	762	150
In the second to fifth year inclusive	2,760	887
After five years	877	823
	4,399	1,860

Leases are negotiated for an average term of five years.

Certain of the Group's properties with a carrying amount of HK$4,617,000 (2007: HK$4,074,000) are held for rental purposes. The properties are expected to generate rental yield of 9.54% (2007: 9.30%) on an ongoing basis. All of the properties held have committed tenants for the next four to nine years.

45. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,000 per person.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 15% to 30% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

46. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2007, the Group acquired Glory Path from Hezhong satisfied partially by issuance of Company's ordinary shares and partially by cash. Details of this are set out in note 40.

The directors of the Company considered that they are the only key management personnel of the Group. Their emoluments are set out in note 14.

47. POST BALANCE SHEET EVENT

(a) On 5th March, 2009, the Group entered into a sales and purchase agreement with the 焦作市建設投資(控股)有限公司 ("Seller") for the acquisition of certain assets and liabilities ("Acquired Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$53,781,000 (equivalent to RMB 47,649,000) of which HK$29,666,000 (equivalent to RMB26,284,000) was used to repay certain bank borrowings of the Acquired Assets. Details of the Acquired Assets are set out below:

	Acquired assets	Repayment of bank borrowings	Total assets and liabilities to be acquired by the Group
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	32,166	–	32,166
Prepaid lease payment	51,313	–	51,313
Bank balance and cash	9	–	9
Account payables	(22,165)	–	(22,165)
Other payables	(1,684)	–	(1,684)
Bank borrowings	(35,524)	29,666	(5,858)
	24,115		53,781

Note: Finance Bureau of Jiaozuo City and Seller are both under the control of municipal government of Jiaozuo City. Deposits were already paid to Finance Bureau of Jiaozuo City of HK$42,494,000 (equivalent to RMB37,649,000) as shown in note 22. The remaining consideration payable to the Seller of HK$11,287,000 (equivalent to RMB10,000,000) will be settled in cash.

(b) Subsequent to 31st December, 2008, the Company entered into certain arrangements with the bondholders of the Bond of aggregate principal amount of US$40,000,000.

On 11th March, 2009, the Group entered into a purchase agreement with one of the bondholder ("Bond Holder A") of the Bond pursuant to which the Company agreed to repurchase an aggregate outstanding principal amount of the Bond amounting to US$5,000,000 at 80% of the principal amount. In addition, the Company shall repay all the accrued interest to Bond Holder A.

On 25th March, 2009, the Group entered into an agreement with the remaining four bondholders ("Bond Holders B") of the Bond pursuant to which the Company agreed to repurchase an aggregate outstanding principal amount of the Bond amounting to US$14,000,000 at 110% of the principal amount. In addition, the Company shall repay all the accrued interest to Bond Holders B.

The terms and conditions of the remaining principal amount of US$21,000,000 held by Bond Holders B have been amended, the coupon rate will be revised to 2% per annum, and will mature on 25th June, 2012. The mandatory redemption option held by the Bond Holders B has been cancelled. This portion of Bond can be redeemed at the option of the Company at either one of the following options:

Option 1

Date	Redemption amount	Consideration
25th June, 2010	Not less than 10% of the remaining outstanding principal	110% of the principal amount
25th June, 2011	Not less than 10% of the remaining outstanding principal	110% of the principal amount
25th June, 2012	Remaining balance	130% of the principal amount

Option 2

Date	Redemption amount	Consideration
25th June, 2010	Not less than 5% of the remaining outstanding principal	110% of the principal amount
25th June, 2011	Not less than 15% of the remaining outstanding principal	120% of the principal amount
25th June, 2012	Remaining balance	130% of the principal amount

The Bond Holders B can convert the remaining outstanding principal amount of US$21,000,000 into ordinary shares of the Company at HK$0.7 per share from the completion date of such agreement to 25th June, 2012.

The financial impact arising from the above transactions could not be determined at the date of report, awaiting the receipt of professional valuations in relation to the Bond.

48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2008

Name of subsidiary	Place/ Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
China City Gas Construction Explore Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	–	100	Investment holding
China City Gas Construction Holdings Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	–	100	Investment holding
China Gas Construction Expansion Company Limited	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	–	99.89	Investment holding
Linyi China Gas City Gas Construction Company Limited	PRC	Sino-foreign joint venture	Registered capital HK$20,000,000	–	99.89	Trading of natural gas and gas pipeline construction
Linyi Zhong Yu JV	PRC	Sino-foreign joint venture	Registered capital HK$42,000,000	51	–	Trading of natural gas and gas pipeline construction
Sanmenxia China-Gas City Gas Development Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	–	90	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Xinmi City Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	–	97	Trading of natural gas and gas pipeline construction
Yanshi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	–	95	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Yongcheng China-Gas Heating Explore Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$30,000,000	–	99	Trading of natural gas and gas pipeline construction
Zhongyu Gas Investment Limited	Hong Kong	Incorporated	1 ordinary share of HK$1	100	–	Investment holding

