



CHINA GAS HOLDINGS LIMITED

(incorporated with limited liability in Bermuda)

US\$40,000,000 1 per cent. Convertible Bonds due 2010

The 1 per cent. Convertible Bonds due 2010 in the aggregate principal amount of US\$40,000,000 (the "Bonds") was issued by China Gas Holdings Limited (the "Company") on June 29, 2005.

The Bonds bear interest at the rate of 1 per cent. per annum and interest are payable semi-annually in arrear on June 29 and December 29 of each year commencing December 29, 2005. Interest accrued from and including June 29, 2005 to but excluding June 29, 2010, subject to the Terms and Conditions of the Bonds (the "Conditions").

Each Bond was and is, at the option of the holder, convertible (unless previously redeemed, converted or purchased and cancelled) on and after June 29, 2005 up to June 19, 2010 into fully paid ordinary shares with a par value of HK\$0.01 each of the Company (the "Shares") at an initial conversion price of HK\$1.7310 per Share translated into US dollars at the rate of H\$7.80 : US\$1.0. The conversion price is subject to adjustment in the circumstances described under "Terms and Conditions of the Bonds — Conversion." The closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on June 29, 2005 was HK\$1.370 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 volume weighted average of the price of the Shares on the Hong Kong Stock Exchange during the five dealing days immediately following the date of the Cash Settlement Notice Date (as defined in the Conditions).

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.070 per cent. of their principal amount on June 29, 2010. All or some of the Bonds may be redeemed at the option of the relevant holder on June 29, 2008 at 115.314 per cent. of their principal amount. On or at any time after June 29, 2008, the Company may redeem all but not some only of the Bonds, at any time prior to maturity, at the relevant Redemption Amount (as defined in the 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 dealing days within a period of any 30 consecutive dealing days, the last day of which period occurs no more than five dealing days prior to the date upon which notice of such redemption is given, was at least 130 per cent. of the Conversion Price in effect on each such dealing days, or (ii) if the aggregate principal amount of the Bonds outstanding is less than US\$4,000,000. The Bonds may also be redeemed at the option of the holders at the 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 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 Bermudan, PRC or Hong Kong taxation. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation."

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 June 1, 2006. 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 11 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

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

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

The Bonds are represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, without interest coupons attached, which was registered in the name of a nominee of, and was deposited on or about June 29, 2005 (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.

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 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, Hong Kong and Bermuda, 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 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 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 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 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 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.

No stabilisation activity was carried out in respect of the Bonds.

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.

The Company has prepared audited consolidated financial statements as of and for the three years ended March 31, 2003, 2004 and 2005 and the unaudited consolidated financial statements as of and for the six-month periods ended September 30, 2004 and 2005. These financial statements were prepared in conformity with HKFRS, which differ in certain material respects from IFRS. See "Summary of Certain Differences Between HKFRS and IFRS."

Unless otherwise specified or the context requires, references herein to "Hong Kong dollars," "HK dollars," "HK\$", "HK¢" and "cents" 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 Hong Kong Financial Reporting Standards and references to "IFRS" are to International Financial Reporting Standards.

The accounting currency of the Group is HK dollars. For convenience only and unless otherwise noted, all translation from HK dollars into US dollars were made at the rate of HK\$7.80 to US\$1.00. No representation is made that the HK dollar 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.

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as “may”, “might”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe” or similar phrases. The Group bases these statements on beliefs as well as assumptions using information currently available to the Group. As these statements reflect the Group’s current views concerning future events, these statements involve risks and uncertainties. The Group’s actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Group’s expectations include those risks identified in “Risk Factors”, as well as other matters not yet known to the Group or not currently considered material by the Group. The Company cautions prospective investors not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributed to the Company or the Group are qualified in their entirety by these cautionary statements.

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 March 31, 2003, 2004 and 2005 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 September 30, 2004 and 2005, respectively, are incorporated by reference in this Offering Circular. Copies of the accounts are available and may be obtained free of charge at the specified office of the Company’s head office and principal place of business in Hong Kong at 16th Floor, AXA Centre, 151 Gloucester Road, Hong Kong.

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

China Gas Holdings Limited is a limited liability company incorporated in Bermuda with shares listed on the Main Board of the Hong Kong Stock Exchange (stock code: 384). The principal activities of the Group are the investment in and the operation and management of gas pipeline infrastructure for the sale and distribution of piped natural gas and compressed natural gas transported by trucks in the PRC.

The Group entered the downstream gas business in 2002 and has since then developed into one of the leading companies in the PRC gas distribution industry. The Group typically acquires or develops piped gas projects from local governments or corporations located in medium-and large-sized cities and urban areas. The Group also constructs and maintains city piped gas networks in locations in which it has acquired exclusive rights to supply piped gas.

As at the date of this Offering Circular, the Group has obtained concession rights for a total of 48 natural piped gas projects, comprising the following:

Category	Number of projects	Location of projects		
Projects in operation for which the Group has obtained concession rights	43	Anhui Province	Hubei Province	
		<ul style="list-style-type: none"> • Wuhu • Wuhuxian • Huainan • Suzhou • Shouxian • Nanlingxian • Huoshanxian • Fengtaixian 	<ul style="list-style-type: none"> • Suizhou • Xiaogan • Yichang • Yunmeng • Hanchuan • Yingcheng • Tianmen 	
				Hunan Province
			Hebei Province	<ul style="list-style-type: none"> • Yiyang • Yuanjiang
			<ul style="list-style-type: none"> • Gaocheng • Leting • Fengnan • Xinle • Pingshan • Neiqiu • Cangzhou Development Zone • Nanpi • Longyaoxian • Xintangxian • Qinghexian • Wangdu • Nanbao 	Jiangsu Province
				<ul style="list-style-type: none"> • Pizhou • Yangzhong • Nanjing District • Jiawang District • Xinyi • Yangzhou
				Jiangbei District
				Guangxi Province
				<ul style="list-style-type: none"> • Qinzhou • Yulin • Liuzhou • Fongchenggang
			Zhejiang Province	Guangdong Province
			<ul style="list-style-type: none"> • Xiaoshan District 	<ul style="list-style-type: none"> • Maoming
			Shaanxi Province	
			<ul style="list-style-type: none"> • Baoji 	

