



新奥燃气控股有限公司 XinAo Gas Holdings Limited

(incorporated with limited liability in the Cayman Islands)

HK\$475,000,000 Zero Coupon Convertible Bonds due 2009 (with an Option for the issue of up to HK\$75,000,000 Zero Coupon Convertible Bonds due 2009)

The Zero Coupon Convertible Bonds due 2009 in the aggregate principal amount of HK\$475,000,000 (the "Bonds") will be issued by XinAo Gas Holdings Limited (the "Company").

Each Bond will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) on and after 15 December 2004 up to 16 October 2009 into fully paid ordinary shares with a par value of HK\$0.10 each of the Company (the "Shares") at an initial conversion price of HK\$5.4375 per Share. The conversion price is subject to adjustment in the circumstances described under "Terms and Conditions of the Bonds (the "Terms and Conditions") – Conversion." The closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 25 October 2004 was HK\$4.35 per Share.

The Company may, at its option, satisfy its obligation to deliver Shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to the relevant holder a cash amount in HK dollars equal to the product of (i) the number of Shares otherwise deliverable to the holder following exercise of the conversion right which the Company has elected to satisfy by cash and (ii) the arithmetic average of the closing price of the Shares on the Hong Kong Stock Exchange during the 10 Trading Days (as defined in the Terms and Conditions) immediately following and excluding the date of the Cash Settlement Notice Date (as defined in the "Terms and Conditions").

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 106.43% of their principal amount on 15 November 2009. All or some of the Bonds may be redeemed at the option of the relevant holder on 15 May 2007 at 103.16% of their principal amount. On or at any time after 15 May 2007, the Company may redeem all but not some only of the Bonds, at any time prior to maturity, at the relevant Early Redemption Amount (as defined in the Terms and Conditions), provided, however, that no such redemption may be made unless either (i) the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of 20 Trading Days within a period of any 30 consecutive Trading Days, the last day of such 30-Trading Day period falls within five Trading Days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect on each such Trading Day, or (ii) at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled. The Bonds may also be redeemed at the option of the holders at the Early Redemption Amount upon the Shares ceasing to be listed on the Hong Kong Stock Exchange or the occurrence of a Change of Control (as defined in the Terms and Conditions). All but not some only of the Bonds may be redeemed at any time at their Early Redemption Amount in the event of certain changes relating to Cayman Islands or Hong Kong taxation. See "Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation."

The Company has granted Deutsche Bank AG London (the "Lead Manager") an option, which may be exercised by the Lead Manager in whole or in part and on one or more occasions, at any time on or before the 30th day after the Closing Date, to subscribe for up to an additional HK\$75,000,000 aggregate principal amount of Bonds (the "Optional Bonds"). See "Subscription and Sale." Unless the context otherwise requires, references to the "Bonds" in this Offering Circular include any Optional Bonds issued by the Company pursuant to the exercise of the option by the Lead Manager.

Application has been made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonds by way of selectively marketed securities (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and such permission is expected to become effective on 16 November 2004. The Shares are listed on the Hong Kong Stock Exchange and application has been made to list the Shares to be issued upon conversion of the Bonds on the Hong Kong Stock Exchange.

Investing in the Bonds and the Shares involves certain risks. See "Risk Factors" beginning on page 9 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

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

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

The Bonds will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 15 November 2004 (the "Closing Date") with a common depository for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

Sole Global Coordinator and Sole Bookrunner

Deutsche Bank

The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company and the Company's subsidiaries and associated companies (collectively, the "Group"), and the issue of the Bonds and the Shares, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in it relating to the Company and the Group are in every material respect true and accurate and not misleading and (iii) the opinions and intentions expressed in this document with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular has been prepared by the Company solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Lead Manager to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the Shares deliverable upon conversion of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares deliverable on conversion or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Japan, Singapore and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale."

No person has been or is authorised to give any information or to make any representation concerning the Company, the Group, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Lead Manager, the Trustee (as defined herein) or the Agents (as defined herein). Neither the delivery of this document nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Lead Manager, the Trustee or the Agents to subscribe for or purchase any of, the Bonds or Shares and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. This Offering Circular is not intended to invite offers to subscribe for or purchase Shares.

No representation or warranty, express or implied, is made or given by the Lead Manager, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Lead Manager, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Company, the Lead Manager, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THIS ISSUE, DEUTSCHE BANK AG LONDON (OR ANY PERSON ACTING FOR IT) MAY (TO THE EXTENT PERMITTED BY APPLICABLE LAWS) OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON DEUTSCHE BANK AG LONDON (OR ANY PERSON ACTING FOR IT) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

This Offering Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and the Bonds.

The Hong Kong Stock Exchange takes no responsibility for the contents of this Offering Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

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

Each person receiving this Offering Circular acknowledges that such person has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of such information or its investment decision.

The Company has prepared audited consolidated financial statements as of and for the three years ended 31 December 2003, 2002 and 2001 and the unaudited consolidated financial statements as of and for the six-month periods ended 30 June 2004 and 2003. These financial statements were prepared in conformity with HKFRS, which differ in certain material respects from IFRS. See "Summary of Significant Differences Between HKFRS and IFRS."

Unless otherwise specified or the context requires, references herein to “Hong Kong dollars,” “HK dollars,” “HK\$” and “HK¢” are to the lawful currency of Hong Kong, references herein to “US dollars” or “US\$” are to the lawful currency of the United States of America, references herein to “Renminbi” or “RMB” are to the lawful currency of the People’s Republic of China (the “PRC”), references to “HKFRS” are to accounting principles generally accepted in Hong Kong and references to “IFRS” are to International Financial Reporting Standards.

The accounting currency of the Group is RMB. For convenience only and unless otherwise noted, all translations from RMB into US dollars in this Offering Circular were made at the rate of RMB8.268 to US\$1.00, all translations from RMB into HK dollars were made at the rate of RMB1.060 to HK\$1.00 and all transaction from HK dollars into US dollars were made at the rate of HK\$7.800 to US\$1.00. No representation is made that the HK dollar or RMB amounts referred to in this Offering Circular could have been or could be converted into US dollars at any particular rate at all. For further information relating to exchange rates, see “Exchange Rates”.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

In this Offering Circular, the number of projects and Operational Locations refers to those which have been publicly disclosed by the Company as of the date of this Offering Circular. Those projects and Operational Locations of the Group which have not been included in this Offering Circular are not material in the context of the issue and offering of the Bonds.

INCORPORATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Company which are contained in the Annual Reports of the Company for the three years ended 31 December 2003, 2002 and 2001 and the unaudited consolidated financial statements of the Company which are contained in the Interim Reports of the Company for the six-month periods ended 30 June 2004 and 2003, respectively, are incorporated by reference in this Offering Circular. Copies of the accounts are available and may be (i) obtained free of charge at the specified office of the Company at Rooms 3101-03, 31/F, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong or (ii) downloaded free of charge from the Company’s website at www.xinaogas.com.

SUMMARY

The summary below is intended only to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

The Group

Xinao Gas Holdings Limited is a limited liability company incorporated in the Cayman Islands with shares listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2688). The Company is an investment holding company. It is primarily engaged in the piped gas distribution business in the PRC through operating subsidiaries and associated companies, most of which are in the form of joint ventures with local governments or state-owned enterprises.

The Group is one of the first privately-owned piped gas operators in the PRC. The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and the distribution of bottled LPG, in the PRC. The Group is also involved in the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.

The Group commenced operations in 1993 and has since then developed into one of the leading privately-owned gas operators in the PRC piped gas industry. As at the date of this Offering Circular, the Group had a total of 48 publicly disclosed piped gas projects. The Group operates the piped natural gas distribution infrastructures, on an exclusive basis, in cities located in Anhui Province, Beijing Municipality, Guangdong Province, Guangxi Autonomous Region, Hebei Province, Henan Province, Hunan Province, Inner Mongolia Autonomous Region, Jiangsu Province, Liaoning Province, Shandong Province and Zhejiang Province. The Group typically acquires from local governments or state-owned enterprises controlling interests in state-owned piped gas networks located in medium- to large-sized cities and urban areas. In addition, the Group constructs and maintains city piped gas networks in locations in which it has acquired exclusive rights to supply piped gas. The Group also constructs and operates piped gas networks in individual housing estates and other property developments.

The Group intends to grow organically by increasing the penetration rate and the number of connected customers for its existing projects and at the same time by continuing to acquire new projects, with a particular focus on medium- to large-sized cities in Zhejiang Province, the Southern region and the Northeast Provinces of Mainland China.

The Group charges connection fees from residential customers on a "per connection" basis and commercial and industrial customers on a "daily maximum capacity" basis for connection to its piped gas network.

As at 30 June 2004, the Company had an authorised share capital of HK\$300,000,000 consisting of 3,000,000,000 ordinary shares of HK\$0.10 each and an issued and fully paid share capital of approximately HK\$86,710,000 consisting of 867,100,000 ordinary shares of HK\$0.10 each.

Based on the closing price of the Shares on the Hong Kong Stock Exchange on 11 November 2004, the market capitalisation of the Company was approximately HK\$3.9 billion.

Strategy

The Group intends to focus on the development of its core business of distributing piped gas. The Group believes that it is well-positioned to leverage on its experience, established brand name, market position and solid track record, and relationships with local governments and major upstream gas suppliers to develop itself into a leading piped gas operator in the PRC. The Group intends to achieve its strategic objects by:

- Acquiring exclusive rights to additional piped gas markets. The Group intends to take advantage of the expected growth in the piped gas market by obtaining exclusive rights to supply piped gas in additional medium- to large-sized cities in the PRC. In particular, the Group intends to target cities that either currently have, or are expected to have, access to gas sources or long-distance pipelines such as the West to East Pipeline.
- Expanding in existing piped gas markets. The Group plans to continue its efforts to increase the penetration rates in its existing piped gas markets. In addition, the Group intends to expand its existing piped gas operations through (i) the conversion of commercial and industrial users, which the Group expects to contribute substantially to the demand for natural gas in the near future, to piped gas; (ii) the conversion of its existing coal gas or LPG pipeline networks into natural gas pipeline networks; and (iii) the substitution of natural gas for bottled LPG. Natural gas typically commands higher margins than coal gas and LPG. As part of its strategy to increase the penetration in its existing markets and diversify its revenue sources, the Group has recently launched its CNG vehicle refuelling station business to distribute natural gas for use by public transportation, including taxi and buses, in certain Operational Locations. The Group expects that the vehicle gas usage will constitute a significant portion of overall gas consumption in future.
- Developing strategic alliances with upstream gas suppliers to jointly explore potential markets. The Group has entered into a strategic co-operation Memorandum of Understanding with China Huayou (Group) Corporation, a wholly-owned subsidiary of China National Petroleum Corporation, pursuant to which they will jointly explore potential piped gas markets in the Northeastern region and areas surrounding the West to East Pipeline and the Zhong-Wu Pipeline. In addition, the Group has entered into another strategic co-operation agreement with CNOOC Nanhai Western Corporation (“CNOOC NW”), a wholly-owned subsidiary of China National Offshore Oil Corporation, to jointly explore potential investment opportunities in the Guangxi region on an exclusive basis. CNOOC NW will effectively guarantee the supply of natural gas to the Group’s Operational Locations in the Guangxi region.
- Enhancing R&D efforts. The Group plans to continue to enhance its research and development with a view to improving the existing piped gas technology in order to make the supply and usage of gas more convenient and safe, improve efficiencies, reduce costs and provide better service to customers.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Company as at and for the periods indicated.

The summary audited consolidated financial information as at and for the years ended 31 December 2003, 2002 and 2001 set forth below are derived from the Company's published audited consolidated financial statements (which have been audited by Deloitte Touche and Tohmatsu, certified public accountants) and should be read in conjunction with the published audited consolidated financial statements of the Company as at and for the years ended 31 December 2003, 2002 and 2001 and the notes thereto.

The summary unaudited consolidated financial information as at and for the six months ended 30 June 2004 and 2003 set forth below are derived from the Company's published unaudited consolidated financial statements and should be read in conjunction with the published unaudited consolidated financial statements of the Company for the six months ended 30 June 2004 and 2003 and the notes thereto. The financial condition and results of operations of the Group for the six-month period ended 30 June 2004 should not be taken as an indication of the expected financial position and results of operations for the full year ended 31 December 2004. See "Recent Developments and Prospects."

The Company's consolidated financial statements are prepared and presented in accordance with HKFRS. HKFRS differs in certain respects from IFRS. For a discussion of the differences between HKFRS and IFRS, see "Summary of Certain Differences Between HKFRS and IFRS."

Selected Financial Information

Profit and loss data

	Years ended 31 December			Six months ended 30 June	
	2003	2002	2001	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)			(unaudited)	
Turnover.....	878,055	544,492	240,560	587,118	334,552
Cost of sales	(502,693)	(289,805)	(97,429)	(354,139)	(195,054)
Gross profit.....	375,362	254,687	143,131	232,979	139,498
Other operating income.....	30,734	17,391	13,334	34,853	14,887
Selling expenses	(21,524)	(11,522)	(4,446)	(12,369)	(8,620)
Administrative expenses.....	(137,704)	(77,791)	(40,780)	(102,410)	(54,552)
Other operating expenses.....	(14,239)	(4,504)	(1,323)	(11,904)	(6,228)
Profit from operations.....	232,629	178,261	109,916	141,149	84,985
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board.....	—	(5,421)	—	—	—
Finance costs	(30,995)	(16,782)	(10,318)	(23,949)	(9,528)
Share of results of an associate.....	(94)	—	—	(351)	—
Share of results of jointly controlled entities....	(2,298)	—	—	(440)	(31)
Profit before taxation	199,242	156,058	99,598	116,409	75,426
Income tax expenses.....	(2,957)	(12,324)	(11,081)	(4,140)	(1,593)
Profit before minority interests	196,285	143,734	88,517	112,269	73,833
Minority interests	(13,195)	(15,818)	(9,250)	(24,496)	(8,326)

	Years ended 31 December			Six months ended 30 June	
	2003	2002	2001	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(audited)			(unaudited)
Profit for the year/period	183,090	127,916	79,267	87,773	65,507
Dividends	—	—	—	—	—
Earnings per share					
basic	24.8 cents	18.0 cents	14.3 cents	10.6 cents	8.9 cents
diluted	24.6 cents	—	—	10.5 cents	—

Balance sheet data

	At as 31 December			As at 30 June	
	2003	2002	2001	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(audited)		(unaudited)	
Non-current assets					
Property, plant and equipment	2,029,615	905,255	409,889	2,325,066	1,174,719
Intangible assets	78,329	21,808	7,787	93,562	35,260
Negative goodwill	(4,120)	(1,756)	(1,852)	(4,582)	(1,708)
Interest in an associate.....	10,394	—	—	24,544	—
Interests in jointly controlled entities	22,105	2,500	—	72,662	2,570
Investments in securities.....	1,000	—	—	1,000	—
Deferred tax assets	—	—	—	—	272
	<u>2,137,323</u>	<u>927,807</u>	<u>415,824</u>	<u>2,512,252</u>	<u>1,211,113</u>
Current assets					
Inventories	72,950	47,023	31,994	95,910	56,818
Trade and other receivables	269,216	98,392	78,122	288,404	164,606
Amounts due from customers for contract work	108,284	49,883	11,778	170,102	100,723
Amounts due from associates	3,180	—	—	11,548	—
Amounts due from jointly controlled entities	265	—	—	3,620	—
Amounts due from related companies	19,578	15,724	3,115	51,040	29,496
Bank balances and cash.....	487,129	631,536	182,472	803,538	429,467
	<u>960,602</u>	<u>842,558</u>	<u>307,481</u>	<u>1,424,162</u>	<u>781,110</u>
Current liabilities					
Trade and other payables	308,798	181,575	93,313	319,471	212,592
Amounts due to customers for contract work	120,194	45,636	16,364	165,991	55,754
Amount due to a jointly controlled entity	750	—	—	685	—
Amounts due to related companies.....	60,332	18,860	13,660	79,936	55,223
Taxation payable	1,321	8,754	2,925	2,931	1,464
Bank and other loans – due within one year	541,390	202,016	74,933	679,103	201,510
	<u>1,032,785</u>	<u>456,841</u>	<u>201,195</u>	<u>1,248,117</u>	<u>526,543</u>
Net current (liabilities) assets	<u>(72,183)</u>	<u>385,717</u>	<u>106,286</u>	<u>176,045</u>	<u>254,567</u>
Total assets less current liabilities	<u>2,065,140</u>	<u>1,313,524</u>	<u>522,110</u>	<u>2,688,297</u>	<u>1,465,680</u>
Non-current liabilities					
Bank and other loans – due after one year..	570,536	265,412	48,215	587,088	282,885
Deferred tax liabilities.....	17,058	10,618	3,730	17,058	10,618
	<u>587,594</u>	<u>276,030</u>	<u>51,945</u>	<u>604,146</u>	<u>293,503</u>
	<u>1,477,546</u>	<u>1,037,494</u>	<u>470,165</u>	<u>2,084,151</u>	<u>1,172,177</u>
Capital and reserves					
Share capital.....	78,122	78,122	66,462	91,913	78,122
Reserves.....	1,059,977	861,355	386,199	1,637,367	926,862
	<u>1,138,099</u>	<u>939,477</u>	<u>452,661</u>	<u>1,729,280</u>	<u>1,004,984</u>
Minority interests.....	<u>339,447</u>	<u>98,017</u>	<u>17,504</u>	<u>354,871</u>	<u>167,193</u>
	<u>1,477,546</u>	<u>1,037,494</u>	<u>470,165</u>	<u>2,084,151</u>	<u>1,172,177</u>

THE OFFERING

Phrases used in this summary and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds."

Issuer	Xinao Gas Holdings Limited
Issue	HK\$475,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2009, convertible into fully paid ordinary shares with par value of HK\$0.10 each of the Company (the "Bonds").
Optional Bonds	The Lead Manager has been granted an option by the Company to purchase at any time, in whole or in part and on one or more occasions, on or before the 30th day following the Closing Date, up to an additional HK\$75,000,000 aggregate principal amount of Bonds.
Issue Price	100%
Form and Denomination	The Bonds will be issued in registered form in the denomination of HK\$10,000 each.
Closing Date	15 November 2004
Maturity Date	15 November 2009
Negative Pledge	The Company undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed) or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, it will not, and will procure that none of its subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues to secure any Relevant Indebtedness of the Company or any other subsidiary or associate of the Company unless the outstanding Bonds are forthwith secured by the same Encumbrance or, at the option of the Company, by such other security as the Bondholders by Extraordinary Resolution (as defined in the Trust Deed) may approve.
Conversion Period	On or after 15 December 2004 up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on 16 October 2009 or, if the Bonds shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven business days prior to the date fixed for redemption thereof.

Conversion Price	HK\$5.4375 per Share. The Conversion Price will be subject to adjustment for, amongst other things, subdivision or consolidation of Shares, bonus issues, rights issues, distributions and other dilutive events. The closing price of the Shares on the Hong Kong Stock Exchange on 25 October 2004 was HK\$4.35 per Share.
Cash Settlement Option	The Company may, at its option, satisfy its obligation to deliver Shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to the relevant holder a cash amount in HK dollars equal to the product of (i) the number of Shares otherwise deliverable to the holder following exercise of the conversion right which the Company has elected to satisfy by cash and (ii) the arithmetic average of the closing price of the Shares on the Hong Kong Stock Exchange during the 10 Trading Days immediately following and excluding the Cash Settlement Option Date.
Final Redemption.....	Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the Terms and Conditions, the Bonds will be redeemed on 15 November 2009 at 106.43% of their principal amount.
Redemption at the Option of the Company	On or at any time after 15 May 2007 and prior to the Maturity Date, the Company may redeem all but not some only of the Bonds at the Early Redemption Amount if (i) the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange), for each of any 20 Trading Days within a period of 30 consecutive Trading Days, the last day of such 30-Trading Day period falls within five Trading Days prior to the date upon which notice of such redemption is given was at least 130% of the Conversion Price in effect on each such Trading Day or (ii) at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.
Tax Redemption	The Company may redeem all but not some only of the Bonds at the Early Redemption Amount in the event of certain changes in Cayman Islands or Hong Kong taxation.

Redemption at the Option of the Bondholders.....	On 15 May 2007, the holder of each Bond will have the right, at such holder's option, to require the Company to redeem all or some only of the Bonds at 103.16% of their principal amount.
Redemption upon Delisting or Change of Control	A Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem all or some only of such Bondholder's Bonds at the Early Redemption Amount upon (i) the Shares ceasing to be listed or admitted to trading on the Hong Kong Stock Exchange or (ii) the occurrence of a Change of Control.
Clearing Systems	The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with a common depository for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Governing Law	English law
Trustee	DB Trustees (Hong Kong) Limited
Listing	Application has been made to list the Bonds as selectively marketed securities on the Hong Kong Stock Exchange. The Shares are currently, and those Shares to be issued upon conversion of the Bonds will be, listed on the Hong Kong Stock Exchange.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to the Company, or which the Company currently deems immaterial, may also have an adverse effect on an investment in the Bonds.

Risks relating to the Company and the Group

The Group's ability to maintain its current level of profitability depends on its continued success in obtaining new piped gas customers and other factors which are outside its control

In the years ended 31 December 2003, 2002 and 2001 and the six months ended 30 June 2004, the Group achieved a gross margin of 42.7%, 46.8%, 59.5% and 39.7%, respectively, and a net profit margin of 20.9%, 23.5%, 33.0% and 14.9%, respectively.

A substantial proportion of the Group's gross profits in the three years ended 31 December 2003 and the six months ended 30 June 2004 were derived from gas connection fees, which are fees charged by the Group to end-users for connecting to the Group's gas pipeline networks. Revenue from gas connection fees in the year ended 31 December 2003 and the six months ended 30 June 2004 represented 58.8% and 54.1% of the Group's total revenue for those periods.

The gross profit margin realised by the Group may decrease if connection fee levels decrease. Connection fee levels may decrease due to various factors including initiatives by gas distribution companies such as the Group to increase natural gas penetration in existing markets. In addition, the Group's revenue mix may change over time and such changes may result in decreases in the proportion of revenues attributable to connection fees.