Name of subsidiary	Place/ Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Zhongyu Gas Investment Limited	British Virgin Islands	Incorporated	1 ordinary share of US$1	100	–	Investment holding
China City Gas Construction Development	British Virgin Limited Islands	Incorporated	100 ordinary shares of US$1 each	–	100	Investment holding
China City Gas Construction Investment Co. Ltd.	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	–	100	Investment holding
Jiyuan Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$40,280,000	–	92.9	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$50,580,000	–	71.9	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Project Install Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB3,500,000	–	68.3	Gas pipeline construction
Jiaozuo China-Gas City Gas Development Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$80,000,000	–	93.2	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
Jiaozuo China-Gas Project Install Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	–	88.54	Gas pipeline construction
Zhongyu (Henan) Energy Holdings Ltd.	PRC	Incorporated	Registered capital RMB400,000,000	100	–	Investment holding
Henan Zhongyu Coalbed Methane Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB200,000,000	–	75	Exploration, development and production of coalbed methane
Zhongyu Jiaozuo CMB Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB150,000,000	–	71.25	Exploration, development and production of coalbed methane
JYCG	PRC	Sino-foreign joint venture	Registered capital RMB2,000,000	–	100	Not yet commenced business
LYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	–	100	Operation of CNG filling station
SYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	–	100	Not yet commenced business

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

Except for Linyi Zhong Yu JV that become a subsidiary of the Group during the year ended 31st December, 2008, there is no change in investments in subsidiaries since 31st December, 2007.

3. UNAUDITED RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009

The following financial information is extracted from the third quarterly report of the Company for the nine months ended 30 September 2009. The Company had no exceptional or extraordinary items or minority interest for each of the nine months ended 30 September 2008 and 30 September 2009.

Condensed Consolidated Statement of Comprehensive Income for the Nine Months Ended 30th September, 2009

(UNAUDITED)

		Three months ended 30th September,		Nine months ended 30th September,	
		2009	**2008**	**2009**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(re-presented)		(re-presented)
Turnover	*3*	195,874	167,575	543,787	436,913
Cost of sales		(128,957)	(113,087)	(378,239)	(313,922)
Gross profit		66,917	54,488	165,548	122,991
Other income		5,706	3,007	9,403	10,565
Other gains and losses	*5*	(2,679)	14,224	41,099	(4,989)
Selling and distribution costs		(5,401)	(4,505)	(15,733)	(13,056)
Administrative expenses		(30,689)	(22,601)	(79,414)	(67,450)
Share-based payment		(1,892)	(1,347)	(5,674)	(5,917)
Finance costs	*6*	(12,524)	(6,719)	(36,671)	(32,584)
Profit before tax		19,438	36,547	78,558	9,560
Income tax charge	*7*	(5,735)	(1,970)	(20,047)	(4,318)
Profit for the period	*8*	13,703	34,577	58,511	5,242
Other comprehensive income					
Exchange differences arising on translation of foreign operations		–	–	63	58,060
Total comprehensive income for the period		13,703	34,577	58,574	63,302

	Notes	Three months ended 30th September, 2009	Three months ended 30th September, 2008	Nine months ended 30th September, 2009	Nine months ended 30th September, 2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(re-presented)		(re-presented)
Profit for the period attributable to:					
Equity holders of the Company		5,036	32,482	40,123	744
Minority interests		8,667	2,095	18,388	4,498
		13,703	34,577	58,511	5,242
Total comprehensive income attributable to:					
Equity holders of the Company		5,036	32,482	40,186	63,302
Minority interests		8,667	2,095	18,388	4,498
		13,703	34,577	58,574	67,800
Earnings per share	9				
Basic (HK cent per share)		0.2604	1.6780	2.0746	0.0384
Diluted (HK cent per share)		0.2578	N/A	2.0579	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at revalued amounts or fair values, as appropriate.

A number of new or revised Standards and Interpretations are effective for the financial year beginning on 1st January, 2009. 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 financial statements for the year ended 31st December, 2008.

HKFRS 8 *Operating Segments*
(effective for annual periods beginning on or after 1st January, 2009)

HKFRS 8 is a disclosure Standard that has resulted in a redesignating of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group.

HKAS 1 (revised 2007) *Presentation of Financial Statements*
(effective for annual periods beginning on or after 1st January, 2009)

HKAS 1 (revised 2007) 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 2007) has had no impact on the reported results or financial position of the Group.

3. TURNOVER

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, less returns and allowances. An analysis of the Group's revenue for the nine months ended 30th September, 2009 is as follow:

	Three months ended 30th September,		Nine months ended 30th September,	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Sales of piped gas	109,564	96,291	338,705	275,613
Connection revenue from gas pipeline construction	55,641	58,799	132,371	125,650
Operation of compressed natural gas ("CNG") filling stations	18,491	2,544	41,126	5,943
Sales of liquefied petroleum gas	8,170	8,879	22,366	26,993
Sales of stoves and related equipment	4,008	1,082	9,219	2,714
	195,874	167,575	543,787	436,913

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1st January, 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 segments (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. As a results, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied by the Group's operating divisions (i.e. sales of piped gas, connection revenue from gas pipeline construction, sales of liquefied petroleum gas, operation of CMG filling station and sales of coalbed methane ("CBM")). The Group's reportable segments under HKFRS 8 are as follows:

Sales of piped gas

Connection revenue from gas pipeline construction

Operation of CNG filling stations

Sales of liquified petroleum

Sales of CBM

Other operations include the sale of stove.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