Category	Number of Projects	Location of projects	
Projects in respect of which the group has obtained concession rights but is awaiting the issue of business licence	5	Zhejiang Province <ul style="list-style-type: none"> • Shaoxingxian Hubei Province <ul style="list-style-type: none"> • Guangshui 	Hebei Province <ul style="list-style-type: none"> • Cangzhou Shaanxi Province <ul style="list-style-type: none"> • Xian Hi-tech Zone Guangdong <ul style="list-style-type: none"> • Conghua

The Group's strategy is to grow organically by increasing its penetration rate and the number of connected customers for its existing projects and by continuing to acquire new projects, with a particular focus on medium- and large-sized cities located along the West-East Pipeline and the Sichuan-East Pipeline with strong potential demand for gas by industrial and commercial users.

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. The Group generated total sales of HK\$410.2 million for the year ended March 31, 2005.

As at March 31, 2006, the Company had an authorised share capital of HK\$214,902,477.00 consisting of 9,000,000,000 ordinary shares of HK\$0.01 each, 68,500,000 convertible redeemable preference shares of HK\$1.00 each and 56,402,477 class B convertible redeemable preference shares of HK\$1.00 each. The issued and fully paid share capital of the Company as of such date was approximately HK\$29,215,623.38, consisting of 2,921,562,338 ordinary shares of HK\$0.01 each.

Based on the closing price of the shares of the Company on the Hong Kong Stock Exchange on March 31, 2006, at HK\$1.50, the market capitalisation of the Company was approximately HK\$43.8 billion.

Strategy

The Group focuses on the development of its core business of distributing piped gas. The Group believes that it is well-positioned to leverage on its sizeable customer base, its established brand name, its experience in working with state-owned enterprises ("SOEs"), its management's expertise and its relationships with local government authorities and major upstream gas suppliers such as China National Petroleum Corporation ("CNPC"), to achieve its long-term objective of becoming a leading vertically integrated energy group that combines natural gas exploration, transportation and distribution. Specifically, it seeks to achieve its objectives through:

- *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 to more medium- and large-sized cities in the PRC. In particular, the Group intends to target provincial level as well as prefecture-level cities that either currently have, or are expected to have, access to gas sources or long-distance pipelines such as the West-East Pipeline and the Sichuan-East Pipeline.

- *Focusing on medium- and large-sized cities with strong potential demand for gas by industrial and commercial users and with low to moderate levels of pipeline penetration.* Gas sales to industrial and commercial users currently account for a large proportion of the Group's total gas sales. Cities with low to moderate gas pipeline penetration rates provide considerable opportunities for the growth of the Group's gas pipeline connection revenue.
- *Expanding in existing piped gas markets.* The Group plans to continue its efforts to increase penetration rates in its existing markets. The Group also intends to expand its existing piped gas operations by targeting commercial and industrial users, which the Group expects to contribute substantially to the demand for gas in the near future.
- *Maintaining control.* Where possible, the Company's policy is to own, directly or indirectly, at least 51% of the shares of the joint venture pipeline companies through which it operates, in order to maintain management control.
- *Establishing strong strategic relationships with domestic and foreign energy majors.* The Group intends to co-operate with domestic and overseas energy majors to enhance its competitive position. The Group has established strategic relationships with a number of PRC and overseas oil and gas companies including China Petroleum and Chemical Corporation ("Sinopec"), GAIL (India) Limited ("GAIL") and Oman Oil Company S.A.O.C. ("OOC").
- *Operational flexibility.* As some cities will not be able to obtain natural gas supply from the main long-distance pipelines such as the West-East Pipeline and the Sichuan-East Pipeline in the near future, the Group will seek to supply these cities with CNG transported by trucks.
- *Careful asset selection.* Local governments in the PRC normally require new gas joint venture companies to take over all the existing employees and the existing pipeline networks. The Group's policy is to only take over quality pipelines and hire necessary employees.
- *Enhancing R&D efforts.* The Group plans to continue enhancing its research and development with a view to improving existing piped gas technologies to make the supply and usage of gas more convenient and safe, improve efficiencies, reduce costs and provide better services to its customers.
- *Preferential policies from the local government.* To minimise risk, reduce cost and increase returns, the Group will use reasonable endeavours to obtain preferential policies from the relevant local governments by leveraging the Group's relationships with government agencies in the PRC.

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 two years ended March 31, 2004 and 2005 set forth below is derived from the Company's published audited consolidated financial statements (which have been audited by Deloitte Touche 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 two years ended March 31, 2004 and 2005 and the notes thereto.

Due to a change in the accounting policy in respect of leasehold land and buildings adopted by the Company during the year ended March 31, 2004, prior year adjustments were required. Accordingly, the audited consolidated financial statements of the Company for the year ended March 31, 2003 have been restated to reflect these adjustments, details of which are set out in the published audited consolidated financial statements of the Company for the year ended March 31, 2004. Accordingly, the summary audited consolidated financial information as at and for the year ended March 31, 2003 set forth below is derived from, and should be read in conjunction with, the published audited consolidated financial statements (which have been audited by Deloitte Touche Tohmatsu) of the Company as at and for the year ended March 31, 2004 and the notes thereto.