While the Group believes that its current operations will continue to generate growth and that it is well-positioned to secure new projects in other high-growth cities, private sector investment in the piped gas industry business is a relatively new business and its continued success is not assured. As a result, the Group may not be able to sustain its current level of profitability and growth rates. Factors that could adversely affect the Group's business and growth include, but are not limited to: competition from other gas or gas distribution companies, particularly those with more capital resources than the Group; potential saturation in the Group's current markets; lack of success in securing and developing new markets; reduction or total elimination of the fees the Group can charge end-users for gas pipeline connections, whether due to market supply and demand, government regulation or otherwise; changes in the PRC government policy to promote the use of gas; shift in consumer preference from piped gas to competing forms of energy; and lack of success in increasing the Group's customer penetration into the areas covered by its existing projects. There is no assurance that the Group will be able to maintain its profit margins and profit growth.

The Group conducts its business through PRC operating subsidiaries, over some of which it does not have absolute control

The Group currently conducts its business operations primarily through operating subsidiaries established in the PRC, a substantial portion of which are not wholly owned by the Group. Although the Group has control over the management of these operating subsidiaries, certain important corporate actions for many subsidiaries typically require supermajority or unanimous board or shareholder approval. Such corporate actions generally

include amending the articles of association, terminating the joint ventures or winding up the subsidiaries, merging, increasing the registered share capital, transferring equity interests or pledging of assets. There is no assurance that the Group will not wish its subsidiaries to engage in certain of these corporate actions in the future or that, if it does, it will be able to cause the PRC partner to consent to such actions. In addition, there is a possibility that the PRC partners of these operating subsidiaries may have economic or business interests or goals which are inconsistent with those of the Group, be unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' agreements, or have financial difficulties. Any such events, particularly if they cannot be remedied due to the Group's inability to cause the termination of the joint venture or other significant corporate action, may have adverse effects on the Group's business, financial conditions or results of operations.

The Group may encounter difficulties in expanding its business into other regions

The Group plans to expand its business coverage to other regions in the PRC in which it does not currently have operations. There is no assurance that the Group will be able to establish operations in these regions as expected or that the Group will not encounter unforeseen difficulties, such as unforeseen regulatory difficulties, unexpected delays, increased costs or unfamiliarity with market expectation, when doing so. Such unforeseen difficulties may adversely affect the Group's business, financial condition and results of operations.

The Group may not be able to obtain funds required for future investment and may not declare dividends in the near future

The Group's business is capital intensive. The future success of the Group depends in part on its ability to finance and implement its long-term strategies. The Group's future growth plans will require, among other things, considerable funds for investment start-up costs, cooperation from third party property developers and approvals by and cooperation of government authorities. In order to finance such investment, the Group may need to seek additional funding, including through equity financing or by way of bank borrowings or other debt financing. However, there is no assurance that such additional financing will be available on terms favourable to the Group or at all, which could have a material adverse effect on the Group's business, operating results and financial position.

As initial investments in gas projects are substantial, it is the Group's policy to use retained profits to fund its current projects and future development in order to maximise shareholders' return by capital growth. As the Group reinvests its earnings to finance current and future projects, there is no guarantee that dividends will be declared by the directors in the near future.

The Group may not be able to integrate acquired state-owned or other businesses successfully

The Group's business model includes acquiring restructured state-owned enterprises ("SOEs") or other gas businesses, particularly in the piped gas business. PRC SOEs have traditionally been managed with the goals of serving state policy, providing for the well-being of citizens and providing lifetime employment. Accordingly, there are significant risks in the conversion of any former SOE into a profitable private enterprise. The Group expends significant time and management attention before and after each acquisition on integration issues, including negotiating the terms of the initial restructuring, training and appointing management of the restructured enterprise, providing know-how and business support, and creating new incentive structures for management and staff. There can be no assurance,

however, that such measures will be effective in successfully integrating the acquired enterprises into the Group's existing operations or creating profitable businesses. Delays in integration or unresolved corporate culture issues may divert Group management attention and resources from other uses or delay or prevent revenue growth in the Group's joint ventures, which may adversely affect the Group's business, financial position and results of operations.

The Wang family has control of the Issuer

As at 30 June 2004, Mr. Wang Yusuo ("Mr. Wang"), the Chairman of the Company, his spouse, Ms. Zhao Baoju ("Ms. Zhao"), a Non-executive Director of the Company, and Easywin, a wholly-owned subsidiary of Mr. Wang and Ms. Zhao, together own approximately 44.96% of the issued share capital of the Company.

Accordingly, the Wang family has, and will continue to have, the ability to exercise a significant influence over the business of the Group and may cause the Group to take actions that are not in, or may conflict with, the interests of the Group and/or the interests of some or all of the Group creditors or minority shareholders, and there can be no assurance that such actions will not have an adverse effect on the Group or the Bondholders. These include matters relating to the Group's management and policies, the outcome of the Group's corporate actions and the election of directors.

The Group has significant reliance on key management

To a significant extent, the Group's success is built upon the technical expertise and in-depth knowledge of the piped gas supply industry possessed by the Executive Directors of the Company and certain other key technical and management personnel of the Group. If any of the Executive Directors or any of the key technical and management personnel ceases to be involved in the operation of the Group, or if any of them fails to observe and perform their obligations under their service agreements, the implementation of the Group's business strategies may be affected and may lead to a material adverse impact on the operations of the Group.

Future growth and success of the Group will depend to a large extent on its ability to retain or recruit qualified individuals to strengthen its management, operational and research teams. As the Group's operations grow, there may be a lack of sufficient management staff to oversee sales, operating, administrative, financial and other functions, which may in turn materially adversely affect the business of the Group.

Weak economic conditions may adversely affect the ability of customers to pay for the Group's services

Economic downturns may increase the likelihood of the Group's customers to default on payment for the Group's services. Such potential defaults may adversely affect the Group's liquidity and profitability as well as the Group's ability to continue its operations.

Risks relating to the Group's industry

The Group is subject to price controls in certain markets

Fees charged by the Group for pipeline connections and piped gas tariffs in the PRC require the approval of local pricing bureaus. There is no assurance that the Group will continue to have the right to charge pipeline connection fees in its existing markets at the levels currently enjoyed by the Group, or that the Group will be able to charge similar connection fees in new markets. In addition, there is no assurance that the Group will be able

to obtain the required approval from the relevant state pricing bureau for an increase in pipeline connection fees, should the Group's connection costs increase significantly. There is also no assurance that any increase in tariffs sought by the Group in response to any future increases in natural gas prices will be approved by the local state pricing bureau or that the bureau will not require the Group to lower existing tariffs. In the event that the Group is unable to obtain approvals for an increase in pipeline connection fees or gas tariffs to pass through any increased input costs, the profits of the Group may be materially adversely affected.

The Group's performance depends on property development

The Group normally acts as the project manager for the laying of gas pipelines in property development projects and the Group receives connection fees in stages based on the percentage-of-completion of pipeline construction work. As a substantial portion of the Group's connection fee income is generated from new property development projects, the Group is exposed to the state of the real estate market in the PRC.

As a result of the introduction by the PRC government of measures to slow down the PRC economy, some property developers, particularly those in major cities, may suspend or postpone their projects and, in doing so, will slow down the pace of gas pipe connections to new development projects. The tightening of financing requirements may also lead to shortages of funds of property developers, resulting in delays in payment of amounts due to the Group. Although the Group has not experienced any material default or delay on payments by property developers and other debtors to the Group as a result of macro-economic measures introduced by the PRC government and the Group has not been significantly affected by such measures, there is no assurance that the Group will not be adversely affected in future if further measures were to be introduced or there were a hard landing of the PRC economy. See also "Risks relating to the PRC — The PRC's economic, political and social conditions, as well as government policies, could affect the Group's Business".

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

The success of the Group's projects depends on economic development of the areas in which the projects are located

The business of the Group relies, in part, on the economic development of the cities and development zones in which it operates its projects. Although the Group carries out financial, commercial and legal due diligence in respect of each project, there is no guarantee that an operational location will develop or prosper economically as projected by the relevant local government and the Group. Given the substantial capital investment at the early stages of each project, any unexpected adverse changes in the economic growth of an operational location may materially adversely affect the performance of the relevant project and, hence, the performance of the Group.

The Group is dependent on its natural gas suppliers

The Group currently purchases all of its natural gas primarily from three PRC national oil and gas exploration and production groups, pursuant to gas purchase agreements with terms ranging from one to 20 years. Although certain projects located in areas surrounding the West to East Pipeline Project have entered into long term take-or-pay gas purchase contracts with PetroChina and therefore secured long term guaranteed natural gas supply, most of the projects of the Group do not have similar arrangements. There can be no assurance that in the future the Group will be able to purchase natural gas from suppliers on similar terms or on terms otherwise acceptable to the Group, in which case the Group's business and profitability may be materially adversely affected.

In addition, there can be no assurance that unforeseen events will not prevent the timely delivery of, or affect the quality of, natural gas supplied to the Group by its suppliers. The Group obtains its natural gas directly from suppliers via pipelines. In the event of unforeseen disruption to natural gas pipeline supplies, whether due to commercial reasons, technical difficulties or unforeseen events such as natural disasters, war or terrorism, the Group may be unable to obtain an immediately available supply of natural gas for its piped gas customers. If the required natural gas cannot be purchased as scheduled or on terms acceptable to the Group, the Group's business, financial condition and results of operations may be adversely affected.

There is a risk of industry-related accidents and the Group only has limited insurance coverage

Due to the nature of its business, the Group often handles highly flammable and explosive materials. There is a significant risk that industry-related accidents will occur in the course of the Group's business. The Group has implemented safety precautions and maintenance procedures throughout its businesses. There is no assurance, however, that accidents will not occur during future operations. Any significant accident, whether or not the Group is found to be at fault, may adversely affect the Group's business, financial condition and results of operations.

The Group has obtained insurance for certain fixed assets (including the pipelines owned by the Group) that the Group considers to be subject to significant operating risks.

The Group has also taken out third party liability insurance policies covering (i) the loss of life or property of third parties arising out of any accident that may occur at processing stations of the Group and (ii) the loss of life of staff arising out of the business operations. However, the Group has not taken out an insurance policy for any interruption in the business of the Group.

There can be no assurance that the Group's insurance policies will adequately compensate for losses or damages under any and all potential adverse circumstances. A successful claim made against the Group that is not covered by any of the Group's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Group's business and financial position.

The Group's business may be adversely affected by present or future environmental laws

The Group's business is subject to certain PRC laws and regulations relating to the production, storage, transportation and sale of natural gas and other energy sources, as well as environmental and safety matters. The discharge of natural gas or other pollutants into the environment may give rise to liabilities which may require the Group to incur costs to remedy such discharge. In addition, although the Group believes it is currently in compliance with all

applicable environmental laws, there is no assurance that any environmental laws adopted in future will not materially increase the cost to the Group of conducting its business. No assurance can be given that current or future PRC environmental laws will not adversely affect the Group's business, financial condition and results of operations.

The Group faces competition from providers of incumbent and alternative energy sources

Substitutes for the Group's piped gas products are readily available in the PRC, and new substitutes may be developed. Although the Group has exclusive gas provision rights in its Operational Locations, competition still exists from alternative energy source providers at such Operational Locations. Coal, coal gas, LPG and electricity are the main substitutes for piped gas as a source of energy, even though the use of coal has been restricted in most Operational Locations. The Group believes that, when choosing an energy source, consumers consider factors such as cost, reliability, convenience and safety and, although the Group believes that piped gas has become increasingly attractive to energy users as an alternative to coal and bottled LPG, there can be no assurance that existing users of coal or other fuels will shift from their current fuel sources to piped gas, or that they will not shift from piped gas to alternative fuel sources. There can also be no assurance that alternative energy sources or alternative uses of existing energy sources will not become available. If significant numbers of fuel users fail to adopt fuel products supplied by the Group as anticipated by the Group's marketing plans, or significant numbers of fuel users switch from the Group's fuel products, the Group's business, financial condition and results of operations may be adversely affected.

The Group faces competition from other piped gas providers

The Group may face competition in acquiring new piped gas projects in the PRC from other domestic or foreign piped gas providers. Competitors of the Group include large, vertically integrated international, domestic, regional and global petroleum producers. A number of these domestic, international competitors have larger scale of operations and greater financial resources than the Group. These competitors may also benefit from greater economies of scale, operating efficiencies and significant government support. Companies attempting to obtain a share of the existing markets may also act as competitors, creating price pressure on the Group's products and services.

In addition, the PRC recently became a member of the World Trade Organisation (the "WTO"). As a result, the Group expects the PRC government to gradually reduce current restrictions on foreign investments in the PRC. The PRC's entry into the WTO may also result in increased foreign competition in the PRC and a reduction of regulations which have historically been advantageous to domestic enterprises, as well as other developments which may adversely affect the Group. Increased competition resulting from the PRC becoming a member of the WTO, including alliances between foreign companies and domestic competitors, may have an adverse effect on the Group's prospects, financial condition and results of operations.

Risks relating to the PRC

PRC government regulations may limit the Group's activities and adversely affect its business operations

The operations of the Group, like those of other PRC oil and gas companies, are subject to extensive regulation by the PRC government. In the PRC, gas companies operating piped gas supply businesses in urban areas are under the supervision of a number of government ministries and departments, including the Ministry of Construction, the Ministry of Labor and

Social Security and the Ministry of Public Security. The Group must comply with the relevant requirements of certain regulations including, but not limited to, the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. In addition, the Group must comply with the relevant requirements and policies of local authorities where the Group's projects are situated. Central governmental authorities, such as the State Development and Reform Commission, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Commerce and the State Bureau of Taxation and the local price bureaus, exercise extensive control over various aspects of the PRC's oil and gas industry. These controls affect aspects of the Group's operations such as the pricing of its main products, industry-specific taxes and fees, business qualifications, capital investments, and environmental and safety standards. As a result, the Group may face significant constraints on its ability to implement its business strategies, to develop or expand its business operations or to maximise its profitability. Its business may also be adversely affected by future changes in policies of the PRC government in respect of the oil and gas industry as well as changes in policies of local governments in relation to the Group's various areas of business.

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business

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

- extent of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Group's operations. For example, the Group financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

In 2003, the PRC government announced its intentions to slow the PRC's annual GDP growth rate from what it considered an unsustainably high rate. However, in the first quarter of 2004, the PRC economy continued to accelerate, raising fears the PRC government will take dramatic action, such as it did in 1994, resulting in a rapid economic slowdown which would have painful macro-economic effects in the PRC and PRC-related markets.

Specific actions taken by the PRC government in 2004 include: raising deposit reserves requirements and rediscount rates for banks, directing banks to reduce loans to overheating sectors of the economy, tightening and enforcing restrictions on land use to reduce new construction projects, cracking down on speculative currency inflows which may be invested in construction and construction-related industries, and the increase by the People's Bank of China on 29 October 2004 of benchmark one-year lending and deposit rates by 0.27% to 5.58% and 2.25%, respectively. The PRC government has also stated its intention to continue to encourage healthy growth in private consumption and exports. In the second quarter of 2004, slightly lower prices in construction-related steel and aluminum sectors and a drop in fixed asset investment levels have been identified by the PRC government as initial signs of a successful gradual slowdown, but risk of more dramatic actions and another hard landing with severe economic impact, which could have a material adverse affect on the Group's business, results of operations and financial condition, still remains.

Most of the Group's turnover is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility

Substantially all of the Group's turnover is denominated in Renminbi and must be converted to pay dividends or make other payments in freely convertible currencies. Under the PRC's foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade, may be made in foreign currencies without prior approval subject to following certain procedural requirements. However, strict foreign exchange controls continue for capital account transactions, including repayment of loan principal and return of direct capital investments and investments in negotiable securities. In the past, there have been shortages of US dollars or other foreign currency available for conversion of Renminbi in the PRC, and it is possible such shortages could recur, or that restrictions on conversion could be re-imposed.

Prior to 1994, the Renminbi experienced a significant net devaluation against most major currencies and, during certain periods, significant volatility in the market-based exchange rate. Since 1994, the Renminbi to US dollar exchange rate has largely stabilised. However, there can be no assurance that such exchange rate will remain stable. Any devaluation of the Renminbi against the US dollar will increase the amount of Renminbi the Group needs to service its US dollar obligations, such as the Bonds. In addition, any devaluation of the Renminbi may adversely affect the value of, and dividends payable on, the Shares of the Group in foreign currency terms since the Group receives its revenues in the Renminbi. Results of operations and the financial condition of the Group may also be affected by changes in the value of certain currencies other than the Renminbi in which the Group's obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of the Group's cash flow required to satisfy its foreign currency-denominated obligations. There can be no assurance of the stability of the exchange rate of the Renminbi in the future.

The legal system in the PRC is less developed than in certain other countries and laws may not be interpreted and enforced in a consistent manner

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little precedential value. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group and its joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have an adverse effect on the Group's prospects, financial condition and results of operations.

The political and social system in the PRC is subject to a greater degree of uncertainty than in certain Western countries

The value of the Group's interests in the PRC may be adversely affected by significant political and social uncertainties in the PRC. A change in the policies of the PRC government including, *inter alia*, changes in laws or regulations, or the interpretation thereof, taxation, restrictions on currency conversion, the imposition of exchange controls or price controls, or the appropriation of private or foreign business or property interests, could adversely affect the Group's investments in the PRC.

There is uncertainty as to the application of value-added tax to the pipeline construction business of the Group

The Group's connection fees are currently only subject to a 3% business tax, whereas its gas revenue is subject to a 13% value-added tax ("**VAT**"). On 15 January 2003, the Ministry of Finance and the State Price Bureau of the PRC issued the "Notice regarding Business Tax and Certain Policies Issues", which suggested that connection fees may also become subject to the 13% VAT in future. The levy of VAT on the Group's connection fees could materially and adversely affect the results of operation of the Group in view of the substantial contribution to its revenues and profits by connection fees in the event that the Group is unable to pass the increased costs onto end users.

To date, the Group is not aware of any formal notice or regulation promulgated by the central or local tax authorities in relation to the levy of VAT on connection fees. In addition, the project companies of the Group have received informal communications from their respective local governments that VAT would not be levied on connection fees. However, there is no assurance that VAT will not be levied on the Group's pipeline construction business in future.

Changes in favourable taxation treatment

According to the current rules and regulations of the PRC on taxation, Sino-foreign joint ventures or wholly owned foreign enterprises with an operational period of over 10 years may, after obtaining approval from the relevant PRC taxation authorities, recoup prior years' retained losses from the first profit-making year (such recoupment not to exceed five consecutive years). Thereafter, such companies are exempt from income tax for the first two

years after becoming profitable and will also be provided with a 50% reduction in the rate of profit tax for the following three years. Most of the Group's PRC operating subsidiaries are currently in the tax relief period, have not become profitable, or are subject to reduced tax rates pursuant to such regulations. There can be no assurance that the current taxation allowances (including sales tax refunds) will not be changed in the future. In the event of any change, the business, financial condition and results of operations of the Group may be materially adversely affected.

Risks relating to the Bonds and the Shares

The Company is primarily a holding company and payments with respect to the Bonds are structurally subordinated to liabilities and obligations of each of the Company's subsidiaries

The Company's ability to make payments in respect of the Bonds depends largely upon the receipt of dividends, distributions, interest payments or advances from its wholly or partly owned subsidiaries. The ability of such companies to pay dividends and other amounts to the Company may be subject to their profitability, to applicable laws and restrictions on the payment of dividends and other amounts contained in relevant financing or other agreements as well as decisions by the Group and its joint venture partners. Payments with respect to the Bonds are structurally subordinated to all existing and future liabilities and obligations of each of the Company's subsidiaries. Claims of creditors of such companies will have priority as to the assets of such companies over the Company and its creditors, including holders of the Bonds. As at 30 June 2004, the Group had aggregate total bank and other borrowings of RMB1,266,191,000, a substantial portion of which consisted of unsecured and secured indebtedness at the subsidiary level.

The Company's profits are derived from its joint ventures, which have been established in the PRC. Profits available for distribution to the shareholders of the Company are conditional upon profits being available for distribution to the Company by these joint ventures. Any dividends that may be declared by any of these joint ventures will be based, among other factors, on their profits as determined pursuant to generally accepted accounting principles in the PRC. There is no assurance that dividends will be declared by any of such subsidiaries.

An active trading market for the Bonds may not develop

The Bonds are a new issue of securities for which there is currently no trading market. The Bonds are being offered pursuant to an exemption from registration under the Securities Act, and, as a result, the Purchasers will only be able to resell the Bonds in transactions that are not subject to, or exempt from registration under, the Securities Act. In addition, the Lead Manager or its affiliates may purchase Bonds for proprietary purposes and not with a view to distribution. Such purchases may involve a substantial portion of the Bonds. The Company cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price.

If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could be materially and adversely affected. Application has been made for the listing of the Bonds on the Hong Kong Stock Exchange. However, there can be no assurance that the Company will be able to obtain or be able to maintain such a listing or that, if listed, a trading market will develop on the exchange. The Company does not intend to apply for listing of the Bonds on any securities exchange other than the Hong Kong Stock Exchange. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

Future issues, offers or sales of Shares may adversely affect the value of the Bonds

The market price of the Bonds and the Shares could decline as a result of future issues, offers or sales of a large number of the Shares or securities convertible or exchangeable into or exercisable for the Shares or any securities or financial instruments whose economic value is determined directly or indirectly by reference to the market price of the Shares, or the perception that such issues, offers or sales could occur. If a large number of the Shares is sold, the market price for the Bonds or the Shares could be depressed. As the Group will continue to require significant funding to develop its current and future projects, the Group may need to raise further capital by way of equity or equity-linked issues in future.

There may be less publicly available information about the Company than is available in certain other jurisdictions, and the Company's consolidated financial statements will be prepared in accordance with HKFRS

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries, including the United States. In addition, the Company's financial statements are prepared and presented in accordance with HKFRS, which differ in certain significant respects from IFRS. See "Summary of Certain Differences Between HKFRS and IFRS."