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

For the nine months ended 30th September, 2009

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG filling stations	Sales of liquefied petroleum gas	Sales of CBM	Other operations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	338,705	132,371	41,126	22,366	–	9,219	543,787
Segment results	17,519	66,836	9,542	184	(3,226)	4,446	95,301
Unallocated corporate income							9,403
Unallocated corporate expenses							(30,574)
Finance costs							(36,671)
Change in fair value of derivative financial instruments							37,362
Gain on the repurchase of convertible bonds							3,737
Profit before tax							78,558
Income tax charge							(20,047)
Profit for the period							58,511

For the nine months ended 30th September, 2008

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG filling stations	Sales of liquefied petroleum gas	Sales of CBM	Other operations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	275,613	125,650	5,943	26,993	–	2,714	436,913
Segment results	10,770	58,170	1,201	(1,442)	(4,904)	(44)	63,751
Unallocated corporate income							10,565
Unallocated corporate expenses							(27,183)
Finance costs							(32,584)
Change in fair value of derivative financial instruments							(4,989)
Gain on the repurchase of convertible bonds							–
Profit before tax							9,560
Income tax charge							(4,318)
Profit for the period							5,242

5. OTHER GAINS AND LOSSES

	Nine months ended 30th September, 2009	2008
	HK$'000	*HK$'000*
Change in fair value of derivative financial instruments	37,362	(4,989)
Gain on the repurchase of convertible bonds *(Note)*	3,737	–
	41,099	(4,989)

Note: On 11th March, 2009, the Group entered into a purchase agreement with one of the holders ("Bond Holder A") of the convertible bonds ("Bonds") in an aggregate principal amount of US$40,000,000 due 2012 issued by the Company to five institutional subscribers on 25th June, 2007 pursuant to which the Company agreed to repurchase and the Bond Holder A agreed to sell an aggregate outstanding principal amount of the Bond amounting to US$5,000,000 at 80% of the principal amount. In addition, the Company paid all the accrued interest to Bond Holder A up to the date of completion of the said agreement. The aforesaid transaction was completed on 14th March, 2009.

On 25th March, 2009, the Group entered into a conditional agreement ("Amendment Agreement") with the holders ("Bond Holders B") of the Bonds pursuant to which the Company and the Bond Holders B had conditionally agreed to alter the existing terms and conditions of the Bonds in an aggregate principal amount of US$35 million due 2012 issued by the Company to the Bond Holders B on 25th June, 2007 in accordance with the bond subscription agreement dated 28th May, 2007 in exchange for the repurchase by the Company of the 40% of the outstanding Bonds in an aggregate principal amount of US$14 million (the "Repurchase Bonds") from the Bond Holders B at a purchase price representing 110% of the principal amount of the Repurchase Bonds, together with all accrued and unpaid interest on the Repurchase Bonds up to 18th May, 2009 and the payment of the fee in an aggregate amount of US$150,000 to the Bond Holders B. For details of the aforesaid transaction, please refer to the Company's circular ("Circular") dated 15th April, 2009.

On 4th May, 2009, an ordinary resolution approving the Amendment Agreement was duly passed by the independent Shareholders by way of poll at an extraordinary general meeting of the Company. The aforesaid connected transaction was completed on 18th May, 2009.

6. FINANCE COSTS

	Nine months ended 30th September,	
	2009	**2008**
	HK$'000	*HK$'000*
Interest on bank borrowings	14,995	17,247
Effective interest expense on convertible bonds	21,676	15,337
	36,671	32,584

7. INCOME TAX CHARGE

	Nine months ended 30th September,	
	2009	**2008**
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	13,408	4,318
Dividend Withholding Tax	6,639	–
	20,047	4,318

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

On 16th 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 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. Therefore, the PRC Enterprise Income Tax is calculated at a tax rate of 25%, which is the prevailing tax rate in the PRC.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2009 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

8. PROFIT FOR THE PERIOD

	Nine months ended 30th September,	
	2009	**2008**
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	22,378	20,163
Amortisation of other intangible assets	8,263	4,431
Total depreciation and amortisation	30,641	24,594

9. EARNINGS PER SHARE

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

	Three months ended 30th September,		**Nine months ended 30th September,**	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Earnings				
Earnings for the purposes of basic earnings per share	5,036	32,482	40,123	744

	As at 30th September,		As at 30th September,	
	2009	2008	2009	2008
	'000	*'000*	*'000*	*'000*
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,933,912	1,935,762	1,934,039	1,940,607
Effect of dilutive potential ordinary shares:				
Share options issued by the Company	19,651	–	15,676	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,953,563	1,935,762	1,949,715	1,940,607

The denominators used are the same as those detailed above for both basis earnings per share and diluted earnings per share.

10. DIVIDENDS

No dividend was paid or proposed during the nine months ended 30th September, 2009, nor has any dividend been proposed since 30th September, 2009 (2008: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK$63,273,000 (2008: HK$65,176,000).

12. CONVERTIBLE BONDS

The movement of embedded derivative of the convertible bonds during the nine months ended 30th September, 2009 is set out below:

	Liability	Embedded derivatives	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2009	233,141	101,961	335,102
Repurchased during the period, net of cost incurred	(116,513)	(40,840)	(157,353)
Interest charged	21,676	–	21,676
Interest paid	(1,339)	–	(1,339)
Gain arising on change in fair value	–	(37,362)	(37,362)
At 30th September, 2009	136,965	23,759	160,724

13. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no acquisitions, disposals nor significant investments for the nine months ended 30th September, 2009.