The summary unaudited consolidated financial information as at and for the six months ended September 30, 2004 and 2005 set forth below are derived from the Company's published unaudited interim consolidated financial statements and should be read in conjunction with the published unaudited consolidated financial statements of the Company for the six months ended September 30, 2004 and 2005 and the notes thereto. The financial condition and results of operations of the Group for the six-month period ended September 30, 2005 should not be taken as an indication of the expected financial position and results of operations for the full year ending March 31, 2006. See "Recent Developments and Prospects."

The Company's independent auditors have not carried out any audit or review of the interim consolidated financial information as at and for the six months ended September 30, 2004 and 2005 set out below.

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

	Year ended March 31,			Six months ended September 30,	
	2005	2004	2003 ⁽¹⁾	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)			(unaudited)	
Turnover.....	410,202	376,491	85,537	262,520	187,724
Cost of sales	(163,086)	(208,081)	(64,238)	(134,360) ⁽²⁾	(70,012) ⁽²⁾
Gross profit.....	247,116	168,410	21,299	128,160	117,712
Other operating income.....	15,657	11,979	343	53,262	8,451
Distribution costs	(12,469)	(7,649)	(3,733)	(10,777)	(4,429)
Administrative expenses.....	(75,526)	(52,125)	(34,176)	(61,695) ⁽²⁾	(32,261) ⁽²⁾
Amortisation of goodwill	—	(1,959)	(654)	—	—
Depreciation and amortisation of property, plant and equipment.....	—	(9,605)	(4,232)	— ⁽²⁾	— ⁽²⁾
Deficit on revaluation of investment properties	—	(180)	(4,123)	—	—
Impairment loss reversed (recognised) in respect of property, plant and equipment.....	2,668	5,987	(8,797)	—	2,668
Negative goodwill released to income statement.....	—	—	3,488	—	10,815
Impairment loss recognised in respect of investments in securities	—	—	(28,060)	—	—
Unrealised holding gain (loss) on other investments	—	370	—	—	(1,850)
Impairment loss recognised in respect of properties held for development.....	—	—	—	—	—
Profit (loss) from operations.....	177,446	115,228	(58,645)	— ⁽³⁾	101,106
Finance costs	(21,270)	(24,602)	(6,169)	(21,383)	(8,605)
Share of results of associates	(1,035)	0	(11)	(139)	—
Gain (loss) on disposal of subsidiaries	(1,650)	20,017	—	—	(1,650)
Profit on disposal of discontinued operation ...	—	7,569	—	—	—
Profit (loss) before taxation	169,489	118,212	(64,825)	87,428	90,851
Taxation.....	(1,475)	(1,344)	(1,861)	(147)	(250)
Profit (loss) before minority interests	168,014	116,868	(66,686)	87,281	90,601
Minority interests	(35,765)	(36,808)	(2,987)	9,426	25,627
Profit (loss) for the year/period	132,249	80,060	(69,673)	77,855	64,974
Dividends	—	—	—	—	—
Earnings (loss) per share					
basic	7.17 cents	6.15 cents	(6.68) cents	3.21 cents	3.79 cents
diluted	6.82 cents	6.04 cents	—	2.90 cents	3.70 cents

Notes:

- (1) The consolidated financial information for the year ended March 31, 2003 is derived from the published audited consolidated financial statements of the Company for the year ended March 31, 2004. Due to a change in accounting policy in respect of leasehold land and buildings adopted by the Company during the year ended March 31, 2004, prior year adjustments were required. Accordingly, the audited consolidated financial statements of the Company for the year ended March 31, 2003 have been restated to reflect these adjustments, details of which are set out in the published audited consolidated financial statements of the Company for the year ended March 31, 2004.
- (2) Depreciation charges for the interim period have been included under administrative expenses, cost of sales and distribution costs, respectively, depending on the nature and purposes of the assets being used. The total depreciation charges for the interim periods in 2005 and 2004 are HK\$8,857,000 and HK\$3,912,000, respectively.
- (3) The Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity.