TERMS AND CONDITIONS OF THE BONDS

The following (subject to amendment, and other than the words in italics) is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the HK\$475,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2009 (the "Bonds", which term shall include, unless the context requires otherwise, any further Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) of Xinao Gas Holdings Limited (the "Company") and the right of conversion into Shares (as defined in Condition 6(A)(v)) of the Company were authorised by the resolutions of the Board of Directors of the Company passed on 25 October 2004 and 11 November 2004, respectively. The Bonds are constituted by a trust deed to be dated on or about 15 November 2004 (the "Trust Deed") made between the Company and DB Trustees (Hong Kong) Limited as trustee for the holders of the Bonds (the "Trustee", which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed) and are subject to the paying and conversion agency agreement to be dated on or about 15 November 2004 (the "Agency Agreement") with the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying, conversion and transfer agent (the "Principal Agent"), Deutsche Bank Luxembourg S.A. as registrar (the "Registrar") and the other paying, conversion and transfer agents appointed under it (each a "Paying Agent", "Conversion Agent", "Transfer Agent" and together with the Registrar and the Principal Agent, the "Agents") relating to the Bonds. References to the "Principal Agent", "Registrar" and "Agents" below are references to the principal agent, registrar and agents for the time being for the Bonds. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection at the registered office of the Trustee being at the date hereof at 55th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong and at the specified offices of each of the Agents. The Bondholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Status

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 5) unsecured obligations of the Company and the Bonds shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 5, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

2. Form and Denomination

The Bonds are issued in registered form in the denomination of HK\$10,000 each. A Bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

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

3. Title

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 4. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Terms and Conditions “Bondholder” and (in relation to a Bond) “holder” means the person in whose name a Bond is registered.

4. Transfers of Bonds; Issue of Certificates

A. Register

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

B. Transfer

Subject to the Agency Agreement, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Agents. No transfer of a Bond will be valid unless and until entered on the Register.

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

C. Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within three business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the form of transfer, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder) to the address specified in the form of transfer.

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

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

For the purposes of Condition 4, “business day” shall mean a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

D. Formalities Free of Charge

Registration of transfer of Bonds will be effected without charge by or on behalf of the Company or any of the Agents, but upon payment (or the giving of such indemnity as the Company or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

E. Closed Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to the Conditions; (ii) after a Conversion Notice (as defined in Condition 6(B)) has been delivered with respect to a Bond; or (iii) after a Relevant Event Redemption Notice (as defined in Condition 8(D)) or a Put Exercise Notice (as defined in Condition 8(E)) has been deposited in respect of such Bond.

F. Regulations

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

5. Negative Pledge

(a) Negative Pledge

The Company undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed) or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, it will not, and will procure that none of its subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues to secure any Relevant Indebtedness of the Company or any other subsidiary or associate of the Company unless the outstanding Bonds are forthwith secured by the same Encumbrance or, at the option of the Company, by such other security as the Bondholders by Extraordinary Resolution may approve.

(b) Interpretation

In these Conditions:

- (i) any reference to an “Encumbrance” is to a mortgage, charge, pledge, lien or other encumbrance or security interest securing any obligation of any person;
- (ii) any reference to “Relevant Indebtedness” is to any indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention on the part of the issuer thereof

that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement) but shall not include indebtedness under any secured transferable loan facility (which term shall for these purposes mean any agreement for or in respect of indebtedness for borrowed money entered into with one or more banks and/or financial institutions whereunder rights and (if any) obligations may be assigned and/or transferred); and

- (iii) any reference to a “subsidiary” or “Subsidiary” of the Company is to a company the financial statements of which are, in accordance with applicable law and generally accepted accounting principles, consolidated or ought to be consolidated with those of the Company.

6. Conversion

A. Conversion Right

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

The right of a Bondholder to convert any Bond into Shares is called the “Conversion Right”. Subject to and upon compliance with, the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on and after 15 December 2004 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 16 October 2009 (but, except as provided in Condition 6(A)(iv), in no event thereafter) or if such Bond shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven business days (in the place aforesaid) prior to the date fixed for redemption thereof (the “Conversion Period”).

The number of Shares to be issued on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted by the Conversion Price in effect at the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

- (ii) *Fractions of Shares*: Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares by operation of law or otherwise occurring after 25 October 2004 which reduces the number of Shares outstanding, the Company will upon conversion of Bonds pay in cash (in Hong Kong dollars by means of a Hong Kong dollar cheque drawn on a bank in Hong Kong) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds HK\$100.00.

- (iii) *Conversion Price*: The price at which Shares will be issued upon conversion (the "Conversion Price") will initially be HK\$5.4375 per Share but will be subject to adjustment in the manner provided in Condition 6(C).
- (iv) *Revival and/or survival after Default*: Notwithstanding the provisions of Condition 6(A)(i), if (a) the Company shall default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- (v) *Meaning of "Shares"*: As used in these Conditions, the expression "Shares" means ordinary shares of par value HK\$0.10 each of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

B. Conversion Procedure

- (i) *Conversion Notice*: To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Conversion Agent a notice of conversion (a "Conversion Notice") in duplicate in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and any amounts required to be paid by the Bondholder under Condition 6(B)(ii).

The conversion date in respect of a Bond (the "Conversion Date") must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6(A)(iv) above) and will be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Company consents to such withdrawal. "Stock Exchange Business Day" means any day (other than a Saturday or Sunday) on which The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") or the Alternative Stock Exchange (as defined in Condition 6(C) below), as the case may be, is open for business.

- (ii) *Stamp Duty etc.:* A Bondholder delivering a Certificate in respect of a Bond for conversion must pay to the relevant Conversion Agent any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in the Cayman Islands, Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Company in respect of the allotment and issue of Shares and listing of the Shares on the Hong Kong Stock Exchange on conversion) (the "Taxes") and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Company will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued) must provide the Agent with details of the relevant tax authorities to which the Agent must pay monies received in settlement of Taxes payable pursuant to this Condition 6(B)(ii). The Agent is under no obligation to determine whether a Bondholder is liable to pay any Taxes including capital, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6(B)(ii).
- (iii) *Registration:* As soon as practicable, and in any event not later than seven Trading Days (as defined below) after the Conversion Date, the Company will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice has been delivered and the relevant Certificate and amounts payable by the relevant Bondholder deposited as required by sub-paragraphs (i) and (ii), register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Company's share register and will, if the Bondholder has also requested in the Conversion Notice, take all necessary action to procure that Shares are delivered through the Central Clearing and Settlement System of Hong Kong for so long as the Shares are listed on the Hong Kong Stock Exchange; or will make such certificate or certificates available for collection at the office of the Company's share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited) notified to Bondholders in accordance with Condition 16 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 6(C) and the Trust Deed and the relevant Registration Date (as defined below) falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Price, the provisions of this sub-paragraph (iii) shall be applied *mutatis mutandis* to such

number of Shares as is equal to the excess of the number of Shares which would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been given effect as at the said Registration Date over the number of Shares previously issued (or which the Company was previously bound to issue) pursuant to such conversion.

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

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

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

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

C. Adjustments to Conversion Price

The Conversion Price will be subject to adjustment in the following events as set out in the Trust Deed:

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

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

Where:

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

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

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

- (2) *Capitalisation of Profits or Reserves:*

- (i) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account), including Shares paid up out of distributable profits or reserves and/or share premium account issued (except any Scrip Dividend), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

Where:

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

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

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

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

Where:

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

or by making such other adjustment as a leading independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, shall certify to the Trustee is fair and reasonable.

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

(3) *Distributions:*

- (i) Subject to Condition 6(C)(3)(ii), if and whenever the Company shall pay or make any Distribution to the Shareholders (except to the extent that the Conversion Price falls to be adjusted under Condition 6(C)(2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

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

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Distribution is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made.

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

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

Where:

- A is the Current Market Price of one Share on the record date for the determination of Shareholders entitled to receive such Distribution in cash; and
- B is the amount of cash so distributed attributable to one Share.

Such adjustment shall become effective on the record date for the determination of Shareholders entitled to receive such Distribution in cash.

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

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

Where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

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

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

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

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

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

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

Where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

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

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

- (7) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6(C)(7), if and whenever the Company or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company on conversion, exchange or subscription at a consideration per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

Where:

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

- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

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

- (8) *Modification of Rights of Conversion etc.:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(C)(7) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

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

Where:

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as a leading independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, considers appropriate (if at all) for any previous adjustment under this Condition 6(C)(8) or Condition 6(C)(7).

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

- (9) *Other Offers to Shareholders:* If and whenever the Company or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer in which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be

adjusted under Condition 6(C)(4), Condition 6(C)(5) or Condition 6(C)(6)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

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

- (10) *Other Events*: If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6, the Company shall, at its own expense, consult a leading independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the independent investment bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the circumstances giving rise to any adjustment pursuant to this Condition 6 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6 as may be advised by the independent investment bank to be in their opinion appropriate to give the intended result.

For the purposes of these Conditions:

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

“Average Closing Price” is the arithmetic average of the Closing Price per Share for each Trading Day during the Relevant Period.

In making any such calculation, such adjustments (if any) shall be made as a leading independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (c) the modification of any rights to dividends of Shares.

“Closing Price” for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

“Current Market Price” means, in respect of a Share at a particular date, the average of the closing prices published in the Daily Quotation Sheet of the Hong Kong Stock Exchange or the equivalent quotation sheet of an Alternative Stock Exchange for one Share (being a Share carrying full entitlement to dividend) for the five consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said five Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

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

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

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

“Fair Market Value” means, with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by a leading independent investment bank of international repute (acting as expert) selected by the Company and approved in writing by the Trustee, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such independent investment bank) the fair market value of such options,

warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded.

“Relevant Cash Dividend” means any cash dividend specifically declared by the Company.

“Relevant Period” means the period beginning on the 30th Trading Day prior to the Trading Day (the “relevant Trading Day”) immediately preceding the date on which the Shares are quoted ex-dividend on the Hong Kong Stock Exchange (or any relevant Alternative Stock Exchange) in respect of the cash dividend which caused the adjustment to the Conversion Price pursuant to Condition 6(C)(3), and ending on the relevant Trading Day.

“Scrip Dividend” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt to the extent that no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or part thereof).

“Trading Day” means a day when the Hong Kong Stock Exchange or, as the case may be, an Alternative Stock Exchange, is open for dealing business, provided that if no closing price is reported in respect of the relevant Shares on the Hong Kong Stock Exchange or, as the case may be, the Alternative Stock Exchange for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days.

On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1% of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 16 as soon as practicable after the determination thereof.

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of a leading independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such independent investment bank to be in their opinion appropriate in order to give such intended result. No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered or granted to employees (including directors) of the Company or any Subsidiary of the Company pursuant to any Employee Share Scheme (as defined in the Trust Deed) (and which Employee Share Scheme is in compliance with the listing rules of the Hong Kong Stock Exchange or, if applicable, those of an Alternative Stock Exchange).

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6(C)(1) above.

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

D. Undertakings

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

- (i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange, and if the Company is unable to obtain or maintain such listing, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as from time to time selected by the Company and approved by the Trustee and will forthwith give notice to the Bondholders in accordance with Condition 16 below of the listing or delisting of the Shares (as a class) by any of such stock exchange; and
- (ii) it will pay the expenses of the issue of, and all expenses of obtaining and maintaining listing for, Shares arising on conversion of the Bonds.

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

E. Notice of Change in Conversion Price

The Company shall give notice to the Bondholders in accordance with Condition 16 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

7. Payments

A. Principal

Payment of principal and premium will be made by transfer to the registered account of the Bondholder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder in accordance with Condition 16 if it does not have a registered account. Payment of principal will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

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

B. Registered Accounts

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

C. Fiscal Laws

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

D. Payment Initiation

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

E. Default Interest and Delay In Payment

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 2% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

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

F. Business Day

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

8. Redemption, Purchase and Cancellation

A. Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Bond at 106.43% of its principal amount on 15 November 2009 (the "Maturity Date"). The Company may not redeem the Bonds at its option prior to that date except as provided in Condition 8(B) or Condition 8(C) below (but without prejudice to Condition 9).

B. Redemption at the Option of the Company

On or at any time after 15 May 2007 and prior to the Maturity Date, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Trustee and the Principal Paying Agent (which notice will be irrevocable), redeem all and not some only of the Bonds at a redemption price equal to the Early Redemption Amount on the date of redemption provided, however, that no such redemption may be made unless (i) the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock

Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of any 20 Trading Days within a period of 30 consecutive Trading Days, the last day of such 30-Trading Day period falls within five Trading Days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect on such Trading Day or (ii) at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

The “Early Redemption Amount” of each Bond means an amount rounded up to the nearest cent, determined in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{HK\$10,000} + (\text{HK\$10,000} \times 6.43\%) \times \frac{\text{Days Outstanding}}{1,800}$$

where

“Days Outstanding” means the number of days from, and including, 15 November 2004 to, but excluding, the date for redemption, calculated on the basis of a year of 360 days consisting of 12 months of 30 days each.

The term “Trading Day” means a day on which the Hong Kong Stock Exchange is open for business.

C. Redemption for Taxation Reasons

At any time the Company may, having given not less than 30 nor more than 60 days’ notice to the Bondholders in accordance with Condition 16 (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at a redemption price equal to the Early Redemption Amount on the date of redemption if (i) the Company satisfies the Trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or, as the case may be, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 25 October 2004, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee (a) a certificate signed by two directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and (b) an opinion of independent legal or tax advisers of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders.

D. Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder’s option, to require the Company to redeem all or some only of that holder’s Bonds on the Relevant Event Redemption Date (as defined below) at their Early Redemption Amount. To exercise such right, the holder of the relevant Bond must

complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (the "Relevant Event Redemption Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Company in accordance with Condition 16. The "Relevant Event Redemption Date" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and the Company shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

The Company shall give notice to Bondholders in accordance with Condition 16 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition and shall give brief details of the Relevant Event.

A "Relevant Event" occurs:

- (i) when the Shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange; or
- (ii) when there is a Change of Control.

For the purposes of this Condition 8(D):

"Control" means the right to appoint and/or remove all or the majority of the members of the Company's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a "Change of Control" occurs when:

- (i) any Person or Persons acting together acquires Control of the Company if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Company on the Closing Date;
- (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Company or the successor entity; or
- (iii) one or more Persons (other than any Person referred to in sub-paragraph (i) above) acquires the legal or beneficial ownership of all or substantially all of the Company's issued share capital.

"Person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Company's directors or any other governing board and does not include the Company's wholly-owned direct or indirect subsidiaries.

E. Redemption at the Option of the Bondholders

On 15 May 2007 (the "Put Option Date"), the holder of each Bond will have the right, at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at 103.16% of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent ("Put Exercise Notice") together with the Certificate evidencing the Bonds to be redeemed not earlier than 50 days and not later than 45 days prior to the Put Option Date.

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

F. Purchases

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

G. Cancellation

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

H. Redemption Notices

All notices to Bondholders given by or on behalf of the Company pursuant to Condition 8(B) or (C) will specify the Conversion Price as at the date of the relevant notice, the Conversion Period, the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange) as at the latest practicable date prior to the publication of the notice, the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

9. Taxation

All payments made by the Company under or in respect of the Trust Deed or the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Company will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bond:

- (i) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Cayman Islands (or, as the case may be, Hong Kong) otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond;

- (ii) (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days,
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

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

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

10. Events of Default

- A. The Trustee at its sole discretion may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured by the holders to its satisfaction), give notice to the Company that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at the Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:
 - (i) a default is made in the payment of any principal or Early Redemption Amount due in respect of the Bonds;
 - (ii) any failure by the Company to deliver Shares as and when the Shares are required to be delivered following conversion of Bonds or the Cash Settlement Amount and such failure continues for seven Trading Days;
 - (iii) the Company does not perform or comply with one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee;
 - (iv) the Company or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling

or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or any of its Subsidiaries; or an administrator or liquidator of the Company or any of its Subsidiaries or the whole or any part of the assets and turnover of the Company or any of its Subsidiaries is appointed (or application for any such appointment is made);

- (v) (a) any other present or future indebtedness (whether actual or contingent) of the Company or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes, or becomes capable of being declared, due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Company or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (v) have occurred equals or exceeds US\$5,000,000 or its equivalent in any other currency on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity;
- (vi) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any of the property, assets or turnover of the Company or any of its Subsidiaries and is not discharged or stayed within 30 days;
- (vii) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Company or any of its Subsidiaries (except for a members' voluntary solvent winding-up), or the Company or any of its Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations and, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by an Extraordinary Resolution of the Bondholders, or (b) in the case of its Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Company or another of its Subsidiaries;
- (viii) an encumbrancer takes possession or an administrative or other receiver, manager, administrator or other similar officer is appointed, of the whole or any part of the property, assets or turnover of the Company or any of its Subsidiaries (as the case may be) and is not discharged within 30 days;
- (ix) (a) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its Subsidiaries; or (b) the Company or any of its Subsidiaries is prevented from exercising normal control over all or any substantial part of its property, assets and turnover;

- (x) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of the Cayman Islands or England is not taken, fulfilled or done;
- (xi) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed;
- (xii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, in the case of any such event other than those described in paragraphs (i), (ii), (iii) (v), (vi), (viii) and (x) above, the Trustee shall have certified in writing to the Company that such event is, in its opinion, materially prejudicial to the interests of Bondholders.

- B. Notwithstanding receipt of any payment after the acceleration of the Bonds, a Bondholder may exercise its Conversion Right by depositing a Conversion Notice with a Conversion Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10(A) (at which time the Company will notify the Bondholders of the number of Shares per Bond to be delivered upon conversion, assuming all the then outstanding Bonds are converted) to and including the 30th business day after such payment.

If any converting Bondholder deposits a Conversion Notice pursuant to this Condition 10 in the business day prior to, or during, a Closed Period, the Bondholder's Conversion Right shall continue until the business day following the last day of the Closed Period, which shall be deemed to be the Conversion Date, for the purposes of such Bondholder's exercise of its Conversion Right pursuant to this Condition 10.

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10, the Company will deliver Shares (which number will be disclosed to such Bondholder as soon as practicable after the Conversion Notice is given) in accordance with the Conditions, except that the Company shall have 12 business days before it is required to register the converting Bondholder (or its designee) in its register of members as the owner of the number of Shares to be delivered pursuant to this Condition and an additional five business days from such registration date to make payment in accordance with the following paragraph.

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10, the Company shall, at the request of the converting Bondholder, pay to such Bondholder an amount in Hong Kong dollars (the "Default Cure Amount"), equal to the product of (x) (i) the number of Shares that are required to be delivered by the Company to satisfy the Conversion Right in relation to such converting Bondholder minus (ii) the number of Shares that are actually delivered by the Company pursuant to such Bondholders' Conversion Notice and (y) the Share Price (as defined below) on the Conversion Date; provided that, if such Bondholder has received any payment under the Bonds pursuant to this Condition 10, the amount of such payment shall be deducted from the Default Cure Amount.

The "Share Price" means the closing price of the Shares as quoted by the Hong Kong Stock Exchange or, as the case may be, Alternative Stock Exchange on the Conversion Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Hong Kong Stock Exchange or other applicable securities exchange on which the Shares are listed for such day as furnished by a reputable and independent broker-dealer selected from time to time by the Trustee at the expense of the Company for such purpose.

11. Prescription

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of default interest or premium (if any)) from the relevant date (as defined in Condition 9) in respect thereof.

12. Enforcement

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

13. Meetings of Bondholders, Modification and Waiver

A. Meetings

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal, premium (including any Early Redemption Amount) or Equivalent Amount payable in respect of the Bonds or to change the method of calculation of the Early Redemption Amount or the rate of default interest, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Conversion Rights or the options specified in Condition 8(B), 8(D) or 8(E), or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66%, or at any adjourned such meeting not less than 33% in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether

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

B. Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 13(A) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Company to the Bondholders as soon as practicable thereafter.

C. Interests of Bondholders

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

In the event of the passing of an Extraordinary Resolution in accordance with Condition 13(A) or a modification, waiver or authorisation in accordance with Condition 13(B), the Company will procure that the Bondholders be notified in accordance with Condition 16.

14. Replacement of Certificates

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

15. Further Issues

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

The Company has granted to the Lead Manager an option which can be exercised, in whole or in part and on one or more occasions, at any time up to and including 15 December 2004, to subscribe for up to a further HK\$75,000,000 in aggregate principal amount of the Bonds.

16. Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Hong Kong or, if such publication shall not be practicable, in an English language newspaper of general circulation in Asia. Any such notice shall be deemed to have been given on the later of the date of such publication or, if published more than once, on the first date on which publication is made.

17. Agents

The names of the initial Agents and the Registrar and their specified offices are set out below. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Company will at all times maintain (a) a Principal Agent, (b) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Directive on the taxation of savings implementing the provisions of the ECOFIN Council Meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform, to such Directive, and (c) a Registrar which will maintain the register of Bondholders outside Hong Kong and the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Company to the Bondholders and in any event not less than 45 days' notice will be given.

18. Indemnification

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

The Trustee may rely without liability to Bondholders on any certificate prepared by the directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants pursuant to the Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the internationally recognised firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Issuer to procure such delivery under these Conditions; any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law and Submission to Jurisdiction

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds, the Company has in the Trust Deed irrevocably submitted to the non-exclusive jurisdiction of the courts of England and, in relation thereto, has appointed an agent for service of process in the City of London.

THE GLOBAL CERTIFICATE

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

General

The Global Certificate is evidence of entitlement only. Titles to the Bonds passes only on due registration in the register of Bondholders and only the duly registered holder is entitled to payments on Bonds in respect of which the Global Certificate is issued.

The Conditions are modified as follows in so far as they apply to the Bonds in respect of which the Global Certificate is issued.

The Registrar will not register the exchange of interests in the Global Certificate for individual definitive certificates for a period of 15 calendar days preceding the due date for any payment of principal and premium (if any) in respect of the Bonds.

Meetings

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each HK\$10,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bond by the Company following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Conversion

Subject to the requirements of Euroclear and Clearstream, (or any Alternative Clearing System), the Conversion Rights attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation which may be by facsimile transmission thereof to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

Payment

Payments of principal and premium (if any) in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Notices

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

Bondholder's Redemption

The Bondholder's redemption options in Conditions 8(D) and 8(E) may be exercised by the holder of the Global Certificate giving notice (which may be made by facsimile transmission) to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in those Conditions.

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except if either Euroclear or Clearstream (or any Alternative Clearing System on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amounts of their interest in the Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

The Global Certificate shall not be valid for any purpose until authenticated by or on behalf of the Registrar.

The Global Certificate is governed by, and shall be construed in accordance with, the English laws.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds (assuming the Optional Bonds are issued in full), estimated to be approximately HK\$534,000,000 after deducting expenses (including but not limited to underwriting commission to be charged by the Lead Manager), will be used for repayment of existing indebtedness, capital investments in the Group's core businesses in the PRC and general working capital purposes.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Group

As at 30 June 2004, the authorised share capital of the Company was HK\$300,000,000 divided into 3,000,000,000 ordinary shares of HK\$0.10 par value each and its issued share capital was approximately HK\$86,710,000 consisting of 867,100,000 ordinary shares of HK\$0.10 par value each.