14. RESERVE

	Share premium	Share options reserve	Property revaluation options reserve	Other reserve	Translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st January, 2008 (audited)	623,920	14,071	1,128	7,607	52,302	(21,871)	677,157
Profit for the period	–	–	–	–	–	744	744
Exchange differences arising on translation of foreign operations	–	–	–	–	53,473	–	53,473
Total comprehensive income for the period	–	–	–	–	53,473	744	54,217
Shares repurchased and cancelled	(4,793)	–	–	–	–	–	(4,793)
Equity-settled share-based payments	–	5,917	–	–	–	–	5,917
Balance at 30th September, 2008 (unaudited)	619,127	19,988	1,128	7,607	105,775	(21,127)	732,498
Balance at 1st January, 2009 (as restated)	617,376	20,971	1,128	7,607	104,032	(114,668)	636,446
Profit for the period	–	–	–	–	–	40,123	40,123
Exchange differences arising on translation of foreign operations	–	–	–	–	63	–	63
Total comprehensive income for the period	–	–	–	–	63	40,123	40,186
Exercise of share option	3,678	(168)	–	–	–	–	3,510
Shares repurchased and cancelled	(397)	–	–	–	–	–	(397)
Equity-settled share-based payments	–	5,674	–	–	–	–	5,674
Transfer	–	–	–	20,204	–	(20,204)	–
Balance at 30th September, 2009 (unaudited)	620,657	26,477	1,128	27,811	104,095	(94,749)	685,419

4. INDEBTEDNESS STATEMENT

Borrowings

As at 31 March 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this response document, the Group had outstanding bank borrowings of RMB577,942,000, comprising secured bank loans guaranteed by certain independent third parties of approximately RMB7,114,000, unsecured bank loans guaranteed by certain independent third parties of approximately RMB25,000,000, non-guaranteed secured bank loans of approximately RMB73,250,000, and non-guaranteed unsecured bank loans of approximately RMB472,578,000.

In addition, as at 31 March 2010, the Group had Convertible Bonds with an outstanding principal amount of US$20,000,000 and the carrying value of approximately HK$137,250,000.

Contingent liability

As at 31 March 2010, the Group did not have any contingent liabilities.

Disclaimer

Save as aforesaid or as otherwise mentioned herein and apart from intra-Group liabilities, the Group did not, at the close of business on 31 March 2010 have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 March 2010 up to the Latest Practicable Date.

5. MATERIAL CHANGE

As at the Latest Practicable Date, save for:

(1) the repurchase of the outstanding Convertible Bonds in an aggregate principal amount of US$14 million from the Bondholders as detailed in the announcement of the Company dated 27 March 2009 and the circular of the Company dated 15 April 2009, and the change in fair value of the Convertible Bonds which would have a material financial impact on the financial position of the Group; and

(2) the redemption of US$4,400,000 of the outstanding principal amount of the Convertible Bonds (thereby decreasing the outstanding principal amount of the Convertible Bonds by 22% which may result in a material impact to the financial position of the Group) for an amount of US$4,840,000 which the Company will pay Bondholders on 25 June 2010 as part of the Company' contractual obligation pursuant to the Amendment Agreement to make a mandatory redemption of a minimum of US$1,050,000 of the Convertible Bonds, further details of which are set out in the Company's announcement and circular dated 27 March 2009 and 15 April 2009 respectively,

the Directors confirmed that there had been no material changes in the financial or trading position or outlook of the Group since 31 December 2008, being the date to which the latest published audited consolidated financial statements of the Company were made up.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this response document (other than that relating to the China Gas Group, the Offeror, the Concert Parties, MCSL, the terms and conditions of the Offers and China Gas's and the Offeror's intentions regarding the Group as set out in the Offer Document) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this response document (other than those expressed by the China Gas Group, the Offeror, the Concert Parties and MCSL) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the China Gas Group, the Offeror, the Concert Parties, MCSL, the terms and conditions of the Offers and China Gas's and the Offeror's intentions regarding the Group as set out in the Offer Document) not contained in this response document, the omission of which would make any statement in this response document misleading.

The information contained herein relating to the China Gas Group, the Offeror, the Concert Parties, MCSL, the terms and conditions of the Offers and China Gas's and the Offeror's intentions regarding the Group have been extracted from the Offer Document. The Directors accept responsibility for the correctness and fairness of the reproduction of such information.

2. SHARE CAPITAL

(a) Authorised and issued share capital

The authorised and issued and fully paid up share capital of the Company as at the Latest Practicable Date were as follows:

		HK$
Authorised:		
10,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
1,949,009,542	Shares as at 31 December 2009	19,490,095.42
9,316,000	Shares issued on 20 January 2010 on exercise of Share Options under the Share Option Scheme	93,160.00
11,176,142	Shares issued on 20 January 2010 on conversion of US$1,000,000 nominal amount of the Convertible Bonds	111,761.42
1,500,000	Shares issued on 4 February 2010 on exercise of Share Options under the Share Option Scheme	15,000.00
3,006,000	Shares issued on 18 March 2010 on exercise of Share Options under the Share Option Scheme	30,060.00
1,974,007,684		19,740,076.84

Since 31 December 2009, the end of the last financial year of the Company, and up to the Latest Practicable Date, save as disclosed above, the Company had not issued any new Shares.