Balance sheet data

	Year ended March 31,			Six months ended September 30,	
	2005	2004	2003 ⁽¹⁾	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)			(unaudited)	
Non-current assets					
Investment properties	—	9,620	9,800	—	1,620
Property, plant and equipment	998,112	237,469	177,770	1,110,524	554,570
Properties held for development	17,500	36,200	36,200	—	17,500
Prepaid lease payments	—	—	—	30,709	—
Interests in associates	20,454	—	1,704	620	—
Investments in securities	5,490	5,490	5,490	—	5,490
Available-for-sales investments	—	—	—	15,879	—
Deposits for acquisition and construction of property, plant and equipment	298,700	—	—	168,163	364,475
Goodwill	209,394	107,133	20,130	209,394	114,049
Deposits for investments	—	12,381	—	81,785	11,034
	<u>1,549,650</u>	<u>408,293</u>	<u>251,094</u>	<u>1,617,074</u>	<u>1,068,738</u>
Current assets					
Inventories	38,829	12,714	14,058	81,540	40,952
Amounts due from customers for contract work	366,664	143,435	—	414,096	102,509
Trade and other receivables	85,761	291,214	75,012	169,596	265,161
Prepaid lease payments	—	—	—	778	—
Amount due from an associate	—	—	2,199	—	—
Investment in securities	14,430	14,800	—	—	12,950
Available-for-sales investments	—	—	—	19,500	—
Pledged bank deposits	—	—	66,667	—	—
Bank balances and cash	695,389	471,823	92,477	1,601,881	215,901
	<u>1,201,073</u>	<u>933,986</u>	<u>250,413</u>	<u>2,287,391</u>	<u>637,473</u>
Current liabilities					
Trade and other payables	170,876	72,315	38,111	222,672	102,958
Amounts due to customers for contract work	892	343	—	—	—
Amounts due to minority shareholders of subsidiaries	435	985	5,438	503	983
Taxation	157	381	6,695	514	458
Bank and other loans - due within one year	172,928	278,489	159,361	64,291	293,333
Obligations under a hire purchase contract - due within one year	64	112	—	126	126
Convertible note	35,900	—	—	—	—
	<u>381,252</u>	<u>352,625</u>	<u>209,605</u>	<u>288,106</u>	<u>397,858</u>
Net current assets	819,821	581,361	40,808	1,999,285	239,615
Total assets less current liabilities	<u>2,369,471</u>	<u>989,654</u>	<u>291,902</u>	<u>3,616,359</u>	<u>1,308,353</u>
Non-current liabilities					
Amount due to a minority shareholder of a subsidiary	132,931	—	—	181,711	—
Bank and other loans - due after one year	1,150,518	313,230	87,444	1,626,526	466,642
Obligations under hire purchase contract	121	185	—	—	116
Convertible note	—	46,800	—	—	42,300
Convertible bonds	—	35,644	—	275,307	54,523
	<u>1,283,570</u>	<u>395,859</u>	<u>87,444</u>	<u>2,083,544</u>	<u>563,581</u>
	<u>1,085,901</u>	<u>593,795</u>	<u>204,458</u>	<u>1,532,815</u>	<u>744,772</u>
Capital and reserves					
Share capital	22,448	15,578	18,423	24,725	17,542
Reserves	966,093	487,096	126,303	1,399,320	612,710
	<u>988,541</u>	<u>502,674</u>	<u>144,726</u>	<u>1,424,045</u>	<u>630,252</u>
Minority interests	97,360	91,121	59,732	108,770	114,520
	<u>1,085,901</u>	<u>593,795</u>	<u>204,458</u>	<u>1,532,815</u>	<u>744,772</u>

Note:

- (1) The consolidated financial information as at March 31, 2003 is derived from the published audited consolidated financial statements of the Company for the year ended March 31, 2004. Due to a change in accounting policy in respect of leasehold land and buildings adopted by the Company during the year ended March 31, 2004, prior year adjustments were required. Accordingly, the audited consolidated financial statements of the Company for the year ended March 31, 2003 have been restated to reflect these adjustments, details of which are set out in the published audited consolidated financial statements of the Company for the year ended March 31, 2004.

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	China Gas Holdings Limited
Issue	US\$40,000,000 aggregate principal amount of 1 per cent. Convertible Bonds due 2010, convertible into fully paid ordinary shares with par value of HK\$0.01 each of the Company (the "Bonds").
Issue Price	100 per cent.
Form and Denomination	The Bonds have been issued in registered form in the denomination of US\$100,000 each.
Closing Date	June 29, 2005
Maturity Date	June 29, 2010
Interest.....	1 per cent. payable semi-annually in arrears on June 29 and December 29 of each year.
Negative Pledge.....	The Company undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed), it will not, and will procure that none of its subsidiaries will, create or permit to subsist any encumbrance upon the whole or any part of its business, undertaking, assets or revenues to secure any indebtedness in the form of bonds, debentures or notes with a maturity of not less than one year which are or are capable of being listed, quoted or ordinarily dealt in or traded on any stock exchange, quotation system or over the counter market or securities market unless the Bonds are secured by the same encumbrance or by such other security as the Trustee or the Bondholders by Extraordinary Resolution (as defined in the Trust Deed) may approve.
Conversion Period	On or after June 29, 2005 up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on June 19, 2010 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\$1.7310 per Share translated into US dollars at the rate of HK\$7.80 : US\$1.00. 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 June 29, 2005 was HK\$1.370 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 volume weighted average price of the Shares on the Hong Kong Stock Exchange during the five dealing days immediately following the Cash Settlement Notice 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 June 29, 2010 at 127.070 per cent. of their principal amount.
Redemption at the Option of the Company	On or at any time after June 29, 2008 and prior to the Maturity Date, the Company may redeem all but not some only of the Bonds at the 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 dealing days within a period of 30 consecutive dealing days, the last day of which period occurs more than five dealing days prior to the date upon which notice of such redemption is given, was at least 130 per cent. of the Conversion Price in effect on each such dealing day or (ii) the aggregate principal amount of the Bonds outstanding is less than US\$4,000,000.
Tax Redemption	The Company may redeem all but not some only of the Bonds at the Redemption Amount in the event of certain changes in Bermudan, PRC or Hong Kong taxation.

Redemption at the Option of the Bondholders.....	On June 29, 2008, 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 115.314 per cent. 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 such Bondholder's Bonds at the Redemption Amount upon (i) the Shares ceasing to be listed or admitted to trading on the Hong Kong Stock Exchange or any Alternative 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	The Bank of New York
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 Group, or which the Group currently deems immaterial, may also have an adverse effect on an investment in the Bonds.

Risks relating to the Group

The Group is highly reliant on external sources of financing and its ability to generate positive cash flows from operations is dependent upon the commencement of delivery of gas from the West-East Pipeline and the Sichuan-East Pipeline to certain projects

The Group requires substantial capital for investment start-up costs, capital commitments and working capital requirements.