The following table sets forth the unaudited consolidated capitalisation and indebtedness of the Group as at 30 June 2004 and as adjusted as at 30 June 2004 to give effect to the issue of the Bonds (assuming the Optional Bonds are issued in full):

	As at 30 June 2004	
	Actual	As Adjusted
	RMB'000	RMB'000
Bank and other borrowings — current portion	679,103	679,103
Bank and other borrowings — non-current portion	587,088	587,088
The Bonds to be issued.....	—	583,000
Total bank and other borrowings — non-current portion	587,088	1,170,088
Shareholders' funds		
Share capital ⁽²⁾	91,913	91,913
Reserves	1,637,367	1,637,367
Shareholders' funds.....	1,729,280	1,729,280
Total capitalisation⁽³⁾	2,316,368	2,899,368
Total bank and other borrowings — current portion and capitalisation	2,995,471	3,578,471

Notes:

- (1) HK\$ amounts are translated for convenience into RMB on the basis of RMB1.060 = HK\$1.00.
- (2) If all the Bonds (assuming the Optional Bonds are issued in full) were converted at the initial conversion price of HK\$5.4375 per Share, an additional 101,145,000 Shares would be issuable on conversion.
- (3) Total capitalisation represents the sum of bank and other borrowings — non-current portion and shareholders' funds.

Other than as disclosed above, there has been no material change in the capitalisation of the Group since 30 June 2004.

THE GROUP

Introduction

Xinao Gas Holdings Limited is a limited liability company incorporated in the Cayman Islands with shares listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2688). The Company is an investment holding company. It is primarily engaged in the piped gas distribution business in the PRC through operating subsidiaries and associated companies, most of which are in the form of joint ventures with local governments or state-owned enterprises.

The Group is one of the first privately-owned piped gas operators in the PRC. The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and the distribution of bottled LPG, in the PRC. The Group is also involved in the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.

The Group commenced operations in 1993 and has since then developed into one of the leading privately-owned gas operators in the PRC piped gas industry. As at the date of this Offering Circular, the Group had a total of 48 publicly disclosed piped gas projects. The Group operates the piped natural gas distribution infrastructures, on an exclusive basis, in cities located in Anhui Province, Beijing Municipality, Guangdong Province, Guangxi Autonomous Region, Hebei Province, Henan Province, Hunan Province, Inner Mongolia Autonomous Region, Jiangsu Province, Liaoning Province, Shandong Province and Zhejiang Province. The Group typically acquires from local governments or state-owned enterprises controlling interests in state-owned piped gas networks located in medium- to large-sized cities and urban areas. In addition, the Group constructs and maintains city piped gas networks in locations in which it has acquired exclusive rights to supply piped gas. The Group also constructs and operates piped gas networks in individual housing estates and other property developments.

The Group intends to grow organically by increasing the penetration rate and the number of connected customers for its existing projects and at the same time by continuing to acquire new projects, with a particular focus on medium- to large-sized cities in Zhejiang Province, the Southern region and the Northeast Provinces of Mainland China.

The Group charges connection fees from residential customers on a “per connection” basis and commercial and industrial customers on a “daily maximum capacity” basis for connection to its piped gas network.

As at 30 June 2004, the Company had an authorised share capital of HK\$300,000,000 consisting of 3,000,000,000 ordinary shares of HK\$0.10 each and an issued and fully paid share capital of approximately HK\$86,710,000 consisting of 867,100,000 ordinary shares of HK\$0.10 each.

Based on the closing price of the Shares on the Hong Kong Stock Exchange on 11 November 2004, the market capitalisation of the Company was approximately HK\$3.9 billion.

History and development

The Group was founded by Mr. Wang who has extensive experience and in-depth knowledge of the gas business in the PRC. Mr. Wang first invested in the gas business in 1985 when he began operating an LPG processing station in Bazhou, Hebei Province. Mr. Wang and Ms. Zhao formed Langfang Xinao Gas Company Limited (“Langfang Xinao”) in 1993 to invest

in the construction of gas pipeline infrastructure for the sale and distribution of piped natural gas in the Langfang Economic and Technical Development Zone, the first location in Hebei Province to have piped natural gas supply. In 1994, Langfang Xinao expanded its operations to supply piped natural gas to the Langfang city centre.

In 1998, the PRC government began to actively promote the use of natural gas as an environmentally friendly, economical and efficient source of fuel and encourage privately-owned enterprises to participate in gas projects. Taking advantage of such policy, Mr. Wang and Ms. Zhao began to actively explore investment opportunities in the neighbouring locations and subsequently acquired certain additional piped gas distribution projects.

The Company was incorporated in the Cayman Islands on 20 July 2000. Following completion of the reorganisation of the group of companies comprising the Group in March 2001, the Company became the holding company of the Group.

In 2001, the Group acquired interests in or established joint ventures to provide piped gas to various locations in Beijing Municipality, Liaoning Province, Shandong Province, Jiangsu Province and Anhui Province. On 10 May 2001, the Shares were listed on the Growth Enterprise Market (“GEM”) on the Hong Kong Stock Exchange.

In 2002, the Group secured 14 new piped gas distribution projects in Jiangsu, Anhui, Zhejiang, Shandong, Henan, Liaoning and Hebei. The Company also secured its first provincial capital project in Shijiazhuang, Hebei Province. On 3 June 2002, the listing of the Shares transferred to the Main Board of the Hong Kong Stock Exchange by way of introduction and the listing of the Shares on the GEM was simultaneously withdrawn.

In 2003, the Group secured 13 new projects in Hunan, Zhejiang, Jiangsu, Shandong, Anhui, Henan and Guangdong. The Company also secured its second provincial capital project in Changsha, Hunan Province.

Growth potential of the PRC downstream gas market

The expected growth in the PRC’s downstream gas market following the PRC’s continued economic development, urbanisation and improvement in living standards present significant opportunities for the Group. The opportunities are further strengthened by current low piped gas penetration rates and the PRC government’s stated intention to accelerate a transition to clean-burning fuels, both on environmental grounds and to tap domestic gas resources as a substitute for domestic coal and coal gas and imported oil.

In its push to accelerate the conversion to “clean” fuels, the PRC government in its five-year plan for 2001 to 2005 established a nationwide framework for piped natural gas. The framework comprises plans for five major pipelines that will connect the eastern, western, southern, northern and central parts of the country. One of the major pipeline construction projects is the “West to East Pipeline Project”, which is almost complete. The West to East Pipeline is expected to cover PRC’s most developed provinces and one municipality. The Group believes that upon its completion, the project will help give rise to a potentially substantial market of natural gas consumers in cities stretching from Xinjiang to Shanghai.

Strategy

The Group intends to focus on the development of its core business of distributing piped gas. The Group believes that it is well-positioned to leverage on its experience, established brand name, market position and solid track record, and relationships with local governments and major upstream gas suppliers to develop itself into a leading piped gas operator in the PRC. The Group intends to achieve its strategic objects by:

- Acquiring exclusive rights to additional piped gas markets. The Group intends to take advantage of the expected growth in the piped gas market by obtaining exclusive rights to supply piped gas in additional medium- to large-sized cities in the PRC. In particular, the Group intends to target cities that either currently have, or are expected to have, access to gas sources or long-distance pipelines such as the West to East Pipeline.
- Expanding in existing piped gas markets. The Group plans to continue its efforts to increase the penetration rates in its existing piped gas markets. In addition, the Group intends to expand its existing piped gas operations through (i) the conversion of commercial and industrial users, which the Group expects to contribute substantially to the demand for natural gas in the near future, to piped gas; (ii) the conversion of its existing coal gas or LPG pipeline networks into natural gas pipeline networks; and (iii) the substitution of natural gas for bottled LPG. Natural gas typically commands higher margins than coal gas and LPG. As part of its strategy to increase the penetration in its existing markets and diversify its revenue sources, the Group has recently launched its CNG vehicle refuelling station business to distribute natural gas for use by public transportation, including taxi and buses, in certain Operational Locations. The Group expects that the vehicle gas usage will constitute a significant portion of overall gas consumption in future.
- Developing strategic alliances with upstream gas suppliers to jointly explore potential markets. The Group has entered into a strategic co-operation Memorandum of Understanding with China Huayou (Group) Corporation, a wholly-owned subsidiary of China National Petroleum Corporation, pursuant to which they will jointly explore potential piped gas markets in the Northeastern region and areas surrounding the West to East Pipeline and the Zhong-Wu Pipeline. In addition, the Group has entered into another strategic co-operation agreement with CNOOC Nanhai Western Corporation (“CNOOC NW”), a wholly-owned subsidiary of China National Offshore Oil Corporation, to jointly explore potential investment opportunities in the Guangxi region on an exclusive basis. CNOOC NW will effectively guarantee the supply of natural gas to the Group’s Operational Locations in the Guangxi region.
- Enhancing R&D efforts. The Group plans to continue to enhance its research and development with a view to improving the existing piped gas technology in order to make the supply and usage of gas more convenient and safe, improve efficiencies, reduce costs and provide better service to customers.

Corporate structure

The Company is an investment holding company which conducts its piped gas business through its subsidiaries.

The following table sets forth certain information on the Company's associates, subsidiaries and jointly controlled entities which have been publicly disclosed as at the date of this Offering Circular:

1. Project companies

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Langfang Xinao Gas Company Limited	Langfang, Hebei	US\$9,333,900	100%	Xinao (China) Gas Investment Company Limited	70%	Investment in gas pipeline infrastructure and provision of piped gas
				Xinao Langfang Investment Limited	30%	
Xinao Gas Development Company Limited	Langfang, Hebei	US\$6,000,000	100%	Xinao (China) Gas Investment Company Limited	70%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and provision of piped gas
				Xinao Langfang Investment Limited	30%	
Liaocheng Xinao Gas Company Limited	Liaocheng, Shandong	RMB16,000,000	90%	Xinao Liaocheng Investment Limited	90%	Provision of piped gas
				Liaocheng City Heating Company	10%	
Liaocheng Xinao Gas Engineering Company Limited	Liaocheng, Shandong	US\$1,200,000	93%	Liaocheng Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Huangdao Investment Limited	30%	
Beijing Xinao Gas Company Limited	Miyun, Beijing Municipality	US\$1,195,600	95%	Xinao Miyun Investment Limited	95%	Investment in gas pipeline infrastructure and provision of piped gas
				Beijing City Miyun Chemicals Company	5%	
Huludao Xinao Gas Company Limited	Huludao, Liaoning	US\$1,207,700	90%	Xinao Huludao Investment Limited	90%	Provision of piped gas
				Huludao City Urban Construction Investment Company Limited	10%	

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Huludao Xinao Gas Development Company Limited	Huludao, Liaoning	US\$1,200,000	90%	Huludao Xinao Gas Company Limited Xinao Huangdao Investment Limited Huludao City Urban Construction Investment Company Limited	approx. 66.67% 30% approx. 3.33%	Investment in gas pipeline infrastructure
Beijing Xinao Jinggu Gas Company Limited	Pinggu, Beijing Municipality	RMB9,900,000	90%	Xinao Pinggu Investment Limited Beijing City Pinggu County Liquefied Petroleum Gas Corporation	90% 10%	Investment in gas pipeline infrastructure and provision of piped gas
Qingdao Xinao Gas Company Limited	Huangdao, Shandong	RMB20,000,000	90%	Xinao Huangdao Investment Limited Qingdao Economic & Technical Development Zone Heating, Electricity & Gas Corporation	90% 10%	Provision of piped gas
Qingdao Xinao Gas Establishment Exploiture Co., Ltd.	Huangdao, Shandong	US\$600,000	90%	Xinao Huangdao Investment Limited Qingdao Economic & Technical Development Zone Heating, Electricity & Gas Corporation	90% 10%	Investment in gas pipeline infrastructure
Beijing Xinao Jingchang Gas Company Limited	Changping, Beijing Municipality	RMB9,900,000	80%	Xinao Changping Investment Limited Beijing City Changping District Municipal Economic Development Corporation	80% 20%	Investment in gas pipeline infrastructure and provision of piped gas

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Zhucheng Xinao Gas Company Limited	Zhucheng, Shandong	US\$3,000,000	100%	Xinao Zhucheng Investment Limited Langfang Xinao Gas Company Limited	80% 20%	Provision of piped gas and bottled liquefied petroleum gas
Zhucheng Xinao Pipeline Engineering Company Limited	Zhucheng, Shandong	US\$800,000	100%	Zhucheng Xinao Gas Company Limited Xinao Langfang Investment Limited	70% 30%	Investment in gas pipeline infrastructure
Qingdao Xinao Xincheng Gas Company Limited	Chengyang, Shandong	US\$1,610,000	90%	Xinao Chengyang Investment Limited Qingdao City Chengyang District Construction Project Supervisory Office	90% 10%	Provision of piped gas
Qingdao Xinao Xincheng Gas Engineering Company Limited	Chengyang, Shandong	US\$800,000	93%	Qingdao Xinao Xincheng Gas Company Limited Xinao Huangdao Investment Limited	70% 30%	Investment in gas pipeline infrastructure
Yantai Xinao Gas Company Limited	Yantai, Shandong	US\$2,100,000	100%	Xinao Yantai Investment Limited	100%	Investment in gas pipeline infrastructure and provision of piped gas
Yangzhou Xinao Gas Company Limited	Gaoyou, Jiangsu	US\$1,300,000	100%	Xinao Jiangsu Investment Limited	100%	Provision of piped gas
Yangzhou Xinao Gas Engineering Company Limited	Gaoyou, Jiangsu	US\$800,000	100%	Yangzhou Xinao Gas Company Limited Xinao Southeast China Investment Limited	70% 30%	Investment in gas pipeline infrastructure
Bengbu Xinao Gas Company Limited	Bengbu, Anhui	RMB110,000,000	70%	Xinao Southeast China Investment Limited Bengbu City Urban Construction Investment & Operation Company Limited	70% 30%	Investment in gas pipeline infrastructure

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Bengbu Xinao Gas Development Company Limited	Bengbu, Anhui	US\$600,000	70%	Xinao Southeast China Investment Limited	70%	Provision of piped gas and bottled liquefied petroleum gas
				Bengbu City Urban Investment Development Company Limited	30%	
Zouping Xinao Gas Company Limited	Zouping, Shandong	US\$1,200,000	100%	Xinao Shandong Investment Limited	100%	Provision of piped gas
Binzhou Xinao Gas Engineering Company Limited	Zouping, Shandong	US\$600,000	100%	Zouping Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Southeast China Investment Limited	30%	
Taixing Xinao Gas Company Limited	Taixing, Jiangsu	US\$1,200,000	90%	Xinao Jiangsu Investment Limited	90%	Provision of piped gas
				Taixing City Piped Liquefied Petroleum Gas Company	10%	
Taixing Xinao Gas Engineering Company Limited	Taixing, Jiangsu	US\$800,000	90%	Taixing Xinao Gas Company Limited	approx. 66.67%	Investment in gas pipeline infrastructure
				Xinao Southeast China Investment Limited	30%	
				Taixing City Piped Liquefied Petroleum Gas Company	approx. 3.33%	
Laiyang Xinao Gas Company Limited	Laiyang, Shandong	US\$5,000,000	95%	Xinao Shandong Investment Limited	95%	Provision of piped gas
				Laiyang City Coal Gas Company	5%	
Laiyang Xinao Gas Project Company Limited	Laiyang, Shandong	US\$800,000	97%	Laiyang Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Huangdao Investment Limited	30%	
Yancheng Xinao Gas Company Limited	Yancheng, Jiangsu	RMB50,000,000	70%	Xinao Jiangsu Investment Limited	70%	Investment in gas pipeline infrastructure
				Yancheng City Natural Gas Development and Usage Company Limited	30%	

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Yancheng Xinao Gas Development Company Limited	Yancheng, Jiangsu	US\$600,000	79%	Yancheng Xinao Gas Company Limited	70%	Provision of piped gas
				Xinao Henan Investment Limited	30%	
Huaian Xinao Gas Company Limited	Huaian, Jiangsu	RMB30,000,000	80%	Xinao Jiangsu Investment Limited	80%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
				Huaian City Gas Corporation	20%	
Haian Xinao Gas Company Limited	Haian, Jiangsu	US\$1,200,000	100%	Xinao Jiangsu Investment Limited	100%	Provision of piped gas
Nantong Xinao Gas Technology Company Limited	Haian, Jiangsu	US\$800,000	100%	Haian Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Henan Investment Limited	30%	
Chuzhou Xinao Gas Company Limited	Chuzhou, Anhui	RMB58,710,000	90%	Xinao Anhui Investment Limited	90%	Provision of piped gas
				Chuzhou City Urban Infrastructure Development & Construction Company Limited	10%	
Chuzhou Xinao Gas Engineering Company Limited	Chuzhou, Anhui	US\$600,000	93%	Chuzhou Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Huangdao Investment Limited	30%	
Luan Xinao Gas Company Limited	Luan, Anhui	RMB20,000,000	100%	Xinao Anhui Investment Limited	100%	Provision of piped gas
Luan Xinao Gas Project Company Limited	Luan, Anhui	US\$800,000	100%	Luan Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Henan Investment Limited	30%	
Rizhao Xinao Gas Company Limited	Rizhao, Shandong	US\$5,600,000	80%	Xinao Shandong Investment Limited	80%	Provision of piped gas
				Rizhao City Coal Gas Company	20%	
Rizhao Xinao Gas Engineering Company Limited	Rizhao, Shandong	US\$1,210,000	86%	Rizhao Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Henan Investment Limited	30%	

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Xinxiang Xinao Gas Company Limited	Xinxiang, Henan	US\$10,000,000	95%	Xinao Henan Investment Limited	95%	Provision of piped gas and bottled liquefied petroleum gas
				Xinxiang City Gas Corporation	5%	
Xinxiang Xinao Gas Engineering Company Limited	Xinxiang, Henan	US\$1,200,000	97%	Xinxiang Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Chengyang Investment Limited	30%	
Xinghua Xinao Gas Company Limited	Xinghua, Jiangsu	US\$1,200,000	100%	Xinao Jiangsu Investment Limited	100%	Provision of piped gas
Xinghua Xinao Gas Engineering Company Limited	Xinghua, Jiangsu	US\$600,000	100%	Xinghua Xinao Gas Company Limited	70%	Investment in gas pipeline infrastructure
				Xinao Henan Investment Limited	30%	
Bozhou Xinao Gas Company Limited	Bozhou, Anhui	US\$3,200,000	70%	Xinao Anhui Investment Limited	70%	Provision of piped gas
				Bozhou Urban Construction Investment Company Limited	30%	
Bozhou Xinao Gas Engineering Company Limited	Bozhou, Anhui	US\$800,000	70%	Xinao Anhui Investment Limited	70%	Investment in gas pipeline infrastructure
				Bozhou Urban Construction Investment Company Limited	30%	
Haining Xinao Gas Company Limited	Haining, Zhejiang	US\$5,000,000	80%	Xinao Zhejiang Investment Limited	80%	Investment in gas pipeline infrastructure and provision of piped gas
				Haining City Wantong Gas Company Limited	15%	
				Haining City Mintai Coal Gas Company Limited	5%	
Quzhou Xinao Gas Company Limited	Quzhou, Zhejiang	RMB50,000,000	90%	Xinao Zhejiang Investment Limited	90%	Investment in gas pipeline infrastructure
				Quzhou City Urban Construction Investment Company Limited	10%	

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Quzhou Xinao Gas Development Company Limited	Quzhou, Zhejiang	US\$600,000	90%	Xinao Chengyang Investment Limited	90%	Provision of piped gas
				Quzhou City Urban Construction Investment Company Limited	10%	
Shijiazhuang Xinao Gas Company Limited	Shijiazhuang, Hebei	RMB130,000,000	70%	Xinao Gas China Investment Limited	70%	Investment in gas pipeline infrastructure and provision of piped gas
				Shijiazhuang Gas Group Company Limited	30%	
Chaohu Xinao Gas Company Limited	Chaohu, Anhui	US\$5,784,000	100%	Xinao Anhui Investment Limited	100%	Investment in gas pipeline infrastructure
Chaohu Xinao Gas Development Company Limited	Chaohu, Anhui	US\$420,000	100%	Xinao Anhui Investment Limited	100%	Provision of piped gas
Lanxi Xinao Gas Company Limited	Lanxi, Zhejiang	US\$1,500,000	80%	Xinao Zhejiang Investment Limited	80%	Investment in gas pipeline infrastructure and provision of piped gas
				Lanxi Dongsheng Energy Company Limited	20%	
Changzhou Xinao Gas Company Limited	Wujin, Jiangsu	US\$5,000,000	60%	Xinao Jiangsu Investment Limited	60%	Investment in gas pipeline infrastructure and provision of piped gas
				Changzhou City Wujin Gas Corporation	40%	
Jinhua Xinao Gas Company Limited	Jinhua, Zhejiang	US\$5,000,000	100%	Xinao Liaocheng Investment Limited	100%	Investment in gas pipeline infrastructure
Jinhua Xinao Gas Development Company Limited	Jinhua, Zhejiang	US\$600,000	100%	Xinao Liaocheng Investment Limited	100%	Provision of piped gas
Wenzhou Xinao Gas Company Limited	Wenzhou, Zhejiang	US\$3,100,000	100%	Xinao Huludao Investment Limited	100%	Investment in gas pipeline infrastructure and provision of piped gas
Xiangtan Xinao Gas Company Limited	Xiangtan, Hunan	RMB100,000,000	85%	Xinao Hunan Investment Limited	85%	Investment in gas pipeline infrastructure and provision of piped gas
				Xiangtan City Coal Gas Company	15%	