All the existing issued Shares and Shares to be issued upon conversion/ exercise of the Convertible Bonds and the Share Options rank pari passu in all respects with the Shares then in issue including all rights as to capital, dividends and voting.

As at the Latest Practicable Date, in addition to the existing Shares disclosed above, the Company had the following outstanding securities:

(i) 142,712,000 Share Options which confer rights on holders to subscribe for 142,712,000 Shares. Details of the exercise price and exercise period of the Share Options are as follows:–

Grantee	Exercise period	Exercise price	Outstanding as at the Latest Practicable Date
Wang Wenliang	13 June 2006 to 12 June 2015	0.31	10,002,000
Xu Yongxuan	13 June 2006 to 12 June 2015	0.31	5,004,000
Hao Yu	13 June 2006 to 12 June 2015	0.31	8,004,000
	29 March 2007 to 28 March 2017	0.56	57,000,000
Lu Zhaoheng	13 June 2006 to 12 June 2015	0.31	4,004,000
	3 April 2010 to 2 April 2011	0.80	900,000
	3 April 2011 to 2 April 2012	0.80	900,000
	3 April 2012 to 2 April 2018	0.80	1,200,000
Lui Siu Keung	29 March 2007 to 28 March 2017	0.56	9,000,000
	3 April 2010 to 2 April 2011	0.80	900,000
	3 April 2011 to 2 April 2012	0.80	900,000
	3 April 2012 to 2 April 2018	0.80	1,200,000
Luo Yongtai	3 April 2010 to 2 April 2011	0.80	600,000
	3 April 2011 to 2 April 2012	0.80	600,000
	3 April 2012 to 2 April 2018	0.80	800,000
Hung, Randy King Kuen	3 April 2010 to 2 April 2011	0.80	600,000
	3 April 2011 to 2 April 2012	0.80	600,000
	3 April 2012 to 2 April 2018	0.80	800,000
Employees and others	13 June 2006 to 12 June 2015	0.31	1,298,000
	3 April 2010 to 2 April 2011	0.80	11,520,000
	3 April 2011 to 2 April 2012	0.80	11,520,000
	3 April 2012 to 2 April 2018	0.80	15,360,000
			142,712,000

(ii) the Convertible Bonds in the outstanding principal amount of US$20,000,000 which is convertible into 223,522,856 Shares at the current conversion price of HK$0.70 per Share and an exchange rate of US$1.00 to HK$7.8233.

Save as disclosed above, as at the Latest Practicable Date, the Company did not have any outstanding share options or warrants or other securities carrying rights of conversion into Shares.

3. MARKET PRICES

The table below shows the closing prices of 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 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
Last Trading Date	0.89
29 January 2010	0.79
26 February 2010	0.79
31 March 2010	suspended
30 April 2010	suspended
28 May 2010 (being the Latest Practicable Date)	suspended

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

4. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required pursuant to Rule 5.46 to 5.67 of the Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange; or (iv) are required to be disclosed under the Takeovers Code, were as follows:

Long positions in Shares

Name of Directors	*Notes*	**Number of Shares and/or underlying Shares**	**Type of interests**	**Approximate percentage of issued share capital**
Mr. Wang	*i*	956,923,542	Beneficial and interest in corporation	48.48%
Mr. Hao Yu	*ii*	1,010,759,542	Beneficial and interest in corporation	51.20%
Mr. Lu Zhaoheng	*iii*	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	*iv*	5,004,000	Beneficial	0.25%
Mr. Lui Siu Keung	*v*	12,000,000	Beneficial	0.61%
Dr. Luo Yongtai	*vi*	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	*vi*	2,000,000	Beneficial	0.10%

Notes:

i. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Wang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 of the remaining 11,168,000 underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK$0.31 per share during the period from 13 June 2006 to 12 June 2015 under the Share Option Scheme.

ii. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao is interested in 40% of the issued share capital of Hezhong. The remaining 65,004,000 underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK$0.31 per share during the period from 13 June 2006 to 12 June 2015 and HK$0.56 per share during the period from 29 March 2007 to 28 March 2017 respectively under the Share Option Scheme.

iii. Among these Shares and/or underlying Shares, 1,000,000 Shares are held by Mr. Lu. The remaining 7,004,000 underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK$0.31 per share for the period from 13 June 2006 to 12 June 2015 and HK$0.80 per share for the period from 3 April 2010 to 2 April 2018 respectively under the Share Option Scheme.

iv. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK$0.31 per share during the period from 13 June 2006 to 12 June 2015 under the Share Option Scheme.

v. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK$0.56 per share during the period from 29 March 2007 to 28 March 2017 and HK$0.80 per share during the period from 3 April 2010 to 2 April 2018 respectively under the Share Option Scheme.

vi. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK$0.80 per share during the period from 3 April 2010 to 2 April 2018 under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) are required to be disclosed under the Takeovers Code.