To date, the Group has not been able to rely solely on cash flows generated by its operations to sustain its operations and its growth. The Group is heavily reliant on external sources of equity and debt financing to fund its operations, capital commitments and debt service requirements. While the Group's revenue recognition policies allow it to accrue revenues relating to gas connection fees and to realize accounting profits, the Group's ability to convert receivables relating to gas connection fees into cash and to generate positive operating cash flows are dependent upon the commencement of delivery of gas from the West-East Pipeline and the Sichuan-East Pipeline to certain areas supplied by the Group's pipeline infrastructure. Delivery of gas from the West-East Pipeline and the Sichuan-East Pipeline to some of the Group's projects has not yet commenced. The commencement of delivery of gas from the West-East Pipeline and Sichuan-East Pipeline to certain of the Group's projects has suffered delays in the past and until these pipelines are able to deliver gas to the Group's project cities, some of the receivables from the Group's customers will not be converted into cash resources which the Group can utilize to meet its various funding requirements.

Extended delays in the delivery of gas from these pipelines will require the Group to continue procuring external debt and equity financing to sustain its operations. Even after these pipelines commence delivery of gas to the Group's projects, the Group will continue to require equity and debt financing from time to time to sustain its operations and the growth of its business. There is no assurance that such additional financing will be available on terms favorable to the Group or will be available at all, and unavailability of additional financing could have a material adverse effect on the Group's financial position, its ability to carry out its long-term strategies and meet its obligations under the Bonds.

In addition, delays in the delivery of gas to these pipelines may materially affect the Group's operations and financial position and its ability to meet its obligations under current and any new indebtedness including obligations under the Bonds.

As investments in gas projects are substantial, the directors of the Company do not currently plan to declare dividends and there is no guarantee that dividends will be declared by the directors in the near future.

The Group's ability to maintain its current level of profitability depends on its continued success in securing new piped gas customers

In 2002, the Group began to devote a significant part of its operations to gas pipeline construction and operation. A substantial proportion of the Group's gross profits in the year ended March 31, 2005 and the six months ended September 30, 2005 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 March 31, 2005 and the six months ended September 30, 2005 represented approximately 71.2% and 50.1%, respectively, of the Group's total revenue for that period, compared to 49.1% of the Group's total revenue in the year ended March 31, 2004. While the Group believes that its gas pipeline connection business will continue to generate growth in revenues and profits, this area of business is a relatively new one for the Group and its continued success is not assured.

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, any adverse changes in revenue recognition and other accounting policies in the PRC with respect to gas connection fees will have a material adverse impact on the Group's financial position and results of operations.

Factors that could adversely affect the Group's gas pipeline construction and operation business include, but are not limited to, competition from other gas or gas distribution companies, particularly those with more capital resources than the Group; saturation in the Group's current markets; lack of success in securing and developing new markets; reduction or total elimination of the fees that the Group can charge end-users for gas pipeline connections, whether due to market supply and demand, government regulation or otherwise; changes in the Government's policy to promote the use of gas; and shifts in consumer preference from gas to competing forms of energy. A material adverse effect on the Group's gas pipeline business would have a material adverse effect on the Group's financial position and results of operation.

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

The Group, from time to time, works with state-owned enterprises ("SOEs") to establish joint ventures in the piped gas business. SOEs in the PRC have traditionally been managed with the goals of implementing state policies, providing for the well-being of citizens and providing lifetime employment. Accordingly, there are significant risks in the conversion of the businesses and assets of former SOEs into profitable private enterprises. The Group expends significant time and management attention on integration issues, including negotiating the terms of the joint venture, training and appointing management of the new joint venture enterprises, providing know-how and business support, and creating 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 in creating profitable businesses. Delays in integration or unresolved corporate culture issues may divert Group management's attention and resources from other uses or delay or prevent revenue growth in the Group's operating subsidiaries. The Group's financial position will suffer if there are insufficient revenues to offset the increased expenses associated with integration issues.

The Group relies on preferential policies from local governments

The Group seeks preferential policies from local governments in the regions in which it operates. These policies include being granted exclusive licenses and the ability to charge gas connection fees at rates not less than the existing fee. The Group can provide no assurances that the current preferential policies in place will continue to be maintained or that it will be granted similar policies when developing new projects. The elimination of existing policies or the failure to benefit from future preferential policies could adversely affect the Group's expansion plans and results of operation.

Changes in favorable taxation treatment could reduce the Group's net profits

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. For several of the Group's operating subsidiaries, the tax relief period has expired. 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 such change, the Group's net profits may be materially and adversely affected, and as a result, the Issuer's ability to pay its obligations under the Bonds may be materially and adversely affected.

Under local regulations and policies in certain Operational Locations, certain tax exemptions are granted to certain members of the Group. There is no assurance that these tax exemptions will continue to be granted to the Group in the future. Any change to these tax exemptions may adversely affect the financial performance of the Group.

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 January 15, 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.

While 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, there can be no assurance that VAT will not be levied on the Group's pipeline construction business in the future.

The Group conducts its business through PRC operating subsidiaries, over which it may not have absolute control in all cases

The Group currently conducts its business operations through operating subsidiaries established in the PRC, ten of which are wholly-owned by the Issuer. Although the Company has control over the management of most of these subsidiaries, certain important corporate actions for these subsidiaries require supermajority or unanimous board or shareholder approval. Such corporate actions generally include, among other things, amending the articles of association, terminating the joint venture or winding up a member of the Group, merging, increasing the registered share capital, transferring equity interests or pledging assets. There is no assurance that the Company 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 any of the PRC partners of the operating subsidiaries to consent to such actions. In addition, there is a possibility that the PRC partners may have economic or business interests or goals that are inconsistent with those of the Group, be unable to 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 a material adverse effect on the Group's ability to successfully operate its business.