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Dongguan Xinao Gas Company Limited	Dongguan, Guangdong	US\$18,000,000	49%	Dongguan City Xinfeng Piped Gas Company Limited Xinao Langfang Investment Limited	51% 49%	Investment in gas pipeline infrastructure and provision of piped gas
Lianyungang Xinao Gas Company Limited	Lianyungang, Jiangsu	RMB49,512,100	70%	Xinao Jiangsu Investment Limited Lianyungang City Urban Construction Investment Company Limited	70% 30%	Provision of piped gas
Lianyungang Xinao Gas Development Company Limited	Lianyungang, Jiangsu	RMB10,000,000	70%	Xinao Jiangsu Investment Limited Lianyungang City Urban Construction Investment Company Limited	70% 30%	Investment in gas pipeline infrastructure
Changsha Xinao Gas Company Limited	Changsha, Hunan	RMB150,000,000	55%	Xinao Gas China Investment Limited Changsha City Gas Corporation	55% 45%	Investment in gas pipeline infrastructure and provision of piped gas
Kaifeng Xinao Gas Company Limited	Kaifeng, Henan	US\$10,000,000	90%	Xinao Henan Investment Limited Kaifeng City Development Investment Company Limited	90% 10%	Investment in gas pipeline infrastructure and provision of piped gas
Qingdao Xinao Jiaocheng Gas Company Limited	Jiaozhou, Shandong	US\$5,000,000	90%	Xinao Shandong Investment Limited Xinao (China) Gas Investment Company Limited Jiaozhou City Xinyuan Urban Construction Development Company Limited	51% 39% 10%	Investment in gas pipeline infrastructure and provision of piped gas

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Zhuzhou Xinao Gas Company Limited	Zhuzhou, Hunan	RMB135,000,000	55%	Xinao Hunan Investment Limited	55%	Investment in gas pipeline infrastructure and provision of piped gas
				Zhuzhou City Urban Construction Investment & Operation Company Limited	45%	
Qingdao Xinao Jiaonan Gas Company Limited	Jiaonan, Shandong	US\$2,000,000	100%	Xinao Shandong Investment Limited	100%	Provision of piped gas
Qingdao Xinao Jiaonan Gas Engineering Company Limited	Jiaonan, Shandong	US\$1,000,000	100%	Xinao Shandong Investment Limited	100%	Investment in gas pipeline infrastructure
Tongliao Xinao Gas Company Limited	Tongliao, Inner Mongolia	US\$3,000,000	80%	Xinao Huludao Investment Limited	80%	Investment in gas pipeline infrastructure and provision of piped gas
				Tongliao City Rixin Natural Gas Company Limited	20%	
Guilin Xinao Gas Company Limited	Guilin, Guangxi	US\$6,000,000	60%	Xinao (China) Gas Investment Company Limited	60%	Investment in gas pipeline infrastructure and provision of piped gas
				Guilin Travel Company Limited	40%	
Huzhou Xinao Gas Company Limited	Huzhou Zhejiang	US\$9,100,000	50%	Xinao Zhejiang Investment Limited	50%	Investment in gas pipeline infrastructure and provision of piped gas
				Huzhou City Urban Construction Development Corporation	50%	
Zhanjiang Xinao Gas Company Limited	Zhanjiang, Guangdong	RMB85,000,000	60%	Xinao (China) Gas Investment Company Limited	60%	Investment in gas pipeline infrastructure and provision of piped gas
				Zhanjiang City Gas Group Company	40%	

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Dongguan Xinao Guanzhang Gas Company Limited	Zhangmutou, Guangdong	RMB25,000,000	47%	Dongguan Xinao Gas Company Limited Dongguan City Zhangmutou Town Urban Development Corporation Xinao (China) Gas Investment Company Limited	45% 30% 25%	Investment in gas pipeline infrastructure and provision of piped gas
Luquan Fuxin Gas Company Limited	Luquan, Hebei	US\$1,610,000	49%	Xinao (China) Gas Investment Company Limited Fortune Gas (Hebei) Limited	49% 51%	Investment in gas pipeline infrastructure and provision of piped gas
Wenzhou Longwan Xinao Gas Company Limited	Longwan, Zhejiang	US\$6,000,000	100%	Xinao Zhejiang Investment Limited	100%	Investment in gas pipeline infrastructure and provision of piped gas
Shangqiu Xinao Gas Company Limited	Shangqiu, Henan	US\$7,000,000	100%	Xinao (China) Gas Investment Company Limited	100%	Provision of piped gas
Shangqiu Xinao Gas Engineering Gas Company Limited	Shangqiu, Henan	US\$3,000,000	100%	Xinao (China) Gas Investment Company Limited	100%	Investment in gas pipeline infrastructure

2. Other companies

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Langfang Xinao Gas Equipment Company Limited	Langfang, Hebei	US\$360,000	100%	Xinao (China) Gas Investment Company Limited Xinao Langfang Investment Limited	70% 30%	Manufacture of stored value card gas meter

Company Name	Operating Location	Registered Capital	Ownership interest attributable to the Company	Shareholders	% of interest held by each shareholder	Principal activities
Hunan Yintong Technology Company Limited	Changsha, Hunan	RMB9,800,390	51%	Langfang Xinao Gas Equipment Company Limited	approx 26%	Research and development, production and sale of IC card metre and software system
				Xinao Langfang Investment Limited	approx 25%	
				Chen Dongru	approx 20.09%	
				Hunan Province Guokai Economic & Technical Development Company Limited	approx 10.65%	
				Other 35 natural persons and entities	approx 18.26%	
Yancheng Xinao Compressed Natural Gas Company Limited	Yancheng, Jiangsu	RMB5,000,000	50%	Xinao Zhejiang Investment Limited	50%	Production, delivery and sale of compressed natural gas
				Yancheng City Natural Gas Development and Usage Company Limited	50%	
Xinao (China) Gas Investment Company Limited	Beijing	US\$30,000,000	100%	Xinao Gas Holdings Limited	100%	Investment holding
Beihai Xinao Gas Company Limited	Beihai, Guangxi	RMB58,000,000	62%	Xinao Gas China Investment Limited	25%	Production and sales of LNG & CNG; design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances
				Dongguan Xinao Gas Company Limited	75%	
Xinao Gas Investment Group Limited	Hong Kong	US\$1,000	100%	Xinao Gas Holdings Limited	100%	Investment holding

All of the above subsidiaries, except for Xinao Gas Investment Group Limited, are indirectly held by the Company.

THE BUSINESS

The gas delivery process

The natural gas delivery process can be broadly categorised into three segments: production, transmission and distribution.

Production involves underground exploration, drilling, extraction and purification of natural gas. After extraction from a gas well, natural gas is transmitted to nearby refineries for removal of water content and impurities. The natural gas is then transported from the refineries via the long distance pipelines under super high pressure so that natural gas may be supplied to a large number of locations near such pipelines at high speed. The long distance pipelines are owned and operated by PRC oil and gas exploration and production companies or pipeline operators.

Distribution companies (such as the Group) distribute natural gas to end users and often own the gas pipeline infrastructure of an Operational Location (including the intermediate pipelines, the processing stations, the main pipelines and the branch pipelines). A distribution company purchases natural gas from oil and gas exploration and production companies. The distribution company determines the method of delivering natural gas to its desired destination after taking into account factors such as the distance between the collection and delivery points and the expected demand for gas from the relevant gas supply locations.

The collection of CNG and LNG involves the delivery of CNG or LNG by CNG or LNG trucks to a processing station from gas wells or stations located along the relevant long distance pipeline. If an intermediate pipeline is constructed, the intermediate pipeline transports the natural gas under high pressure to a processing station. Such processing station may contain CNG or LNG pressure regulating facilities which will depressurise the CNG or LNG to natural gas under medium pressure and/or natural gas pressure regulating facilities to reduce the pressure of natural gas from high pressure to medium pressure, before transmitting the natural gas to a main pipeline.

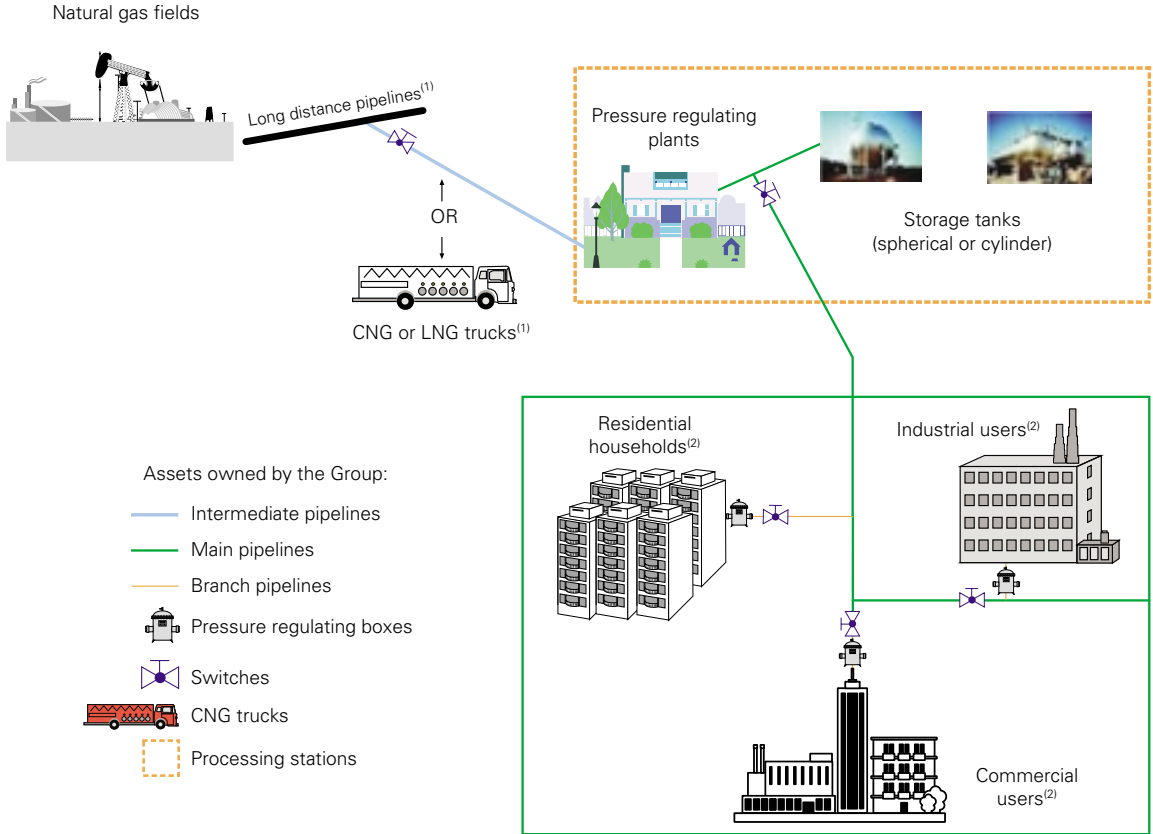
LPG, which is sometimes used as a backup gas supply, is purchased primarily from refineries. Processing stations may also contain LPG air mixing facilities to enable air to be mixed with LPG in the required portion to produce petroleum gas with heat content equivalent to natural gas, which can then be transmitted through the main pipelines. LPG is purchased from refineries and transported to the LPG air mixing facilities located within the processing stations by LPG trucks.

The processing station is usually located on the outskirts of an Operational Location for safety reasons and it provides certain ancillary facilities (i) to add bromine to the gas to enable the detection of leakages when the gas is transmitted through the main pipelines, and (ii) to store gas under high, medium or low pressure to be used as reserves for future unexpected fluctuation in demand. Gas storage tanks for storage of gas under high pressure usually have thicker walls and hence are more expensive to construct than gas storage tanks for storage of gas under medium or low pressure.

After processing, the gas is transmitted under medium pressure to the main pipelines. Main pipelines are laid within an Operational Location and represent the backbone of the gas delivery system. Different sections of the main pipelines operate at slightly different pressures, with computer controlled regulators controlling the flow of natural gas for delivery to end users via the branch pipelines and customers' pipelines.

When there is a demand for a connection of gas to a particular area within a gas supply location, the distribution company will invest in the construction of the branch pipelines to connect the main pipelines to the pressure regulating boxes located in the end-users' buildings or premises. The pressure regulating box reduces the natural gas to a lower pressure before the natural gas is transmitted to the customers' pipelines. Customers' pipelines, which constructions are supervised by the distribution company (on behalf of the customers) and located within the end users' premises, transmit the natural gas through the pressure regulating box to the end users. The customers' pipelines are not owned by the distribution company.

The gas delivery process can be illustrated in the diagram set out below:



Notes:

- (1) Gas delivery using either intermediate pipelines or CNG or LNG trucks.
- (2) Customers' pipelines which are not owned by the Group are within the customers' premises and are not highlighted in this diagram.

Piped gas business

The gas pipeline infrastructure owned and operated by the Group is comprised of intermediate pipelines, processing stations, main pipelines, branch pipelines and other ancillary facilities such as gas storage tanks and pressure regulating boxes. The customers' pipelines are owned by the customers. The Group's business activities, from the identification of a project to the supply of gas to end users, can be described as follows:

Identification and securing new Operational Locations

Preliminary review and feasibility studies

The selection of new Operational Locations is arrived at after conducting preliminary evaluation and extensive feasibility studies on the target locations, and after assessing the project's return on investment to the Group.

Some of the factors the Group considers include:

- (i) size and concentration of population;
- (ii) extent and concentration of industrial and commercial activities;
- (iii) likely level of connection fees and gas usage charges;
- (iv) extent of the local government's commitment to environmental protection, environmental policies in place, and the local population's awareness of environmental issues;
- (v) whether exclusive operational rights and preferential treatment on tax and governmental fees will be obtained;
- (vi) types of gas supply (piped natural gas, CNG or LNG) and methods of delivery (whether by way of intermediate pipeline (if the gas source or long distance pipeline is located within 50 km), by CNG trucks (if the gas source or long distance pipeline is located within 200 km) or by LNG trucks (if the gas source or long distance pipeline is located within 600 km));
- (vii) economic statistics of the relevant locations; and
- (viii) in the case of acquisition of existing gas projects, the cost of acquisition, quality of assets and/or business to be acquired, extent of liabilities of the business and whether the Group is able to resolve problems perceived or encountered in respect of the relevant existing gas projects.

Based on the findings of the feasibility studies which cover the above-mentioned factors, the business development team will decide whether to make a recommendation to the management for approval to proceed with discussions and negotiations on a new project. The Group conducted preliminary reviews on over 50 cities in 2003 out of which the Group has secured exclusive rights or rights of first refusal to supply gas to 13 Operational Locations.

Securing a new Operational Location

Once management has approved a potential project, the Group will prepare and submit a detailed gas project proposal to the local government and commence negotiations on major issues such as the granting of exclusive rights or rights of first refusal to supply gas to that location, proposed connection fees and gas usage charges and whether any tax and other concessions or favourable policies would be granted by the local government. The Group may

also commence negotiations with a potential local joint venture partner who is familiar with the local environment. In instances where the Group takes over an existing gas project (whether acquiring assets or a business), the Group will commence negotiations with the owner(s) of the gas project.

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

Investment in the construction of the gas pipeline infrastructure

Design stage

The design of the gas pipeline infrastructure for a gas project (which includes the intermediate pipelines, the processing stations, the main pipelines and other ancillary facilities such as gas storage tanks) is carried out by a government approved design institute in accordance with the requirements of the Group and takes into account the local population size, the development of the economy, the utilisation of energy resources and environmental conditions. At present, the Group has appointed China Urban Engineering Huabei Design and Research Institute and other institutes to design the Group's gas pipeline infrastructure. The design takes into consideration the technical requirements of the Group, the needs of the local population and the environmental conditions of the area covered by the design. The master design is subject to approval by experts appointed by the local city construction department. The design stage normally takes two to three months.

Construction stage

The Group generally enters into turnkey contracts with independent contractors for construction, installation and maintenance of gas pipes. The Group generally provides a down payment with the remainder to be paid upon completion of a project. In the case of delay or failure on the part of the contractor to complete the project, the Group is entitled to damages or, in some instances, rescission of the contract. At the time of entering into turnkey contracts, the Group will commence the sourcing of raw materials such as pipes, gas regulating equipment and machinery.

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

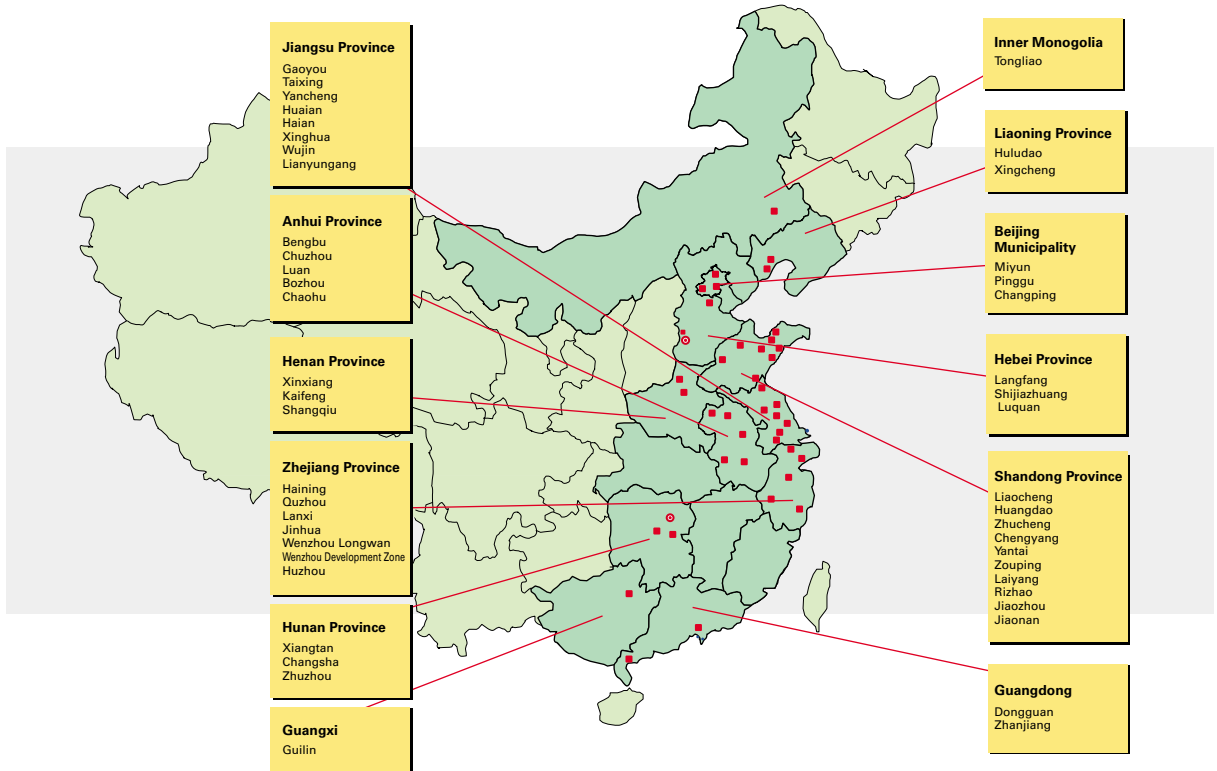
Although the gas pipeline infrastructure is designed to cover the entire Operational Location, the Group's construction programme generally focuses on early gas delivery to areas of concentrated customer demand within an Operational Location, so that gas supply can commence as soon as the essential gas pipeline infrastructure and facilities (such as the processing stations and the intermediate pipelines) are completed. Construction work in an initial target area will gradually extend to cover the whole Operational Location, which typically takes two to five years.

Connection to end users

Once the Group enters into a gas supply contract with a customer, the Group begins the design and construction of the branch pipelines and customers' pipelines. Unless complex designs are involved, the designs of branch pipelines and customers' pipelines are normally prepared by the Group, reviewed by a government approved design institute, and carried out by external contractors.

Areas of operations

The map below shows the locations in which the Group has interests in the provision of piped gas:



The projects

The Group has obtained either exclusive rights or rights of first refusal from local governments to supply piped gas to all of the existing Operational Locations. As at the date of this Offering Circular, the Group had 48 publicly disclosed Operational Locations (each had an operational period of 20-50 years) in the PRC.

Operational data as at 31 December 2003

The following table sets out certain operational data of the gas distribution projects of the Group:

	Operational location ⁽¹⁾	Year of first establishment	Length of existing pipelines (km) ⁽²⁾	Number of existing processing stations	Combined designed daily capacity of existing processing stations	Contracted number of gas supply to households ⁽³⁾
1	Langfang	1993	233	4	410,000	75,730
2	Liaocheng	1999	129	1	50,000	41,765
3	Miyun	1999	52	2	132,000	16,656
4	Huludao	1999	115	1	30,000	51,863
5	Xingcheng ⁽⁶⁾	2002	—	—	—	—
6	Pinggu	2000	57	1	72,000	14,002
7	Huangdao	2000	107	1	72,000	27,929
8	Changping	2000	65	1	72,000	21,291
9	Zhucheng	2001	37	1	30,000	10,614
10	Chengyang	2001	86	2	350,000	23,664
11	Yantai	2001	1	1	30,000	—
12	Gaoyou	2001	22	1	72,000	3,376
13	Bengbu	2001	54	1	96,000	25,972
14	Zouping	2002	27	1	72,000	5,725
15	Taixing	2002	18	1	96,000	5,736
16	Laiyang	2002	36	1	72,000	9,167
17	Yancheng	2002	31	1	30,000	12,373
18	Huaian	2002	99	1	70,000	23,137
19	Haian	2002	16	1	72,000	4,581
20	Chuzhou	2002	122	2	417,000	18,135
21	Luan	2002	18	1	72,000	11,962
22	Rizhao	2002	35	1	300,000	10,616
23	Xinxiang	2002	210	1	500,000	29,943
24	Xinghua	2002	13	1	50,000	2,730
25	Bozhou	2002	19	1	46,000	6,000
26	Haining	2002	7	—	—	3,629
27	Quzhou	2002	18	1	144,000	6,539
28	Shijiazhuang	2002	71	1	602,000	18,787
29	Chaohu	2003	10	1	220,000	6,776
30	Lanxi	2003	—	—	—	200
31	Wujin	2003	94	1	430,000	6,123
32	Jinhua	2003	—	—	—	3,412
33	Wenzhou	2003	—	—	—	—
34	Xiangtan	2003	—	—	—	5,025
35	Dongguan	2003	—	—	—	—
36	Lianyungang	2003	—	—	—	2,252
37	Changsha	2003	—	—	—	16,391
38	Kaifeng	2003	156	1	100,000	2,438
39	Jiaozhou	2003	—	—	—	2,045
40	Zhuzhou	2003	—	—	—	—
41	Jiaonan	2003	—	—	—	—
	Total		1,958	35	4,709,000	526,584

Notes:

- (1) During the year ended 31 December 2003, each project company was split into two companies to separate the pipeline construction business and gas distribution business. The combined data of the two companies in each operational location is shown in this table.
- (2) Existing pipelines consist of intermediate pipelines and main pipelines.
- (3) The difference between contracted number of gas supply and number of gas connections made represents connections to be made.
- (4) Estimated daily gas consumption for households is calculated based on estimated average daily gas consumption of 0.4 m³ per connected and acquired residential household.
- (5) It is estimated that connected and acquired commercial/industrial customers have a daily consumption of about 50% of the installed designed daily capacity of the gas appliances (as set out in the respective supply contracts).
- (6) The project in Xingcheng is operated by Huludao Xinao as a branch company. The operational data is included in Huludao.