As at the Latest Practicable Date, save for the Irrevocable Undertaking given by Mr. Wang and Mr. Hao which shall cease to have effect only if the Offers lapses or is withdrawn without having become wholly unconditional on or before the Long Stop Date, and Mr. Lu Zhaoheng decided not to accept the Offers, the other Directors had decided to accept the Offers.

(b) Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in Shares

Name of Shareholder	*Notes*	**Type of interests**	**Number of Shares**	**Approximate percentage of interests**
Hezhong	*i*	Beneficial	945,755,542	47.91%
Perry Capital (Asia) Limited	*ii*	Investment manager	373,400,657	18.92%
Perry Capital LLC	*ii*	Investment manager	373,400,657	18.92%
Perry Corp.	*ii*	Investment manager	373,400,657	18.92%
Perry Richard Cayne	*ii*	Interest in corporation	373,400,657	18.92%
Perry Partners International, Inc	*n/a*	Beneficial	309,489,220	15.68%

Notes:

i. Hezhong is beneficially interested in 945,755,542 Shares, Mr. Wang and Mr. Hao are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

ii. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne has 100% control of Perry Corp., Perry Corp. has 40% control of Perry Capital LLC. Perry Capital LLC has 100% control of Perry Capital (Asia) Limited. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO.

5. INTERESTS IN THE OFFEROR AND CHINA GAS

As at the Latest Practicable Date, the Company did not have any interest in the shares or any convertible securities, warrants, options and derivatives of the Offeror or China Gas.

As at the Latest Practicable Date, save for Mr. Xu Yongxuan and Mr. Wang who owned 400,000 China Gas Shares and 150,000 China Gas Shares, respectively, none of the Directors had any interest in the shares or any convertible securities, warrants, options and derivatives of the Offeror or China Gas.

6. SHAREHOLDINGS AND DEALINGS IN SECURITIES

As at the Latest Practicable Date,

(a) save for First Shanghai Capital and parties acting in concert with it (on behalf of its discretionary clients) which own 4,140,000 China Gas Shares, representing approximately 0.12% of the entire issued share capital of China Gas, no shareholding in the Company or in the Offeror or in China Gas was owned or controlled by a subsidiary of the Company, or by a pension fund of any member of the Group, or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code, or by First Shanghai Capital or Partners Capital or Handing United Lawyers ("Handing") but excluding exempt principal traders;

(b) save for the Irrevocable Undertaking, no shareholding in the Company or in the Offeror or in China Gas was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;

(c) no shareholding in the Company or in the Offeror or in China Gas was managed on a discretionary basis by fund managers connected with the Company; and

(d) no shareholding in the Company or in the Offeror or in China Gas has been borrowed or lent by the Company or any Directors.

During the Relevant Period,

(a) save for the 1,000,000 Shares issued on exercise of Share Options under the Share Option Scheme by Mr. Lu Zhaoheng, none of the Directors had dealt for value in any of the Shares or other securities of the Company carrying voting rights, or convertible securities, warrants, options or derivatives of the Company; and

(b) save that Mr. Wang had not been able to provide relevant details of his dealings in China Gas during the Relevant Period as at the Latest Practicable Date, and save as disclosed below,

Party	**Date**	**Bought/Sold**	**No. of China Gas Shares**	**Unit price** *(HK$)*
Mr. Lui Siu Keung	17 December 2009	Bought	30,000	3.81
	28 December 2009	Sold	10,000	4.24
	28 December 2009	Sold	10,000	4.25
	28 December 2009	Sold	10,000	4.27
Mr. Xu Yongxuan	26 November 2009	Bought	3,000,000	3.40
	8 December 2009	Sold	728,000	3.60
	8 December 2009	Sold	132,000	3.61
	8 December 2009	Sold	40,000	3.63
	24 December 2009	Sold	200,000	4.04
	28 December 2009	Sold	500,000	4.11
	28 December 2009	Sold	300,000	4.17
	28 December 2009	Sold	300,000	4.30
	5 January 2010	Sold	200,000	4.45

none of the Company nor the Directors had dealt for value in any of the shares or any convertible securities, warrants, options and derivatives of the Offeror or China Gas.

During the period from the Joint Announcement Date and up to the Latest Practicable Date,

(a) save as disclosed below,

Party	Date	Bought/Sold	No. of China Gas Shares	Unit price *(HK$)*
First Shanghai Securities Limited *(note)*	27 January 2010	Bought	30,000	3.88
		Bought	30,000	3.95
		Bought	10,000	4.09
		Bought	20,000	4.18
		Bought	40,000	4.20
		Bought	50,000	4.23
		Bought	50,000	4.26
		Sold	40,000	3.91
		Sold	4,000	3.95
		Sold	30,000	3.96
		Sold	40,000	4.12
		Sold	56,000	4.19
		Sold	10,000	4.25
		Sold	30,000	4.27
		Sold	30,000	4.28
		Sold	50,000	4.42
	28 January 2010	Bought	30,000	3.93
		Bought	20,000	4.00
		Bought	50,000	4.03
		Bought	20,000	4.05
		Bought	46,000	4.06
		Bought	24,000	4.07
		Sold	30,000	3.90
		Sold	30,000	3.96
		Sold	30,000	4.00
		Sold	20,000	4.02
		Sold	20,000	4.06
		Sold	20,000	4.08
		Sold	20,000	4.09
		Sold	20,000	4.10
	29 January 2010	Bought	50,000	4.05
		Sold	20,000	4.09
		Sold	18,000	4.12
		Sold	10,000	4.14
		Sold	32,000	4.18
		Sold	20,000	4.20
		Sold	10,000	4.25