Alliances and strategic investments may not produce successful results

The Group's business strategy includes entering into strategic alliances to cooperate in, among other things, the development of natural gas markets, the development of natural gas projects in the PRC and the extraction, transportation and distribution of natural gas. As of the date of this Circular, the Group has entered into two strategic alliances. There can be no assurances that such alliances will continue to or will ever achieve their intended results. If the Group's strategic partners encounter financial or other difficulties, if their strategic objectives change or if they perceive the Group no longer to be an attractive alliance partner, they may no longer desire to participate in the alliance. In addition, the Group's strategic partners may have multiple relationships and may pursue relationships with the Group's competitors or develop or acquire services that compete with the Group's services. In many cases these companies may terminate these relationships if the Group does not perform as contemplated by the agreements with the strategic partners. The failure to maintain or to enter into new strategic alliances could negatively affect the Group's expansion plans.

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, when doing so, the Group will not encounter unforeseen difficulties, such as regulatory difficulties, unexpected delays or areas of increased costs or unfamiliarity with market expectations. Such unforeseen difficulties could have a material adverse effect on the Group's expansion plans.

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 Issuer's largest shareholder has significant control over the Group's management and affairs and could exercise this influence in a manner adverse to the interests of the Bondholders or to those of the other shareholders of the Group

As at December 31, 2005, Mr. Liu Ming Hui, the Managing Director of the Company, held 475,156,000 Shares in the Company representing approximately 18.19% of the issued share capital of the Company. In addition, pursuant to a sale and purchase agreement, Mr. Liu has agreed to sell 128,500,000 more Shares in the Company, representing approximately 4.92% of the issued share capital of the Company as at December 31, 2005. Mr. Liu also held options to subscribe for 135,000,000 Shares in the Company.

Accordingly, Mr. Liu 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 consistent, or may conflict, with the interests of the Group and/or the interests of some or all of the Group's 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, the election of directors and other matters of corporate governance.

Limited insurance coverage may result in the Group being required to cover potential liability claims against it

Most of the Group's operating subsidiaries maintain (i) fire insurance for their properties; (ii) third party liability insurance; (iii) insurance for assets such as storage tanks, filling centers, gas pipelines, real estate, and cylinders as well as automobile insurance, freight insurance, machinery insurance and public responsibility insurance; and (iv) insurance for employees, such as group insurance for damages and injuries and social insurance for employees purchased from various local Social Insurance Management Councils. However, neither the Group nor any of its operating subsidiaries have taken out an insurance policy for losses arising from any interruption in the business of the Group or for business losses suffered by third parties caused or allegedly caused by the Group or otherwise. There can be no assurance that the Group's insurance policies will adequately compensate for losses and claims under any and all potential adverse situations.

A successful claim made against the Group or any of its operating subsidiaries that is not covered by its insurance policies or is in excess of the insurance coverage provided by such policies could require the Group to cover such claim out of its own assets, which could in turn have a material adverse effect on the Group's financial position and its ability to meet its obligations under the Bonds.

The expansion of the Group's operations is subject to local regulatory approvals and business licenses relating to certain of its projects

In order to establish a new piped gas project in the PRC, the Group must, among other things, obtain regulatory approval of the proposed project from the applicable authority overseeing foreign investment in the municipality where such project is to be located, following which it must obtain a business license from the applicable authority overseeing local businesses in that municipality. Such business license recognizes the transfer of ownership interests to the Group and approves the new name of the subsidiary or joint venture, as appropriate.

The Group may have to write off receivables or increase bad debt provisions if it is unable to collect payments due from its customers

From time to time, the Group provides credit to its larger customers. If a sufficient number of such customers experience downturns in their businesses or other circumstances that affect their ability or willingness to pay the Group, this could have a material adverse effect on the Group's liquidity and overall financial position. Adverse economic conditions may also increase the likelihood of the Group's other customers defaulting on payment for the Group's services. The failure by its customers to make payments on a timely basis or at all in the future could require the Group to write off receivables or increase its provision for bad and doubtful debts, which could reduce its profits and liquidity and threaten the Group's ability to continue its operations.

The Group has significant reliance on key management and its expansion plans are dependent on hiring the appropriate personnel

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 his/her obligations under his/her service agreement, 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. The Group's aggressive growth strategy will require an increase in the Group's personnel who possess the necessary training and experience. The Group may find it difficult to attract, develop and retain the personnel necessary to pursue its growth strategy successfully. The Group will also need to continually evaluate the adequacy of its management information systems. 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.

The Group has a limited operating history

The Group only commenced operations, in investment, operation and management of gas pipeline infrastructure for the sale and distribution of piped natural gas in 2002. As such the Group has a very limited track record in operating its business and only has limited insight into the trends that may emerge and may adversely affect its business or operating results. This may make it difficult for investors to assess the Group's likely future performance. In addition, due to the rapid development of the Group's business, the historical operations of the Group may not be indicative of future operations, and the historical costs of the Group may not be indicative of future costs.

Risks relating to the city gas distribution industry

The Group is subject to price controls in certain markets, which limit its flexibility to raise or set prices and pass along cost increases

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 required approvals from the relevant pricing bureaus for increases in pipeline connection fees should the Group's connection costs increase significantly. There is also no assurance that any increase in gas tariffs sought by the Group in response to any future increases in natural gas prices will be approved by the relevant local pricing bureaus or that such 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, the profits of the Group may be materially adversely affected.