Contracted number of gas supply to commercial/ industrial customers	Number of gas connections made to households⁽³⁾	Number of gas connections made to commercial/ industrial customers	Number of acquired households	Number of acquired commercial/ industrial customers	Estimated daily gas consumption for households	Installed designed daily capacity for commercial/ industrial customers
(site)⁽³⁾		(site)⁽³⁾			(m³)⁽⁴⁾	(m³)⁽⁵⁾
339	71,365	328	—	—	28,546	214,279
85	30,864	64	—	—	12,346	36,287
63	11,005	53	—	—	4,402	80,483
102	43,224	96	—	—	17,290	50,183
—	—	—	—	—	—	—
38	7,901	31	—	—	3,160	11,104
35	22,194	30	—	—	8,878	18,225
43	16,333	34	—	—	6,533	9,312
9	6,323	4	—	—	2,529	1,562
19	13,106	17	—	—	5,242	7,865
2	—	2	—	—	—	12,000
8	2,160	8	—	—	864	730
10	19,075	6	—	—	7,630	14,790
12	3,976	8	—	—	1,590	2,926
4	4,037	4	—	—	1,615	3,416
3	7,700	3	—	—	3,080	2,650
7	8,579	7	—	—	3,432	18,085
10	16,824	9	—	—	6,730	3,039
5	1,611	4	—	—	644	1,131
6	13,529	6	—	—	5,412	2,581
3	6,838	2	—	—	2,735	86
10	8,055	9	—	—	3,222	3,113
35	26,926	19	—	—	10,770	2,843
1	971	1	—	—	388	500
1	1,074	1	—	—	430	2,884
2	2,640	1	—	—	1,056	265
1	5,040	1	—	—	2,016	288
10	12,228	4	894	1	5,249	80,707
—	2,554	—	—	—	1,022	—
—	—	—	—	—	—	—
12	3,530	10	—	—	1,412	6,932
4	2,591	3	—	—	1,036	62
—	—	—	—	—	—	—
3	1,190	—	—	—	476	—
—	—	—	—	—	—	—
1	2,196	—	—	—	878	—
10	3,902	5	—	—	1,561	15,255
15	1,742	12	79,722	188	32,586	19,670
1	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
909	381,283	782	80,616	189	184,760	623,253

New Projects

In the six months ended 30 June 2004, the Group further expanded into Guilin City, Guangxi Province and Tongliao City, Inner Mongolia and completed market research on certain potential Operational Locations in Northeast China, Northern China and the Southwest Regions. The Group also secured gas projects in Shangqiu City, Henan Province, Huzhou City and Longwan District in Wenzhou City, Zhejiang Province and Luquan City, Hebei Province. The total number of operational locations of the Group increased to 48 and the connectable urban population coverage reached 22.4 million.

In the six months ended 30 June 2004, the Group constructed 732 kilometres of additional intermediate and main pipelines. In total, the Group's network comprised 2,690 kilometres of existing pipelines and 46 natural gas processing stations as of 30 June 2004. During the period, the Group connected 104,142 new residential households and 304 commercial/industrial customers (with a total designed daily capacity of 187,405 m³). As at 30 June 2004, the Group had a total customer base of 566,041 residential households and 1,275 commercial/industrial customers (with a total designed daily capacity of 810,658 m³). The piped natural gas penetration rate for residential households was 8.3%.

Sales and marketing

The Group's head office is responsible for structuring the Group's overall sales and marketing strategies. The individual sales and marketing team of each Project Company works together with the head office team to structure an appropriate plan with reference to a specific Operational Location's situation and needs. The sales and marketing team is responsible for company imaging and brand building as well as promoting the advantages and concept of using natural gas as a necessary part of modern day life. Shortly after a Project Company is established, the Group will implement a series of promotional campaigns (which may include joint promotional campaigns with the local government) to increase public awareness of piped gas in an Operational Location. At around the same period, the Group will also commence active marketing negotiations on the terms of supply contracts with target customers with the aim of entering into supply contracts with potential customers as soon as possible. The Group's customers can be classified into two broad categories, namely (i) residential customers and (ii) commercial and industrial customers. Different marketing strategies are adopted for different customer groups.

Residential customers

Gas is primarily used by residential owners for cooking and water and space heating. The Group focuses on marketing to property developers, government departments and organisations and state-owned enterprises as these entities enter into master supply contracts with the Group for the connection of gas to all the units within a residential development (new or existing, owned by such entities or their respective employees). These entities are responsible for, or coordinate, the advance payment of connection fees to the Group, while gas usage charges are paid by the individual users.

In respect of new residential developments, connection fees are collected in advance by instalment based on the percentage-of-completion of the pipeline construction work. The Group generally provides property developers with a 60-90 days credit period after construction is completed irrespective of whether the units are sold or occupied. The actual supply of gas will, however, only commence after the unit is occupied.

The Group also markets to owners' committees of existing buildings without piped gas supply. Representatives of the owners' committees will consult individual households as to whether they wish to have piped gas supply and coordinate the collection of connection fees from the users on the Group's behalf. Both connection fees and gas usage charges are payable in advance by the individual users.

Commercial and industrial customers

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

Although the existing number of commercial and industrial customers is less than the number of residential customers, these customers are equally important to the Group as they are high volume gas users. The Directors are confident that with adequate sales and marketing efforts, the number of commercial and industrial customers will gradually increase in the future.

Pricing

Connection fees are determined after an analysis of factors such as estimated capital expenditure, number of users, growth in penetration rates, income levels and affordability of local residents. The Group arrives at the gas usage charges after taking into consideration the wholesale price of gas, operating costs, the price of substitute products and the purchasing power of local residents. Connection fees and gas usage fees are subject to the approval of the local state price bureau. Future price increases are also subject to the same approval process. In considering applications for an increase in gas usage charges, the local state price bureau may consider factors such as increases in the wholesale price of gas or operating expenses, inflation, additional capital expenditure, and whether the profit margin remains fair and reasonable.

Sales

For the years ended 31 December 2001, 2002 and 2003 and the six months ended 30 June 2004, connection fees accounted for approximately 76.8%, 60.8%, 58.8% and 54.1% of the Group's total turnover, respectively. Sales of piped gas accounted for approximately 21.0%, 13.5%, 21.2% and 33.2% of the Group's total turnover for the years ended 31 December 2001, 2002 and 2003 and the six months ended 30 June 2004, respectively. Distributions of bottled LPG accounted for approximately 0.0%, 24.0%, 18.4% and 11.1% of the Group's total turnover for the three years ended 31 December 2003, and the six months ended 30 June 2004, respectively.

The following tables set forth for the periods indicated, the contribution to turnover and profit from operations of the Group, from its principal business activities.

	Year ended 31 December			Six months ended 30 June	
	2003	2002	2001	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover					
Gas connection fees	516,468	330,915	184,796	317,452	190,807
Sales of piped gas	185,720	73,588	50,594	194,788	69,072
Distributions of bottled liquefied petroleum gas	161,402	130,445	—	65,082	71,373
Sales of gas appliances	14,465	9,544	5,170	9,796	3,300
	<u>878,055</u>	<u>544,492</u>	<u>240,560</u>	<u>587,118</u>	<u>334,552</u>
	Year ended 31 December			Six months ended 30 June	
	2003	2002	2001	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit from operations					
Gas connection fees	375,478	243,752	128,076	212,100	135,502
Sales of piped gas	28,085	26,578	22,199	50,556	19,657
Distributions of bottled liquefied petroleum gas	369	(1,874)	—	215	3,791
Sales of gas appliances	734	1,476	460	1,379	694
Unallocated other operating income..	21,111	16,969	13,334	14,002	6,887
Unallocated expenses:					
— depreciation and amortisation (<i>Note</i>)	(20,962)	(14,823)	(7,604)	(26,071)	(21,117)
— corporate expenses	(172,186)	(93,817)	(46,549)	(111,032)	(60,429)
	<u>232,629</u>	<u>178,261</u>	<u>109,916</u>	<u>141,149</u>	<u>84,985</u>

Note: The amount represents principally depreciation and amortisation of property, plant and equipment relating to the gas connection, piped gas and LPG operation.

Connection fees

The Group charges residential customers a different flat connection fee for connections made in respect of each different type of gas appliance, namely cooking stoves, water heaters and boilers, the latter of which provides both space and water heating. The level of connection fees and whether such fees are inclusive of a particular gas appliance vary among Operational Locations and are approved by the relevant local state price bureau. In the event supply contracts are entered into for the connection of gas to a large number of households within a residential development, discounts of the approved fee payable may be offered, the extent of which will be subject to negotiation and agreement between the contract parties.

As of 30 June 2004, the average approved connection fee for residential customers was RMB2,503 per household.

For commercial and industrial customers, the connection fee is determined based on the designed capacity of the gas appliance facilities (on a per cubic metre per day basis) installed at the customers' premises. Should additional appliances be installed subsequently, these customers are required to pay additional connection fees to reflect the additional capacity installed. Generally, if gas usage volume is expected to be large, discounts of the approved fee payable may be offered subject to negotiation and agreement between the contract parties. When entering into master supply contracts for mass connections, the Group usually requires the payment of deposit from customers while the balance is payable in accordance with the terms set out in the contracts. Credit terms may be given to customers for these master supply contracts. In determining the credit amount and period to be offered to its customers, the Group considers factors relating to such customers such as financial position, length of business relationship, scale and nature of business operations and the size of contracts with specific customers. Approval from the general manager is usually required for the credit amount and period. The length of credit periods normally ranges between one to three months (in some cases up to 12 months) and are determined on a customer-by-customer basis. In the event customers default in the payment of connection fees, the Group will not start the supply of gas to these customers until the connection fees are fully paid. The deposit received from customers upon the signing of supply contracts would normally cover the cost of the Group.

As at 30 June 2004, the average approved connection fee for commercial and industrial users was RMB315 per day per m³.

Sales of piped gas

Gas usage charges are based on actual usage on a per cubic metre basis. The gas usage charges per cubic metre vary between Operational Locations, and the payment mechanism between different categories of customers is different.

Residential customers of project companies formed by the Group purchase gas units in cash at the Group's sales outlet with details of the prepaid gas units stored electronically in a stored value card. The stored value card is inserted into a stored value card gas meter installed at the user's premises to activate the gas supply. Units of gas used are deducted from the stored value card. When the level of prepaid gas units drops to a certain level (currently pre-set at 3 m³), the gas meter will produce a sound signal to remind the customer to replenish the value stored in the stored value card.

For residential customers without stored valued card gas meters installed (amounting to 162,000 households) and for commercial and industrial customers, payment for gas usage charges is made in arrears. Gas meters that record actual gas consumption are installed at the users' premises and meter readings are taken physically by the Group every month. Monthly bills based on the prior month's actual usage are then sent to customers. In general, settlements are received by the Group about one week from the date of billing. In the event customers default in payment of gas usage charges, gas supply will be suspended within one month of billing. In respect of commercial users with large gas usage volume, the Group may offer discounts on the approved charges, the extent of which will be subject to negotiation and agreement between the parties.

As at 30 June 2004 the average approved gas usage charges (inclusive of value added tax of 13%) for residential users was RMB1.85 per m³. As at 30 June 2004 the average approved gas usage charges (inclusive of valued added tax of 13%) for commercial and industrial users was RMB2.01 per m³.

Compressed natural gas refuelling stations

In 2001, the Group launched its CNG refuelling station business in Langfang, Hebei Province. In 2004, the business was also launched in Shijiazhuang, Hebei Province, Liaocheng, Shandong Province, Xinxiang, Henan Province and Bengbu, Anhui Province. The Group anticipates that this business will become one of the major sales channels of natural gas.

Purchases

The main categories of purchases made by the Group are gas, pipes, machinery, equipment and gas appliances. Save for the purchases of certain equipments by the Group from a related party, all of the materials purchased by the Group were acquired from independent third parties during the three years ended 31 December 2003 and the six months ended 30 June 2004.

For the years ended 31 December 2001, 2002 and 2003, the Group's largest supplier accounted for approximately 10.7%, 9.3% and 7.8% of the Group's total purchases, respectively, and the Group's five largest suppliers accounted for approximately 29.1%, 29.6% and 23.3% of the Group's total purchases, respectively. None of the Directors, their respective associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in any of the five largest suppliers of the Group.

The Group has established firm business relationships with its major suppliers for long periods. The Directors believe that the Group has good relationships with its suppliers and the Group has not experienced any difficulty in the sourcing of natural gas or other major supplies.

Gas

The Group has entered into gas purchase agreements to purchase natural gas (the terms of which range from one to 20 years) from independent third parties. The wholesale price of natural gas is agreed between the suppliers and the Group with reference to the wellhead price, distance of transportation of gas and the supplier's operating costs. The wellhead price of natural gas, which is determined by the State Development and Planning Commission with approval from the State Council, is currently set at RMB0.93 per m³ with a 10% allowance for upward or downward adjustments as a result of negotiations between suppliers and distribution companies. LPG is purchased when appropriate at the prevailing market price.

The quantity of natural gas to be supplied to the Group by its suppliers is usually stated in the gas purchase agreements. Except for certain projects located in areas surrounding the West to East Pipeline Project which have entered into long term take-or-pay gas purchase contracts with PetroChina, the Group is only required to pay the actual quantity purchased and there is no penalty to the Group should the Group purchase less than the stated amount. The Directors are satisfied that the stated quantities of natural gas as set out in the relevant existing gas purchase agreements are sufficient for the potential demand of gas by the respective Project Companies.

Certain projects located in areas surrounding the West to East Pipeline Project have recently entered into long term take-or-pay gas purchase contracts with PetroChina. The term of such take-or-pay contracts is 20 years. Each contract contains a fixed purchase price for the first year of the term of the contract. From the second year, the purchase price for each year may be increased or decreased in accordance with a formula which takes into account the weighted average of movements of the UK crude oil price, the PRC coal price and the Singapore LPG price, subject to a maximum increase or decrease of 7% each year. Any unused

take-or-pay volume in each year may be rolled over for use in the following five years. The Group can also convert the unused volume of natural gas into CNG and supply the CNG to other projects in neighbouring Operational Locations which do not have access to piped gas. Payment by the Group for the piped gas supplied to it is made on a weekly basis, the calculation of which includes elements of both payment in arrears based on actual use and payment in advance based on estimated usage. The Group believes that such arrangement is beneficial to the Group because it enables the relevant projects to secure long term guaranteed gas supply at a predictable price level (since the contracts are subject to an annual price ceiling of 7%), which is of strategic importance in the long run as the Group believes that demand for natural gas in the PRC will continue to increase.

Except for the take-or-pay gas purchase contracts with PetroChina, payment for natural gas by the Group to its suppliers is made monthly in advance and is based on the estimated purchase submitted quarterly by the Group. Any surplus is recorded by a meter installed at the point where the Group's intermediate pipelines connect with the suppliers' long distance pipelines. Payment for gas purchased is made by the Group by cheques, bank drafts or remittance denominated in Renminbi in accordance with the gas supply agreements. For the years ended 31 December 2001, 2002 and 2003, the cost of gas purchasing accounted for 26.9%, 44.4%, 56.5% of the Group's cost of sales, respectively.

Pipes, machinery and equipment

The Group purchases pipes of various diameters and thicknesses for installation in different segments of the gas pipeline infrastructure (the specifications of which must comply with PRC standards and regulations). The Group also purchases machinery and equipment, both domestically and abroad.

Pipes are purchased domestically and payments are settled in Renminbi with credit terms ranging from 30 to 90 days. Machinery and equipment are sourced domestically and externally from the United States and Italy. Payments for equipment and machinery purchased are primarily settled in Renminbi (in the case of domestic purchases) and, to a lesser extent, US dollars (in the case of overseas purchases) by letters of credit or telegraphic transfer with credit terms ranging from 30 to 90 days.

Gas appliances

As residential customers often require the Group to provide gas appliances, the Group purchases gas appliances in bulk directly from manufacturers in the PRC and holds a limited amount of stock. The Group will provide customer repair and maintenance services to the gas appliance facilities it has supplied and such gas appliance facilities have a warranty period of one year. Payments are usually settled by bank drafts denominated in Renminbi one month after receipt of goods. The Directors believe that the Group has good relationships with its suppliers.

Safety and quality control

Safety

The Group places great emphasis on safety control and has, accordingly, adopted a safety administrative system and set up a safety department to oversee safety issues for the Project Companies. The Group carries out, through the Project Companies, routine inspection

of the branch pipelines, customers' pipelines, gas meters and gas appliances at the customers' premises twice a year. These semi-annual inspections are free unless major repairs are required in which case the Group charges the customers for labour, replacement parts and other materials used for the repairs.

The Group believes in educating users about safety procedures. Accordingly, before gas is actually supplied, the Group will give a thorough explanation of safety procedures to users, and will arrange regular seminars or distribute brochures and booklets on safety for end users. The Group has in operation a 24-hour hotline for enquiries and reporting of emergency matters.

In order for the Group to monitor the operations of the pipelines, in particular, gas usage, gas leakages, or any other irregularities, the Group collects information about the temperature, pressure and volume of gas from key points along the main pipelines. The information is collated in the control centre located in the head office of each Operational Location for analysis. A computerised system known as Supervisory Control and Data Acquisition system ("SCADA") is used in some of the Operational Locations whereby a number of small detectors are installed along the main pipelines to collect such information and send it back to the control centre electronically. In other locations, the information collection is currently carried out manually by the Operational Location's own personnel. Each Project Company conducts a major inspection of its pipelines, processing station(s) and other equipment at least once a year. Should gas leakages or any other irregularities be detected, the Group will take remedial action immediately.

Due to the Group's strict implementation of safety control procedures, there have been no major accidents which have resulted in serious injury or death since the Group began operations in 1993.

Quality control

Quality control begins in the design and construction phase of the gas supply infrastructure. The quality control team regularly makes inspection visits and conducts tests to ensure that construction work meets the Group's required standards.

The Group also has strict quality control procedures for the sourcing of raw materials. As such, the Group only purchases from its approved list of qualified suppliers and such suppliers have fulfilled the relevant requirements in accordance with national standard.

In order to monitor the quality of gas purchased by the Group, the Group obtains gas composition reports regularly from its gas suppliers with details on the heat content and composition of impurities. The Group also conducts tests on the gas purchased in order to verify the quality.

Research and development

The Group's in-house research and development team comprises members who specialise in the fields of energy, mechanical and electronic engineering. Areas under research and development include:

- methods to increase operating efficiency and safety standards;
- expansion of the applications of natural gas, such as gas fuelled air conditioners, washing machines and dryers, and use of CNG in motor vehicles; and
- improvement of gas storage and transportation methods.

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

Research and development expenses for the years ended 31 December 2001, 2002 and 2003 amounted to approximately RMB752,000, RMB1,678,000 and RMB2,889,000, respectively.

Competition

Due to the nature of the piped gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, it is not economically or practically feasible for more than one distribution company to operate in one location. Therefore, the local government will normally grant exclusive rights or rights of first refusal to a selected distributor to operate in a location. Once the Group has identified a potential Operational Location, it will negotiate with the local government to obtain an exclusive right or right of first refusal to supply gas to that Operational Location, which might cover the whole or the most densely populated areas of such Operational Location. In the process of securing such exclusive rights or rights of first refusal, the Group may face competition from other distribution companies which include stated-owned companies and non state-owned enterprises. Once the Group has successfully obtained an exclusive right or right of first refusal, that Operational Location is considered to be secure and the Group does not expect to face competition from other piped gas distribution companies. Due to the Group's extensive experience and sound track record of safe and reliable piped gas supply to end-users, the Directors believe that the Group will be able to successfully obtain exclusive rights or rights of first refusal to supply gas to new Operational Locations notwithstanding inevitable strong competition from other companies.

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

Insurance

The Group has obtained insurance for certain fixed assets (including the pipelines owned by the Group) with net book value of approximately RMB693,366,000 as at 30 June 2004 that the Group considers to be subject to significant operating risks. The Group has obtained insurance with maximum coverage being RMB693,346,000.

The Group has also taken out third party liability insurance policies covering (i) the loss of life or property of third parties arising out of any accident that may occur in business of the Group (with maximum coverage being RMB50,000,000), and (ii) the loss of life of staff arising out of the business operations (with maximum coverage being RMB45,500,000). However, the Group has not taken out an insurance policy for any interruption in the business of the Group.

Regulation

The Group operates in an industry that is in general regulated by a number of different state ministries and departments, including the State Ministry of Public Security and the State Ministry of Labor and Social Security. These administrative bodies promulgate rules and regulations, such as fire and safety regulations, in relation to the storage, transportation and handling of flammable chemical products. In addition to these rules and regulations, various licences and certificates, such as safety certificates for handling flammable chemical products, must be obtained from the relevant PRC authorities. The Group is in full compliance with these relevant PRC rules and regulations and has obtained the requisite licences and certificates from the relevant PRC authorities.

In addition, in the PRC every entity engaged in the piped gas distribution business must obtain an operational permit from the State Ministry of Construction before the commencement of its business. A construction permit must also be obtained if such gas distribution company also engages in the construction of facilities and pipelines. In both cases, the State Ministry of Construction will review the qualifications and experience of the directors and technical staff of the distribution company and consider whether the distribution company is capable of fulfilling the operational and construction standards (as the case may be) required by the State Ministry of Construction.

According to the Catalogue for the Guidance of Foreign Investment Industries approved by the State Council on 4 March 2002 and promulgated on 1 April 2002 the Group's business is not in contravention of the relevant PRC rules and regulations.

Legal proceedings

Neither the Company nor any of its subsidiaries are involved in any litigation which would have a material adverse effect on the business or financial position of the Group.

Employees

As at 30 June 2004, the Group had 6,583 employees, representing an increase of 87.7% over the last year, due to increased need for personnel at the Group's medium-to large-scale projects obtained since 30 June 2003.

The Group has not experienced any strikes or disruptions due to labour disputes. The Company considers its relations with its employees to be good.

RECENT DEVELOPMENTS AND PROSPECTS

The following discussion should be read in conjunction with the audited and unaudited consolidated financial statements of the Company and the related notes thereto.