Party	Date	Bought/Sold	No. of China Gas Shares	Unit price *(HK$)*
	1 February 2010	Bought	30,000	3.94
		Bought	30,000	4.02
		Sold	30,000	3.99
	2 February 2010	Bought	10,000	4.06
		Sold	10,000	4.09
		Sold	30,000	4.14
	3 February 2010	Bought	30,000	4.10
	4 February 2010	Sold	20,000	4.03
		Sold	10,000	4.06
	5 February 2010	Sold	20,000	3.87
		Sold	20,000	3.92
	8 February 2010	Bought	10,000	3.67
	9 February 2010	Bought	30,000	3.52
		Sold	10,000	3.60
		Sold	10,000	3.64
		Sold	10,000	3.67
		Sold	10,000	3.73
	11 February 2010	Bought	50,000	3.88
	17 February 2010	Bought	20,000	4.03
		Bought	40,000	4.06
		Sold	48,000	4.02
		Sold	60,000	4.03
	19 February 2010	Sold	50,000	4.00
	22 February 2010	Bought	30,000	4.00
		Bought	10,000	4.01
		Bought	10,000	4.02
		Sold	32,000	4.05
		Sold	18,000	4.06
	1 March 2010	Bought	22,000	4.08
		Bought	124,000	4.14

Party	Date	Bought/Sold	No. of China Gas Shares	Unit price (HK$)
	2 March 2010	Bought	8,000	4.21
		Bought	18,000	4.23
		Sold	36,000	4.17
		Sold	10,000	4.18
		Sold	20,000	4.24
	3 March 2010	Bought	6,000	4.29
		Bought	38,000	4.40
		Sold	10,000	4.26
		Sold	10,000	4.41
	8 March 2010	Bought	10,000	4.42
		Bought	50,000	4.44
		Sold	10,000	4.40
		Sold	10,000	4.42
	10 March 2010	Bought	122,000	4.40
		Sold	22,000	4.45
	11 March 2010	Bought	50,000	4.25
		Sold	10,000	4.26
		Sold	10,000	4.28
		Sold	20,000	4.29
		Sold	10,000	4.43
	15 March 2010	Bought	30,000	4.15
		Sold	40,000	4.17
	16 March 2010	Sold	30,000	4.05
		Sold	20,000	4.08
		Sold	40,000	4.09
	17 March 2010	Bought	8,000	4.20
	18 March 2010	Bought	30,000	4.25
	22 March 2010	Sold	30,000	4.09
	24 March 2010	Bought	100,000	4.09

Party	Date	Bought/Sold	No. of China Gas Shares	Unit price
				(HK$)
	26 March 2010	Sold	50,000	4.17
		Sold	30,000	4.19
		Sold	20,000	4.20
	30 March 2010	Bought	150,000	4.25
		Sold	150,000	4.30
		Sold	30,000	4.36
		Sold	10,000	4.39
		Sold	10,000	4.40
	31 March 2010	Sold	50,000	4.35
	15 April 2010	Sold	20,000	4.31
	22 April 2010	Bought	100,000	4.20
		Sold	100,000	4.21
	23 April 2010	Bought	36,000	4.22
		Bought	4,000	4.23
		Bought	40,000	4.24
		Bought	14,000	4.25
		Bought	6,000	4.26
		Bought	40,000	4.28
		Bought	200,000	4.30
		Bought	32,000	4.31
		Bought	142,000	4.32
		Sold	50,000	4.27
		Sold	20,000	4.28
		Sold	42,000	4.30
		Sold	70,000	4.31
		Sold	80,000	4.32
		Sold	152,000	4.33
		Sold	20,000	4.34
	26 April 2010	Sold	20,000	4.41
		Sold	50,000	4.42
		Sold	10,000	4.52
		Sold	20,000	4.53
	28 April 2010	Bought	28,000	4.42
		Bought	20,000	4.53
		Bought	46,000	4.54
		Sold	28,000	4.46
		Sold	6,000	4.53
		Sold	60,000	4.59

Party	Date	Bought/Sold	No. of China Gas Shares	Unit price (HK$)
	29 April 2010	Bought	32,000	4.52
		Bought	8,000	4.53
	30 April 2010	Bought	30,000	4.49
		Sold	10,000	4.50
		Sold	30,000	4.52
		Sold	40,000	4.53
	3 May 2010	Bought	50,000	4.38
		Sold	20,000	4.39
		Sold	30,000	4.41
	5 May 2010	Bought	100,000	4.21
	6 May 2010	Bought	18,000	4.03
		Bought	334,000	4.04
		Sold	220,000	4.10
		Sold	50,000	4.12
		Sold	30,000	4.13
	7 May 2010	Bought	10,000	3.93
		Bought	20,000	3.96
		Bought	10,000	3.97
		Bought	10,000	3.99
		Bought	20,000	4.03
		Bought	10,000	4.07
	10 May 2010	Bought	70,000	4.07
		Sold	102,000	4.07
	11 May 2010	Bought	100,000	3.91
		Sold	200,000	4.07
	12 May 2010	Bought	50,000	3.80
		Sold	50,000	3.83
	13 May 2010	Sold	10,000	3.94
		Sold	10,000	3.96
		Sold	30,000	3.98
		Sold	10,000	4.01
		Sold	20,000	4.04
		Sold	10,000	4.07