The market for natural gas is volatile, and the Group may not always be able to successfully pass to end users increases in the market price of natural gas

Prices of natural gas sourced by the Group are sensitive to changes in a number of factors, including industry capacity and domestic and international output levels of crude oil and natural gas, cyclical changes in regional and global economic conditions, price and availability of substitute products, and changes in consumer responsiveness and consumer demand. These factors have a significant impact on natural gas prices in the local, regional and global markets. Historically, the markets for these products have experienced alternating periods of tight supply, causing prices to increase, followed by periods of capacity additions, in some cases resulting in oversupply and declining prices and margins.

As tariffs and other import restrictions are reduced and the control of product allocation and pricing is relaxed in the PRC, the domestic markets for many products have become increasingly subject to the cyclical nature of regional and global markets. Historically, international prices of crude oil, natural gas and refined products have fluctuated widely due to many other factors that are beyond the control of the Group. There is no assurance that the purchase price of natural gas paid by the Group will remain stable in the future. If substantial price increases occur and the Group is unable to pass through such price increases to its customers, for example, due to price ceilings imposed by the PRC government authorities or other factors, the Group's financial position and results of operations could be materially adversely affected, which in turn could have a material adverse effect on the Company's ability to meet its obligations under the Bonds.

Most of the Group members' supply contracts contain take-or-pay provisions which require the relevant company to pay for an agreed amount of natural gas annually, irrespective of the amount actually taken by such company. If the Group's requirements for natural gas were to be materially reduced in future years and the Group were not able to negotiate a reduction of the annual off-take volumes, the Group may incur payment obligations under these clauses. Because at times the Group members must negotiate supply volumes with its customers after committing to minimum purchases of natural gas from its

suppliers, the Group may be forced to make payments under its take-or-pay clauses if the volume agreed upon with customers is substantially lower than such company's committed off-take amounts. The Group's ability to pass through any take-or-pay obligations to its customers may be limited due to the factors described above. Thus, if the Group had to make any payments under its take-or-pay obligations, the financial condition and results of operations of the Group could be adversely affected.

The Group's business is seasonal and this may lead to increased costs or the failure to fulfil obligations under natural gas supply contracts

Demand for gas in the PRC peaks during the winter and falls off in the summer months. Further, extreme weather conditions such as heat waves or winter storms could cause these seasonal fluctuations to be more pronounced, particularly in certain regions in which the Group operates. This seasonality may result in increased storage costs in the summer months and deficient supplies of natural gas in winter months.

The Group is dependent on its natural gas suppliers

The Group currently purchases all of its natural gas from China National Petroleum Corporation ("CNPC"), pursuant to gas purchase agreements with terms ranging from 10 to 20 years. In the event that CNPC became unwilling or unable to supply the Group with natural gas at acceptable prices, there can be no assurance that the Group would be able to purchase natural gas from other suppliers on similar terms or on terms otherwise acceptable to the Group, which could have a material adverse effect on the Group's business, financial condition and results of operations.

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 via pipelines. In the event of unforeseen disruptions to these natural gas pipeline supplies, whether due to commercial reasons, technical difficulties or unforeseen events such as natural disasters, war, terrorism or other factors, the Group may be unable to obtain an immediately available supply of natural gas for its piped gas customers.

If the required amounts of natural gas cannot be purchased as scheduled or on terms acceptable to the Group, the Group's business operations 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 Group is dependent on third party contractors in its pipeline construction business

Substantially all of the Group’s pipeline construction activities are outsourced to third party contractors. Although the Group believes that it has good relationships with its contractors, there can be no assurance that this will continue to be the case. In the event that the Group is unable to obtain third party construction services of sufficiently high quality on favorable terms or at all, the Group’s expansion of its piped gas business may be negatively impacted.

There is a risk of industry-related accidents that could expose the Group to liability

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 that accidents will not occur in the future or that the Group’s precautions and procedures will provide adequate protection or that its product liability insurance policies will be sufficient to provide for all claims for damages or restitution. Any significant accident, whether or not the relevant operating Group of the Group is found to be at fault, may expose the Group to legal action and liability for which it may not have adequate or any insurance coverage and which therefore could have a negative effect on its financial condition as well as its reputation and customer relationships. For the Group’s operations located near populated areas, including residential areas, commercial business centres, industrial sites and other public gathering areas, the potential damage resulting from the occurrence of these events is greater.

Unexpected business interruptions could adversely affect the Group’s business

The Group’s operations are vulnerable to interruption by fire, power failure and power shortages, hardware and software failure, floods, computer viruses and other events beyond the Group’s control. The Group does not carry business interruption insurance to compensate it for losses that may occur as a result of these kinds of events and any such losses or damages incurred by the Group could materially affect its business operations.

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, as well as environmental and safety matters. The discharge of natural gas or other pollutants into the environment may give rise to liabilities that may require the Group to incur costs to remedy such actions. 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 the 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 restrict the Group's ability to operate its business or expose it to unanticipated liabilities or other compliance costs.

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. Coal, coal gas and electricity are the most common substitutes for piped gas as a source of energy. In addition to being particularly abundant in the PRC, coal is available at low cost and it is believed to be favored by certain Government interests; thus, it is commonly used as fuel in many parts of the PRC. The Group believes that, when choosing an energy source, consumers consider factors such as cost, reliability, convenience and safety. Although the Group believes that natural gas is becoming increasingly attractive to energy users as an alternative to coal, there can be no assurance that other alternative energy sources or alternative uses of existing energy sources will not become available. To the extent that the market price of alternative fuel sources drops to and is sustained at a low level, or the well-head price of natural gas procured under future contracts materially increases (because of an increase in crude oil prices, or otherwise), leading to an increase in the Group's natural gas sale price, there may be a reduction in demand for the Group's natural gas, which could adversely affect the Group's operating results. There is also no assurance that existing users of coal and 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. 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 and future prospects could be materially and adversely affected.