Results of operations in the years ended 31 December 2003 and 2002

Turnover

Turnover increased 61.3% to RMB878,055 thousand for the year ended 31 December 2003 from RMB544,492 thousand for the year ended 31 December 2002 primarily due to an increase in gas connection fees, piped gas sales and distributions of bottled LPG.

Gas connection fees increased 56.1% to RMB516,468 thousand for the year ended 31 December 2003 from RMB330,915 thousand for the year ended 31 December 2002 primarily due to increased customer penetration of the Group's existing projects, increased demand from the new projects acquired by the Group and increased average connection fees from residential customers, which was partially offset by a decrease in average connection fees paid by commercial and industrial customers. The increase in average connection fees from residential customers is primarily a result of the increasing trend of customers beginning to connect boilers and heaters (which were more expensive to connect) in addition to cooking stoves (which was the most common type of connection). Average connection fees from commercial/industrial customers decreased primarily as a result of discounts given by the Group to these customers in order to increase the number of gas connections by such customers, which are typically high volume gas sales consumers.

Piped gas sales increased 152.4% to RMB185,720 thousand for the year ended 31 December 2003 from RMB73,588 thousand for the year ended 31 December 2002 primarily due to increased penetration of the Group's existing projects and the acquisition of new projects.

Distributions of bottled LPG also increased 23.7% to RMB161,402 thousand for the year ended 31 December 2003 from RMB130,445 thousand for the year ended 31 December 2002.

Cost of Sales

Cost of sales increased 73.5% to RMB502,693 thousand for the year ended 31 December 2003 from RMB289,805 thousand for the year ended 31 December 2002, primarily reflecting the increase in turnover and the negative margins of coal gas sales.

Operating Expenses

Operating expenses increased 84.9% to RMB173,467 thousand for the year ended 31 December 2003 from RMB93,817 thousand for the year ended 31 December 2002 mainly due to increases in administrative expenses and selling expenses. Administrative expenses increased 77.0% to RMB137,704 thousand for the year ended 31 December 2003 from RMB77,791 thousand for the year ended 31 December 2002 principally due to the costs associated with the expansion of the Group's existing projects and the acquisition of new projects. Selling expenses increased 86.8% to RMB21,524 thousand for the year ended 31 December 2003 from RMB11,522 thousand for the year ended 31 December 2002 due largely to increased gas connections and increased gas sales.

Finance Costs

Finance costs increased 84.7% to RMB30,995 thousand for the year ended 31 December 2003 from RMB16,782 thousand for the year ended 31 December 2002 primarily due to the Group's new syndicated loan of US\$45,000 thousand.

Gross Profit Margin and Net Profit Margin

Gross margins decreased to 42.7% in the year ended 31 December 2003 from 46.8% in the year ended 31 December 2002. Profit margins also decreased to 20.9% in the year ended 31 December 2003 from 23.5% in the year ended 31 December 2002. Gross margins and profit margins decreased primarily due to increased sales of LPG which command lower margins than piped natural gas.

Results of operations for the six months ended 30 June 2004 and 2003

Turnover

Turnover increased 75.5% to RMB587,118 thousand for the six months ended 30 June 2004 from RMB334,552 thousand for the six months ended 30 June 2003 due mainly to an increase in gas connection fees, piped gas sales and distributions of bottled LPG.

Revenues from gas connection fees increased 66.4% to RMB317,452 thousand for the six months ended 30 June 2004 from RMB190,807 thousand for the six months ended 30 June 2003 due largely to the continuing increase in the penetration of the Group's existing projects and new demand arising from the acquisition of new projects. Increase in gas connection fee revenues was partially offset by a decrease in average connection fees from residential customers and commercial/industrial customers. The decrease in average connection fees generally reflected different price levels at the Group's Operating Locations and discounts given to customers as the Group intensified its efforts in enhancing the penetration of the Group's projects and increasing the number of gas connections to the Group's distribution networks.

Piped gas sales increased 182.0% to RMB194,788 thousand for the six months ended 30 June 2004 from RMB69,072 thousand for the six months ended 30 June 2003, primarily reflecting the increased penetration of the Group's existing projects and increased sales from the new projects acquired by the Group.

Distributions of bottled LPG decreased 8.8% to RMB65,082 thousand for the six months ended 30 June 2004 from RMB71,373 thousand for the six months ended 30 June 2003 as the Group continues to phase out its LPG sales in favour of piped natural gas sales.

Cost of Sales

Cost of sales increased 81.6% to RMB354,139 thousand for the six months ended 30 June 2004 from RMB195,054 thousand for the six months ended 30 June 2003, primarily reflecting the increased turnover and sales of coal gas which have negative margins. The Group's loss from the coal gas operations was fully compensated by incentives granted by local governments.

Operating Expenses

Operating expenses increased 82.5% to RMB126,683 thousand for the six months ended 30 June 2004 from RMB69,400 thousand for the six months ended 30 June 2003 primarily due to increases in administrative expenses, other operating expenses and selling expenses. Administrative expenses increased 87.7% to RMB102,410 thousand for the six months ended

30 June 2004 from RMB54,552 thousand for the six months ended 30 June 2004 largely due to the expansion of the Group's existing projects and the acquisition of new projects. Other operating expenses increased 91.1% to RMB11,904 thousand for the six months ended 30 June 2004 from RMB6,228 thousand for the six months ended 30 June 2004 primarily due to increased costs associated with increased material sales. Selling expenses increased 43.5% to RMB12,369 thousand for the six months ended 30 June 2004 from RMB8,620 thousand for the six months ended 30 June 2003, primarily reflecting the increase in turnover.

Finance Costs

Finance costs increased 151.4% to RMB23,949 thousand for the six months ended 30 June 2004 from RMB9,528 thousand for the six months ended 30 June 2003 primarily due to increased interest expenses associated with a new syndicated loan facility granted to the Group in August 2003 and other indebtedness incurred by the Group in connection with the expansion of its operations.

Gross and Net Profit Margins

Gross margins decreased to 39.7% in the six months ended 30 June 2004 from 41.7% in the six months ended 30 June 2003. Profit margins also decreased to 14.9% in the six months ended 30 June 2004 from 19.6% in the six months ended 30 June 2003. The decreases in gross margins and profit margins was mainly attributable to (i) increased sales of LPG and piped coal gas which have historically lower margins than piped gas, (ii) the fact that a number of the Group's new projects are still in their developing stages and (iii) an increase in minority interests. Minority interests increased 194.2% to RMB24,496 thousand in the six months ended 30 June 2004 from RMB8,326 thousand in the six months ended 30 June 2003. The Group expects margins to improve in the future as: (i) higher-margin piped natural gas will gradually replace lower-margin LPG and piped coal gas following the conversion by the Group of the existing LPG and coal gas pipeline networks to natural gas pipeline networks; (ii) the Group's projects mature and become increasingly capable of generating stable revenues; and (iii) the completion of the West-to-East Pipeline Project which would enable the Group to further develop its commercial/industrial customer base.

Prospects

The Group anticipates significant increases in natural gas supplies in the near future following the commencement of gas supply by the Zhong Wu Pipeline. As the Group has made significant efforts to construct the branch pipelines to service its natural gas customers during the past few years, the Group believes it is well placed to take advantage of the significant increases in natural gas supplies. With the strong support of the PRC government to utilise natural gas, the Group expects further growth in its business.

Financial condition and liquidity

Liquidity and Capital Resources

Currently, the Group's operating and capital expenditures are funded by cash flows, existing cash resources and bank loans. Cash and cash equivalents were RMB803,538 thousand as at 30 June 2004 as compared to RMB487,129 thousand as at 31 December 2003. Total bank and other borrowings were RMB1,266,191 thousand as at 30 June 2004 as compared to RMB1,111,926 thousand as at 31 December 2003. As at 30 June 2004, the Group's net gearing ratio (calculated by dividing net debt over equity) was 26.8%.

On 18 May 2004, the International Finance Corporation (the “IFC”), the private sector arm of the World Bank invested in the Group as a long-term shareholder. In addition, the IFC provided loans totalling approximately RMB206,700 thousand (US\$25,000 thousand) to the Group (the “IFC Loan”).

Pursuant to the IFC Loan, the Chairman and several subsidiaries of the Company have entered into share retention agreements with the IFC. These share retention agreements require that so long as any amounts remain due or will become due to the IFC relating to the IFC Loan, Mr. Wang and his spouse Ms. Zhao will own directly, or indirectly through Easywin Enterprises Limited (“Easywin”), at least 35% of the issued share capital of the Company. Mr. Wang and Ms. Zhao jointly own Easywin. As of the date of this Offering Circular, Easywin held 44.34% of the issued share capital of the Company.

As at 30 June 2004, the Group also had borrowings under syndicated loans of approximately RMB620,100 thousand (US\$75,000 thousand) and a mortgage loan of approximately RMB12,532 thousand (HK\$11,823 thousand) with floating interest rates. The remaining borrowings, denominated in Renminbi, were granted by local banks in the PRC to the project companies with fixed interest rates.

Except for loans equivalent to RMB45,414 thousand which are secured by net asset value equivalent to RMB70,555 thousand, all of the Group’s other loans are unsecured. Short-term loans amounted to RMB679,103 thousand, while the balance of debts was portion of long-term loans falling due after more than one year.

As all the operations of the Group were in the PRC, revenues and expenses are mainly denominated in Renminbi. Hence, the Group is not significantly exposed to foreign exchange fluctuations. Nevertheless, the Group has entered into currency and interest rate swap contracts for all syndicated loans in order to fix exchange and interest rates.

Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2004.

DIRECTORS AND MANAGEMENT

The officers and members of the board of directors of the Company as at the date of this Offering Circular are as follows:

Executive Directors:

Mr. Wang Yusuo (*Chairman*)

Mr. Yang Yu (*Chief Executive Officer*)

Mr. Chen Jiacheng (*Executive General Manager*)

Mr. Zhao Jinfeng (*Deputy General Manager*)

Mr. Qiao Limin (*Deputy General Manager*)

Mr. Jin Yongsheng (*Deputy General Manager*)

Mr. Yu Jianchao (*Finance Director*)

Mr. Cheung Yip Sang (*Deputy General Manager*)

Mr. Cheng Chak Ngok (*Financial Controller and Company Secretary*)

Non-executive Director:

Ms. Zhao Baoju

Independent Non-executive Directors:

Mr. Wang Guangtian

Mr. Xu Liang

Ms. Yien Yu Yu, Catherine

Senior Management:

Mr. Ju Xilin

Mr. Han Jishen

Mr. Liang Zhiwei

Mr. Wang Dongzhi

The biographies of the Executive Directors, Independent Non-executive Directors, Non-executive Directors and Senior Management at the date of the Offering Circular are as follows:

Executive Directors

Mr. Wang Yusuo (*Chairman*)

Mr. Wang Yusuo, aged 40, is the Co-founder, Chairman and an Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 18 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a Master's Degree in Management from the Tianjin University of Finance and Economics. Mr. Wang is currently a committee member of the Tenth Chinese People's Political Consultative Conference and a Vice Chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce. Mr. Wang is the spouse of Ms. Zhao Baoju.

Mr. Yang Yu

(Chief Executive Officer)

Mr. Yang Yu, aged 47, is an Executive Director and the Chief Executive Officer of the Company responsible for managing and implementing the Group's investment in the PRC, ensuring the safety of the Group's projects, securing gas supply and increasing gas investments and markets in the PRC. Prior to joining the Group in 1998, Mr. Yang worked at the China Oil and Gas Pipeline Bureau. He graduated from the Petroleum and Industrial Ministry Pipeline Bureau Technical Institute in 1985 and obtained a Master's Degree in Banking from Renmin University of China in 1999. Mr. Yang has over 18 years of experience in the PRC gas industry.

Mr. Chen Jiacheng

(Executive General Manager)

Mr. Chen Jiacheng, aged 41, is an Executive Director and the Executive General Manager of the Group. Mr. Chen joined the Group in January 2002 and is responsible for business administration and management of the Group's gas projects. He holds a Bachelor's Degree in Engineering from Northwest Industrial University and a Master's Degree in Business Administration from Tsinghua University. Mr. Chen has over 11 years of experience in business administration and management.

Mr. Zhao Jinfeng

(Deputy General Manager)

Mr. Zhao Jinfeng, aged 37, is an Executive Director and Deputy General Manager of the Company responsible for assisting the Chief Executive Officer in managing and implementing the Group's investment projects in the PRC, supervising the safety of the Group's projects, securing gas supply and exploring the piped gas market in the PRC. He graduated from the Management Institute of the Ministry of Agriculture and worked at Langfang City Electrical Company as an Economist for Resources Management prior to joining the Group in 1993. Mr. Zhao has over 11 years of experience in the PRC gas industry. Mr. Zhao is Ms. Zhao Baoju's brother.

Mr. Qiao Limin

(Deputy General Manager)

Mr. Qiao Limin, aged 46, is an Executive Director and Deputy General Manager of the Company responsible for the safety and operational matters of the Group. Prior to joining the Group in 1993, he worked at Baotou Education College and was an Assistant Lecturer at Langfang City Health College. He graduated from Baotou Education College in 1984. Mr. Qiao has over 11 years of experience in managing gas projects and supervising gas supply operations and safety.

Mr. Jin Yongsheng

(Deputy General Manager)

Mr. Jin Yongsheng, aged 40, is an Executive Director and Deputy General Manager of the Company responsible for overseeing legal and administrative matters and investors' relationship of the Group. He graduated from the Tianjin University of Finance and Economics in 1986, specialising in Finance. Prior to joining the Group in 1996, he was an Assistant Professor in the Management Institute of the Ministry of Agriculture. Mr. Jin is a qualified practising lawyer in the PRC and has over 14 years of experience in legal practice.

Mr. Yu Jianchao

(Finance Director)

Mr. Yu Jianchao, aged 36, is the Finance Director of the Company and joined the Group in January 1998. He graduated from the Hebei Economics and Finance College in 1993 and worked as the Chief Accountant for a number of foreign enterprises, including GSK Industry (China) Co., Ltd. and Nissin COFCO Foods Co., Ltd. prior to joining the Group. Mr. Yu has over 11 years of experience in accounting and finance.

Mr. Cheung Yip Sang

(Deputy General Manager)

Mr. Cheung Yip Sang, aged 38, is an Executive Director and Deputy General Manager of the Company responsible for exploring the piped gas market in the PRC. He holds a Bachelor's Degree in Legal Studies awarded by The Chinese People's Armed Police Force Academy. Prior to joining the Group in February 1998, he was the Sales Manager of Eastern Guangdong Region of Shantou Jiadan Beer Company Limited. Mr. Cheung is experienced in marketing and sales.

Mr. Cheng Chak Ngok

(Financial Controller and Company Secretary)

Mr. Cheng Chak Ngok, aged 33, is an Executive Director, Financial Controller and Company Secretary of the Company responsible for accounting and financial management as well as investor relations. Prior to joining the Group in November 2000, he worked at an international accounting firm and also worked as the chief accountant of a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honours Bachelor's Degree in Accounting and Finance. He is a fellow of the Association of Chartered Certified Accountants in England, and also an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in England.

Non-executive Director**Ms. Zhao Baoju**

Ms. Zhao Baoju, aged 39, is the Co-founder and a Non-executive Director. She has over 11 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is the spouse of Mr. Wang Yusuo.

Independent Non-executive Directors**Mr. Wang Guangtian**

Mr. Wang Guangtian, aged 41, is an independent Non-executive Director appointed by the Company in March 2001. He holds a Master's Degree in World Economics from Hebei University and has over 21 years of experience in financial and administrative management. He is currently the Deputy General Manager of Hebei Enterprises Limited, the window company incorporated in Hong Kong for the Hebei Provincial Government. He is also the General Manager of Overseas Way (China) Limited, a company incorporated in Hong Kong.

Mr. Xu Liang

Mr. Xu Liang, aged 64, is an independent Non-executive Director appointed by the Company in March 2001. He studied Coal Gas Engineering in Harbin University of Civil Engineering Architecture. He has worked at the North China Municipal Engineering Design and Research Institute for 38 years and is now their Consultant and Chief Engineer.

Ms. Yien Yu Yu, Catherine

Ms. Yien Yu Yu, Catherine, aged 34, is an independent Non-executive Director appointed by the Company in September 2004. She is currently an Assistant Director of N M Rothschild & Sons (Hong Kong) Limited. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BSc Hons). Ms. Yien is a holder of a Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions and financial advice.

Senior Management

Mr. Ju Xilin

Mr. Ju Xilin, aged 47, is the Deputy General Manager of the Company and General Manager of Henan areas responsible for market development and operation. He graduated in 1987 from Mudanjiang City Communist Institute specialising in Political Science. Prior to joining the Group in January 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises. Mr. Ju has over 21 years of experience in operational management.

Mr. Han Jishen

Mr. Han Jishen, aged 40, is a Deputy General Manager of the Company and General Manager of Hunan areas responsible for market development and operation. He graduated from Baoding Staff College in 1990. Mr. Han joined the Group at the end of 1993 and is responsible for management and operations. He was the General Manager of Langfang Xiniao and Huludao Xiniao. Mr. Han has over 11 years of experience in the gas fuel industry in the PRC.

Mr. Liang Zhiwei

Mr. Liang Zhiwei, aged 41, is the Chief Economist of the Group responsible for internal management and operation. He graduated from Guilin Institute of Metallurgy and the Faculty of Resource and Environmental Engineering at the University of Science and Technology Beijing. Prior to joining the Group in 1999, Mr. Liang had worked for No. 1 Bureau of the China Exploration and Engineering Bureau for 15 years.

Mr. Wang Dongzhi

Mr. Wang Dongzhi, aged 35, is the Head of the Accounting Department. Mr. Wang graduated in 1991 with a Bachelor's Degree in Engineering Management from Beijing Chemical College (now known as Beijing Chemical University). Mr. Wang obtained a Bachelor's Degree in Economics in 1996 and is qualified to be a Certified Accountant in the PRC. Before joining the Group in August 2000, Mr. Wang was in charge of the Accounting Department of a Sino-foreign joint venture company and had extensive experience in treasury and cost control.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

Substantial Shareholders' Interests

As at 30 June 2004, the interests and short positions of every person, other than Directors of the Company, in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of shareholder	Capacity	Interests in shares			Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Total interests in shares			
Easywin Enterprises Limited.....	Beneficial owner	—	384,486,000 <i>(Note 1)</i>	384,486,000	—	384,486,000	44.34%
Wellington Management Company, LLP	Investment manager	—	71,450,000	71,450,000	—	71,450,000	8.24%
The Capital Group Companies, Inc.	Investment manager	—	46,775,000	46,775,000	—	46,775,000	5.39%

Note:

- Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

Save as disclosed above, as at 30 June 2004, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in the Shares and underlying shares of the Company.

Save for the Shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2004, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Directors' Interests

As at 30 June 2004, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Capacity	Interests in shares			Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Total interests in shares			
Mr. Wang	Beneficial owner and interest of controlled corporation	3,044,000	384,486,000 (Note 1)	387,530,000	2,300,000	389,830,000	44.96%
Ms. Zhao	Interest of spouse and interest of controlled corporation	3,044,000	384,486,000 (Note 1)	387,530,000	2,300,000	389,830,000	44.96%
Mr. Yang Yu.....	Beneficial owner	—	—	—	3,350,000	3,350,000	0.39%
Mr. Chen Jiacheng.....	Beneficial owner	—	—	—	2,300,000	2,300,000	0.27%
Mr. Zhao Jinfeng	Beneficial owner	—	—	—	1,775,000	1,775,000	0.20%
Mr. Qiao Limin	Beneficial owner	—	—	—	1,025,000	1,025,000	0.12%
Mr. Jin Yongsheng.....	Beneficial owner	—	—	—	2,100,000	2,100,000	0.24%
Mr. Yu Jianchao.....	Beneficial owner	—	—	—	2,100,000	2,100,000	0.24%
Mr. Cheung Yip Sang	Beneficial owner and interest of spouse	—	—	—	2,125,000 (Note 2)	2,125,000	0.25%
Mr. Cheng Chak Ngok	Beneficial owner	—	—	—	600,000	600,000	0.07%

Notes:

1. The two references to 384,486,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Out of 2,125,000 underlying shares, 125,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 30 June 2004, the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of Director	Date of Grant	Exercise period	Exercise Price (HK\$)	Number of shares subject to outstanding options as at 1 January 2004	Number of share options exercised as at 30 June 2004	Number of shares subject to outstanding options as at 30 June 2004	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,300,000	—	2,300,000	0.27%
Ms. Zhao.....	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,300,000 (Note 2)	—	2,300,000	0.27%
Mr. Yang Yu	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	3,350,000	—	3,350,000	0.39%
Mr. Chen Jiacheng.....	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,300,000	—	2,300,000	0.27%
Mr. Zhao Jinfeng...	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,200,000	(425,000)	1,775,000	0.20%
Mr. Qiao Limin	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,050,000	(1,025,000)	1,025,000	0.12%
Mr. Jin Yongsheng	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,100,000	—	2,100,000	0.24%
Mr. Yu Jianchao	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,100,000	—	2,100,000	0.24%
Mr. Cheung Yip Sang	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	2,250,000 (Note 3)	(125,000)	2,125,000	0.25%
Mr. Cheng Chak Ngok.....	14.02.2003 (Note 5)	15.08.2003— 14.02.2013	2.265	600,000	—	600,000	0.07%
Total				<u>19,250,000</u>	<u>1,575,000</u>	<u>17,675,000</u>	

No share option was granted, lapsed or cancelled during the six months ended 30 June 2004.

No fair value of the options granted is disclosed as in the opinion of the Directors, certain assumptions need to derive the fair values using the Black-Scholes option pricing model and these cannot be reasonably determined for such share options.

Note:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

3. Out of 2,250,000 underlying shares, 250,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.
4. The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.275.
5. On 14 February 2003, the Directors had granted options to subscribe for an aggregate of 32,300,000 shares of the Company under the share option scheme, representing approximately 3.73% of the issued share capital of the Company as at 30 June 2004, out of which 19,250,000 share options were granted to the Directors and 13,050,000 share options were granted to the employees of the Group. As at 30 June 2004, 1,575,000 share options granted to Directors and 6,525,000 share options granted to employees were exercised.

Save as disclosed above, at no time during the six months ended 30 June 2004 was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

DESCRIPTION OF THE SHARES

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

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

Alteration of Capital

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

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

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

Special resolution – majority required

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

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

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

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

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

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

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

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

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

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

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

Annual general meetings

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

Transfer of Shares

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

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

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

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

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

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

Power of the Company to purchase its own Shares

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

Power of any subsidiary of the Company to own Shares

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

Dividends and other methods of distributions

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

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

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

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

No dividend shall carry interest against the Company.