Party	Date	Bought/Sold	No. of China Gas Shares	Unit price *(HK$)*
	14 May 2010	Sold	10,000	3.99
	17 May 2010	Sold	558,000	3.85
		Sold	94,000	3.86
		Sold	990,000	3.84
		Sold	352,000	3.88
		Sold	6,000	3.89
	18 May 2010	Sold	50,000	3.87
		Sold	50,000	3.89
	19 May 2010	Bought	800,000	3.81
		Sold	800,000	3.81
	20 May 2010	Bought	10,000	3.57
		Bought	20,000	3.60
		Sold	10,000	3.61
		Sold	10,000	3.65
	24 May 2010	Sold	10,000	3.86
	26 May 2010	Bought	1,000,000	3.51
		Bought	40,000	3.52
		Bought	410,000	3.55
		Bought	70,000	3.57
		Bought	160,000	3.58
		Sold	300,000	3.51
		Sold	140,000	3.54
		Sold	10,000	3.55
	27 May 2010	Bought	90,000	3.88
		Sold	400,000	3.63
		Sold	100,000	3.64
		Sold	150,000	3.65
		Sold	160,000	3.66
		Sold	210,000	3.67
		Sold	10,000	3.68
		Sold	100,000	3.69
		Sold	50,000	3.70
		Sold	50,000	3.71
		Sold	30,000	3.85
	28 May 2010	Bought	10,000	3.95
		Sold	20,000	3.99
		Sold	10,000	4.00

Note: First Shanghai Securities Limited is an associate of the Company as it is under the same control as First Shanghai Capital, the financial adviser to the Company. The dealings in the China Gas Shares were made for the discretionary clients of First Shanghai Securities Limited.

(i) none of the subsidiaries of the Company, a pension fund of any member of the Group, an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code, First Shanghai Capital or Partners Capital or Handing, excluding exempt principal traders; (ii) save for the Irrevocable Undertaking, no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate; and (iii) no fund managers who manages on a discretionary basis and is connected with the Company, had dealt for value in the Shares or any convertible securities, warrants, options and derivatives of the Company or the Offeror or China Gas; and

(b) none of the Company and the Directors has borrowed or lent any Shares or other securities of the Company or the Offeror or China Gas carrying voting rights.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the Joint Announcement Date; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or (to the knowledge of the Directors) threatened against any member of the Group.

9. MATERIAL CONTRACTS

Apart from the Amendment Agreement, there are no contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the 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.

10. MISCELLANEOUS

As at the Latest Practicable Date,

(a) no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;

(b) save for the Irrevocable Undertaking and the Directors' interests in the Shares and the Share Options, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and

(c) save for the Irrevocable Undertaking, no material contracts had been entered into by the Offeror or China Gas in which any Director has a material personal interest.

11. CONSENTS AND QUALIFICATIONS

The following is the qualification of the experts whose letters/opinion are contained in this response document:

Name	Qualification
First Shanghai Capital	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity and the financial adviser to the Company
Partners Capital	a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and the independent financial adviser to the Independent Board Committee in relation to the Offers
Handing United Lawyers	a PRC lawyer

Each of First Shanghai Capital, Partners Capital and Handing has given and has not withdrawn its written consent to the issue of this response document with copy of its letter and the references to its name included herein in the form and context in which they are respectively included.

12. GENERAL

(a) The registered address of First Shanghai Capital is 19/F, Wing On House, 71 Des Voeux Road Central, Hong Kong.

(b) The registered address of Partners Capital is Room 3906, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

(c) The English text of this response document shall prevail over their respective Chinese text for the purpose of interpretations.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the registered office of the Company in Hong Kong at Unit Nos. 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong; (ii) on the website of the Securities and Futures Commission (www.sfc.hk); and (iii) the Company's website at www.zygas.com.cn from the date of this response document until the end of the Offer Period:

(a) the memorandum and articles of association of the Company;

(b) the third quarterly report of the Company for the nine months ended 30 September 2009;

(c) the annual reports of the Company for the two years ended 31 December 2008;

(d) the letter from the Board as set out on pages 8 to 17 of this response document;

(e) the letter from the Independent Board Committee as set out on pages 18 to 19 of this response document;

(f) the letter from the Independent Financial Adviser as set out on pages 20 to 55 of this response document;

(g) the written consents referred to in the paragraph headed "Consents and qualifications" in this appendix;

(h) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(i) the Irrevocable Undertaking;

(j) the Letters from Joint Venture Partners, the Letters from Local Governments, the Letters from Banks and the minutes recorded where the joint venture partners of six operating subsidiaries in the PRC have expressed their objections to the Offers and a change in control of the Company as mentioned in the letter from the Board in this response document; and

(k) the PRC legal opinion dated 28 May 2010 as mentioned in the letter from the Board in this response document.