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

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

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

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

Inspection of register of members

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

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

Quorum for meetings and separate class meetings

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

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

Procedure on Liquidation

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

for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

Pre-emption Rights

The Articles do not contain any pre-emptive rights in respect of the issue of shares. However, the listing agreement between the Company and the Hong Kong Stock Exchange provides that the directors may not, without the prior approval of the Company in general meeting, exercise any power of the Company to allot shares otherwise than under an offer made *pro rata* by the Company to its shareholders. As a matter of practice, the Company adopts in each year a general mandate authorising the directors to allot and issue and otherwise dispose of shares, during a specified period, up to the level, currently 20% of the issued share capital in issue at the time of passing the resolution, permitted by the Listing Rules without the requirement for any such authority. Such a mandate was given at the annual general meeting of the Company's Shareholders on 10 February 2004 and can be utilised at any time until the Company's next annual general meeting.

MARKET PRICE INFORMATION

The Shares were listed on the Growth Enterprise Market of the Hong Kong Stock Exchange in May 2001. The listing of the Shares was transferred to the Main Board of the Hong Kong Stock Exchange on 3 June 2002. The table below sets forth the closing prices and the daily trading volume of the Shares on the Hong Kong Stock Exchange for the periods indicated:

	Closing Share Price			Total Trading
	High	Low	End of Period	Volume of Shares
	HK\$	HK\$	HK\$	('000)
2002				
Second Quarter (from 3 June).....	3.38	2.60	2.85	40,115
Third Quarter	3.00	1.52	1.55	117,768
Fourth Quarter	1.85	1.34	1.85	154,764
2003				
First Quarter	2.73	1.88	1.88	109,794
Second Quarter	2.65	1.81	2.45	146,020
Third Quarter	3.80	2.35	3.65	93,949
Fourth Quarter	4.45	3.65	4.33	71,355
2004				
First Quarter	4.45	3.65	4.05	246,109
Second Quarter	4.10	2.90	3.48	131,080
Third Quarter	4.00	3.40	3.98	51,332
Fourth Quarter (until 11 November)	4.65	4.00	4.48	41,114

Source: Datastream

DIVIDENDS

The Company has not paid or declared dividends since its incorporation. The form, frequency and amount of any dividends that may be paid in future will depend upon the Company's earnings, cash flow, financial condition, reinvestment opportunities and other factors. In addition, all dividends payable are subject to shareholders' approval at the Company's annual general meeting. Accordingly, there can be no assurance that the Company will pay dividends on its Shares. No outstanding shares are entitled to dividends.

EXCHANGE RATES

The HK dollar is freely convertible into other currencies (including the US dollar). Since 17 October 1983, the HK dollar has been linked to the US dollar at the rate of US\$1.00 to HK\$7.80. The central element in the arrangements which give effect to the link is that by agreement between the Hong Kong government and three of the Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China, certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for the banknotes issued, are issued and redeemed only against payment in US dollars, at the fixed exchange rate of US\$1.00 to HK\$7.80. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent US dollars at the fixed rate of exchange.

The market exchange rate of the HK dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. Exchange rates between the HK dollar and other currencies are influenced by the linked rate between the US dollar and the HK dollar.

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in Hong Kong dollars per US dollar, derived from Datastream:

<u>Year</u>	Noon Buying Rate			
	Low	Average	High	Period End
	(HK\$ per US\$)			
2002				
Second Quarter (from 3 June).....	7.7993	7.8000	7.8005	7.8000
Third Quarter	7.7996	7.8002	7.8080	7.7998
Fourth Quarter	7.7980	7.7992	7.8000	7.7988
2003				
First Quarter.....	7.7987	7.7993	7.8001	7.7995
Second Quarter.....	7.7980	7.7992	7.7998	7.7984
Third Quarter	7.7444	7.7945	7.7999	7.7445
Fourth Quarter	7.7085	7.7563	7.7692	7.7640
2004				
First Quarter.....	7.7632	7.7783	7.7980	7.7930
Second Quarter.....	7.7870	7.7973	7.8010	7.8000
Third Quarter	7.7970	7.7997	7.8008	7.7984
Fourth Quarter (until 11 November).....	7.7718	7.7854	7.7990	7.7807

Source: Datastream

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in RMB per US dollar, derived from Datastream:

Year	Noon Buying Rate			
	Low	Average	High	Period End
	(RMB per US\$)			
2002				
Second Quarter (from 3 June).....	8.2700	8.2767	8.2775	8.2771
Third Quarter	8.2669	8.2765	8.2774	8.2774
Fourth Quarter	8.2768	8.2773	8.2800	8.2800
2003				
First Quarter.....	8.2766	8.2776	8.2800	8.2774
Second Quarter.....	8.2768	8.2771	8.2776	8.2776
Third Quarter	8.2272	8.2764	8.2776	8.2771
Fourth Quarter	8.2765	8.2769	8.2776	8.2767
2004				
First Quarter.....	8.2767	8.2770	8.2774	8.2770
Second Quarter.....	8.2766	8.2769	8.2773	8.2766
Third Quarter	8.2766	8.2767	8.2770	8.2766
Fourth Quarter (until 11 November).....	8.2764	8.2765	8.2768	8.2765

Source: Datastream

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of Bonds and Shares is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Bonds and Shares.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Cayman Islands

Under existing Cayman Islands laws:

- (a) payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Bonds, as the case may be, nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- (b) no stamp duty is payable in respect of the issue or transfer of the Bonds although duty may be payable if Bonds are executed in or brought into the Cayman Islands;
- (c) certificates evidencing the Bonds, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Bond, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty; and
- (d) no stamp duty is payable in the Cayman Islands on transfers of shares of companies in Cayman Islands companies except those which hold interests in land in the Cayman Islands.

The Company has received an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (Revised) of the Cayman Islands, for a period of 20 years from 29 August 2000, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on the shares, debentures or other obligations of the Company.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including Early Redemption Amounts) in respect of the Bonds.

No tax is payable in Hong Kong by withholding or otherwise in respect of payments of dividends on the Shares.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal, conversion or redemption of the Bonds where such sale, disposal, conversion or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- (a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) a corporation carrying on a trade, profession or business in Hong Kong; or
- (c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Shares where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue, transfer (for so long as the register of holders of the Bonds is maintained outside Hong Kong) or conversion of a Bond.

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

Proposed EU Directive on the Taxation of Savings Income

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

The Company has entered into a subscription agreement with Deutsche Bank AG London (the "Lead Manager"), dated 25 October 2004 (the "Subscription Agreement"), pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Company agreed to sell to the Lead Manager, and the Lead Manager agreed to subscribe for, the aggregate principal amount of the Bonds.

The Lead Manager initially proposes to subscribe for the Bonds at a purchase price equal to the offer price indicated on the cover page less a combined management and underwriting commission and selling concession in aggregate of 2.25% of the principal amount of the Bonds subscribed.

The Company has agreed in the Subscription Agreement that neither the Company nor any of its subsidiaries or affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period of 180 days after the Closing Date (and, if any Optional Bonds are issued, after the last date on which the Optional Bonds are issuable under the Subscription Agreement (an "Option Closing Date")), without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise) save for Shares issued (i) pursuant to the conversion provisions of the Bonds; or (ii) pursuant to obligations in existence at the date of the Subscription Agreement, which have been disclosed to the Lead Manager.

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

The Lead Manager or its affiliates may purchase the Bonds for its own account and enter into transactions, including (i) credit derivatives including asset swaps, repackaging and credit default swaps relating to the Bonds and/or the Company's securities or (ii) equity derivatives and stock loan transactions relating to the Shares at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counter-parties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counter-parties may also be purchasers of the Bonds).

The Lead Manager and certain of its subsidiaries or affiliates have performed certain investment banking and advisory services for the Company and/or its subsidiaries from time to time for which they have received customary fees and expenses. The Lead Manager may, from time to time, engage in transactions with and perform services for the Company and/or its subsidiaries in the ordinary course of their business.

General

The Bonds are a new issue of securities with no established trading market. Application has been made to list the Bonds as selectively marketed securities on the Hong Kong Stock Exchange. However, no assurance can be given as to the liquidity of any trading market for the Bonds.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

United States

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

The Bonds are being offered and sold outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds or the Shares to be issued upon conversion of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Bonds have not been and, prior to the expiry of a period of six months from the issue date of the Bonds, may not be offered or sold to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; there may only be communicated or caused to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company; and all applicable provisions of the FSMA must be complied with respect to anything done in relation to the Bonds in, from or otherwise involving the United Kingdom.

Cayman Islands

The public in the Cayman Islands may not be invited to subscribe directly or indirectly for the Bonds unless at the time of such invitation the Company is listed on the Cayman Islands Stock Exchange.

Hong Kong

The Bonds have not been offered or sold and may not be offered or sold in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong. In addition, there has not been issued and there may not be issued any advertisement, invitation or document relating to the Bonds, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by,

the public in Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571) of the Laws of Hong Kong and any rules made thereunder.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Securities and Futures Act (Chapter 289) of Singapore (the “Securities and Futures Act”). Accordingly the Bonds may not be offered or sold or be made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Japan

The Lead Manager has represented, warranted and agreed that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and that the Bonds which it subscribes will be subscribed by it as principal and that, in connection with the initial offering of the Bonds, it will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

GENERAL INFORMATION

- 1. Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 020449632 and the International Securities Identification Number for the Bonds is XS0204496326.
- 2. Listing of Shares:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds.
- 3. Listing of Bonds:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds. It is expected that dealing will, if permission is granted to deal in and for the listing of the Bonds on the Hong Kong Stock Exchange, commence on or about 16 November 2004.
- 4. Authorisations:** The Company has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company passed on 25 October 2004 and 11 November 2004, respectively. Listing of the Bonds on the Hong Kong Stock Exchange is conditional upon satisfaction of the requirements of that exchange, including execution of the Trust Deed and the Agency Agreement.
- 5. No Material Adverse Change:** Except as disclosed in this Offering Circular there has been no material adverse change in the financial or trading position of the Company and the Group since 31 December 2003 and no material adverse change in the financial position or prospects of the Group since 31 December 2003.
- 6. Litigation:** Save as disclosed in this Offering Circular, neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Company aware that any such proceedings are pending or threatened.
- 7. Available Documents:** Copies of the latest annual report and consolidated accounts of the Company and the latest unaudited interim consolidated accounts of the Company may be obtained free of charge, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Company at Rooms 3101-03, 31/F, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. The Company publishes unaudited consolidated interim financial statements every year for the six months ended 30 June.
- 8. Indemnification of the Trustee:** The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants to the Company whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants to the Company and whether by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Terms and Conditions or the Trust Deed. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.

9. **Auditors:** The consolidated financial statements of the Company as at and for the three years ended 31 December 2003, 2002 and 2001 incorporated by reference in this Offering Circular have been audited by Deloitte Touche Tohmatsu, certified public accountants, as stated in their reports appearing therein. The condensed consolidated financial statements of the Company as at and for the six months ended 30 June 2004 and 2003 have not been audited but Deloitte Touche Tohmatsu have conducted a review in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants, as stated in their reports appearing therein.

Deloitte Touche Tohmatsu have given and not withdrawn their written consent for the purposes of paragraph 8(2) of Appendix 1 Part C of the Listing Rules to the issue of this Offering Circular with references to their audit reports on the published annual consolidated financial statements of the Company for the years ended 31 December 2003, 2002 and 2001 and their independent review reports on the published unaudited consolidated financial statements of the Company for the six-month periods ended 30 June 2004 and 2003, and with references to Deloitte Touche Tohmatsu in the form and context in which they appear.

10. **Principal Subsidiaries/Associates:** Note 42 to the Company’s audited consolidated financial statements for the year ended 31 December 2003 sets out the subsidiaries and associates of the Company as at 31 December 2003 which, in the opinion of the directors of the Company, principally affected the results or assets of the Group for the year to which such accounts relate.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

The audited consolidated financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards (“HKFRS”) which differ in certain significant aspects from those under International Financial Reporting Standards (“IFRS”). A brief description of certain significant differences between HKFRS and IFRS is set out below. The organisations that promulgate HKFRS and IFRS have projects ongoing that could have a significant impact on future comparisons such as this. This summary is not intended to provide a comprehensive listing of all existing or future differences between HKFRS and IFRS including those specifically related to the Group or the industries in which the Group operates. Had the Group undertaken to identify the differences specifically affecting their financial statements presented in the Offering Circular, other potentially significant differences may have come to the attention of the Group which are not provided in the following summary.

Accordingly the Group’s management can provide no assurance that this summary of certain significant differences between HKFRS and IFRS provides a complete description of all differences which may have a significant impact on the Group’s financial statements. No attempt has been made in this summary to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in the financial statements of the Group or the notes thereto.

HKFRS

IFRS

Leasehold land

Where leasehold land in the course of development is held for re-sale, it is classified as current asset and is stated at the lower of cost and net realisable value. Where leasehold land in the course of development is held for long-term purposes, it is classified as non-current asset and is stated at cost less any impairment losses recognised.

Under International Accounting Standard (“IAS”) 17, leasehold land is classified as operating lease or finance lease. The premium paid for such leasehold land represents pre-paid lease payments which are amortised over the lease term in accordance with the pattern of benefits provided.

Where leasehold land is held for own use, it is classified as non-current asset and is stated at cost or valuation less depreciation and any accumulated impairment losses. Where leasehold land over which the investment properties are situated, such land is accounted for as part of the investment properties which are classified as non-current asset.

Investment properties

Investment properties are revalued annually by independent qualified valuers. Surpluses arising on revaluation are taken to the investment property revaluation reserve. Deficits arising on revaluation are first set off against previous surplus and thereafter taken to the income statement. In addition, under Statement of Standard Accounting Practice ("SSAP") 13, an investment property is required to be depreciated when the unexpired term of the lease is 20 years or less.

Revaluation of property, plant and equipment

Under SSAP 17, an item of property, plant and equipment should either be carried at its cost less accumulated depreciation and impairment losses or at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Subject to the transitional arrangements set out below, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Enterprises which carried property at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations provided that these enterprises do not revalue their property subsequent to 30 September 1995.

IAS 40 permits an enterprise to state investment properties either at fair value or at cost less accumulated depreciation and impairment losses. When a fair value model is adopted, IAS 40 does not require fair value to be based on an independent professional valuation. All changes in fair value are taken to the income statement. In addition, under IAS 40's fair value model, an investment property is never depreciated.

The standard under IFRS is consistent with HKFRS, except that it does not include the transitional provisions as that in HKFRS.

Business combinations

Under SSAP 30, the identified assets and liabilities recognised should be measured at their fair values as at the date of acquisition. Any minority interest should be stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary.

IAS 22 has a benchmark treatment of allocating the cost of an acquisition whereby the resulting minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiary. IAS 22 also has an allowed alternative treatment of allocating the cost of an acquisition whereby resulting minority interest is stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary.

Deferred tax

Prior to 1 January 2003, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

IAS 12 "Income taxes" is consistent in all material respects with SSAP 12 (revised).

Under SSAP 12 (revised) "Income taxes" which became effective for financial periods beginning on or after 1 January 2003, income tax for the period comprises current and deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised, except temporary differences arising from goodwill not deductible for tax purposes and the initial recognition (other than in a business combination) of other assets or liabilities that affect neither accounting nor taxable profit.

Investments in jointly controlled entities

Under SSAP 21, investments in jointly controlled entities should be accounted for by the equity method in consolidated financial statements.

IFRS's benchmark treatment for a venturer to account for its interest in the jointly controlled entity is proportionate consolidation of the financial statements of the jointly controlled entity. Proportionate consolidation may be given effect by either combining the venturer's share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items in its own financial statements on a line-by-line basis; or including separate line items for the venturer's share of the assets, liabilities, income and expenses of the jointly controlled entity in its own financial statements. IFRS also permits the equity method of accounting as an allowed alternative treatment for a venturer to report the interest in the jointly controlled entity.

Investments in securities

Investments in debt and equity securities, except those held either solely for the purpose of recovering advances or, as investments in subsidiaries, associates or joint ventures, are accounted for as follows:

Under SSAP 24, all investments in securities other than held-to-maturity securities are accounted for using either "benchmark" or "alternative" treatment and the Group adopts the alternative treatment. For alternative treatment, investments in securities will be categorised as follows:

All securities are initially measured at cost. At subsequent reporting dates, securities other than held-to-maturity debt securities are measured at fair value.

Under IAS 39, financial assets are divided into four categories, which include held for trading, held-to-maturity investments, loans and receivables originated by the enterprise and available-for-sale. Financial assets are recognised when an enterprise becomes party to the contractual arrangements of an instrument.

All the financial assets should be measured at fair value, except loans and receivables originated by the enterprise, held to maturity investments and financial assets that cannot be reliably measured at fair value. These assets should then be measured at amortised cost using the effective interest rate method.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

A recognised gain or loss arising from a change in the fair value of a financial asset that is not part of a hedging relationship should be reported as follows:

- (a) a gain or loss on a financial asset or liability held for trading should be included in net profit or loss for the period in which it arises (in this regard, a derivative should always be considered to be held for trading unless it is a designated hedging instrument);
- (b) a gain or loss on an available-for-sale financial asset should be either:
 - i. included in net profit or loss for the period in which it arises; or
 - ii. recognised directly in equity, through the statement of changes in equity, until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity should be included in net profit or loss for the period.

Borrowing costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to acquisition, construction or production of qualifying assets which necessarily takes a substantial period of time to get ready for their intended use or sale.

IAS 23 has a benchmark treatment of recognising all borrowing costs as expense in the period in which they are incurred. It also permits as an alternative treatment to capitalise borrowing costs in relation to qualifying assets.

The Group's management has not quantified the effects of the aforementioned differences between HKFRS and IFRS. Accordingly, there can be no assurances that net profit/(loss) and/or shareholders' equity reported in conformity with HKFRS would not be different if determined in conformity with IFRS.

GLOSSARY OF TERMS

In this Offering Circular, the following words and expressions have the following meanings:

“branch pipeline”	a pipeline which is laid within an Operational Location connecting a main pipeline with a pressure regulating box
“CNG”	compressed natural gas, natural gas that is compressed to high density through imposing high pressure to facilitate the ease and efficiency of transportation
“customers’ pipeline”	a pipeline which is laid within the relevant customer’s premises and connected to a pressure regulating box
“GDP”	gross domestic product
“heat content”	the amount of energy released when certain fuel is being burnt. The measurement unit for heat content is joule per unit of fuel
“intermediate pipeline”	a pipeline connecting a long distance pipeline with a processing station
“joule”	measurement unit of heat
“long distance pipeline”	a pipeline used for the transmission of natural gas from a gas source to major gas consumption areas
“main pipeline”	a pipeline which is laid underneath major roads or streets within an Operational Location connecting a processing station with branch pipelines
“LNG”	liquefied natural gas, natural gas which is converted into liquid form through application of high pressure and cooling
“LPG”	liquefied petroleum gas, being petroleum gas composed primarily of propane and butane, which is converted into liquid form through application of high pressure and cooling. LPG is a by-product of the extraction of oil
“natural gas”	a fossil fuel with a combustible mixture of hydrocarbon compounds composed primarily of methane, but also containing small amounts of other gases including ethane, propane, butane and pentane, and usually found in deep underground reservoirs formed by porous rocks

“Operational Location(s)”	existing or future location(s) in the PRC at which any member of the Group operates, or intends to operate, piped gas business from time to time
“PetroChina”	PetroChina Company Limited
“piped gas”	gas transmitted to end users through pipelines, “piped natural gas”, “piped LPG” and “piped coal gas” shall be construed accordingly
“pressure regulating box”	a box size device usually located at the customer’s premises adjusting the gas pressure before the gas is transmitted into the customers’ pipeline
“processing station”	a station normally located on the outskirts of an Operational Location with facilities to store, transmit, depressurise, measure and add odour to gas. In addition, backup facilities such as CNG or LNG depressurising facilities, pressurising facilities and LPG air mixing facilities may be installed at such station

COMPANY

Xinao Gas Holdings Limited

Principal Office
Huaxiang Road
Langfang Economic &
Technical Development Zone
Langfang City, Hebei Province
PRC 065001

Hong Kong Registered Office
Rooms 3103-03
31/F, Tower 1
Lippo Centre
No. 89 Queensway
Hong Kong

AUDITORS OF THE COMPANY

Deloitte Touche Tohmatsu
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

TRUSTEE

DB Trustees (Hong Kong) Limited
55th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

REGISTRAR

Deutsche Bank Luxembourg S.A.
2, Boulevard
Konrad Adenauer
L-1115
Luxembourg

PRINCIPAL PAYING, CONVERSION AND TRANSFER AGENT

Deutsche Bank AG, Hong Kong Branch
55th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

LEGAL ADVISERS

*To the Company
as to Hong Kong Law*

Woo, Kwan, Lee and Lo
27th Floor
Jardine House
1 Connaught Place
Hong Kong

*To the Company
as to Cayman Islands law*

Maples and Calder
1504 One International
Finance Centre
1 Harbour View Street
Central
Hong Kong

*To the Lead Manager
and the Trustee
as to English law*

Linklaters
10th Floor
Alexandra House
Chater Road
Hong Kong

TABLE OF CONTENTS

	<u>Page</u>
Summary	1
Summary Financial Information	3
The Offering	6
Risk Factors	9
Terms and Conditions of the Bonds ..	20
The Global Certificate	46
Use of Proceeds	48
Capitalisation and Indebtedness	49
The Group	50
The Business	64
Recent Developments and Prospects ..	80
Directors and Management	84
Substantial Shareholders' and Directors' Interests	88
Description of the Shares	92
Market Price Information	99
Dividends	100
Exchange Rates	101
Taxation	103
Subscription and Sale	105
General Information	108
Summary of Certain Differences between HKFRS and IFRS	110
Glossary of Terms	115



新奥燃气控股有限公司
XinAo Gas Holdings Limited

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

HK\$475,000,000

**Zero Coupon
Convertible Bonds due 2009
(with an Option for the issue of
up to HK\$75,000,000
Zero Coupon Convertible Bonds
due 2009)**

*Sole Global Coordinator and
Sole Bookrunner*

Deutsche Bank

Offering Circular

12 November 2004