The Group faces competition from other piped gas providers

The Group expects to face increasing competition in new PRC piped gas markets from other domestic or foreign piped gas providers attracted by the high margins and relatively low market penetration rates, thereby limiting the Group's expansion in the PRC. There is no assurance that future competitors will not have a competitive advantage over the Group as a result of superior products, services or more competitive pricing.

In addition, as a result of the PRC's recent membership in the World Trade Organisation ("WTO"), the Group expects the PRC government to gradually reduce current restrictions on foreign trade 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 that have historically been advantageous to domestic enterprises, as well as other developments which may adversely affect the competitive advantages of the Group. Increased competition, including alliances between foreign companies and domestic competitors, may have a material adverse effect on the Group's turnover, profit margins and market share.

Risks relating to the PRC

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

The operations of the Group, like those of other energy companies in the PRC, 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 Construction, 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 maximize its profitability.

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, in order to pay interest, dividends or make other payments, must be converted into other 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 compliance with 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 U.S. dollars or other foreign currency available for conversion of Renminbi in the PRC, and it is possible that 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 U.S. dollar exchange rate has largely stabilized. However, there can be no assurance that such exchange rate will remain stable. Any devaluation of the Renminbi against the U.S. dollar will increase the amount of Renminbi the Group needs to pay its U.S. dollar obligations, such as the notes. In such event, the Group's ability to fulfill its obligations under the notes, which are denominated in U.S. dollars, may be materially and adversely affected.

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 may 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 organization 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 operations. 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 that 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 a material adverse effect on the Group's ability to operate its business.

The political, social and economic 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, social and economic uncertainties in the PRC. A change in the policies of the PRC government including, among other things, 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.

Market reforms implemented by the PRC government may have unexpected results

The PRC economy is currently evolving from a planned economy into a more market-oriented economy. Although the PRC government has adopted an "open door policy," changes in the policies of the PRC government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy. The current reforms being undertaken are unprecedented, could produce effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the PRC government to make adjustments to these reform measures. Such amendments and adjustments may not have a favorable effect on the Group's 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's 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 October 29, 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.

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 and to applicable laws and restrictions on the payment of dividends and other amounts contained in relevant financing or other agreements

as well as decisions of 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 of September 30, 2005, the Group had aggregate indebtedness of HK\$2,148 million, of which HK\$734 million consisted of unsecured indebtedness of the Company, HK\$457 million consisted of unsecured indebtedness at the subsidiary level and HK\$957 million consisted of 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. 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, such as the Company, than is regularly made available by public companies in certain other countries, including the United States and the transparency and corporate governance practices at China-related companies are considerably different than those in more advanced economies, which can make substantive analysis of such companies difficult. 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."

Forward-looking statements

Statements in this Offering Circular with respect to the Company's and the Group's plans, strategies, projected financial figures and beliefs as well as other statements that are not historical facts are forward-looking statements involving various risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to: general economic conditions in the PRC and the natural gas market there; stability of costs and availability of supply channels; conditions affecting new pipeline development; the Company's ability to adequately finance its capital expenditure needs; unanticipated weather conditions; the impact of competition and the effects of unforeseen regulatory and litigation matters; and the Group's ability to adapt itself to market, industry and general economic conditions.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds appearing on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the US\$40,000,000 1 per cent. Convertible Bonds due 2010 (the "Bonds") of China Gas Holdings Limited (the "Issuer") and the issue of the Shares (as defined in Condition 7A(v)) upon conversion of the Bonds were authorised by a resolution of the Board of Directors of the Issuer passed on 23 June 2005. The Bonds are constituted by a trust deed (as amended from time to time, the "Trust Deed") dated 29 June 2005 and made between the Issuer and The Bank of New York as trustee for the holders of the Bonds (the "Trustee", which term shall, where the context so permits, include all other persons or companies from time to time acting as trustee or trustees under the Trust Deed). The Issuer has entered into a paying, conversion and transfer agency agreement relating to the Bonds (the "Agency Agreement") dated 29 June 2005 with the Trustee, The Bank of New York as registrar (the "Registrar"), The Bank of New York as principal paying, conversion and transfer agent (the "Principal Agent" and also the "Paying Agent", "Conversion Agent" and "Transfer Agent" (references to which shall include the Registrar) and together with the Registrar and the Principal Agent, the "Agents"). References to the "Principal Agent", "Registrar" and "Agents" below are references to the principal agent, registrar and agents from time to time for the Bonds. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection during normal business hours by Bondholders at the specified office of the Issuer being at the date hereof at Room 1601, 16th Floor, AXA Centre, No.151 Gloucester Road, Wanchai, Hong Kong and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Terms used herein have the meaning given to them in the Trust Deed unless the context otherwise requires.

1. Status

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

2. Form, Denomination and Title

Form and Denomination

The Bonds are issued in registered form in denominations of US\$100,000 without coupons attached. A bond certificate (a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds in the principal amount of US\$100,000 or integral multiples thereof. 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 (the "Register") which the Issuer will procure to be kept by the Registrar.

Title

Title to the Bonds passes only by transfer and registration in the Register as described in Condition 3. The holder of any Bond will (except as otherwise required by law) 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.

3. Transfers of Bonds; Issue of Certificates

(A) Register

The Issuer will cause to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement the 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. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding.

(B) Transfer

Subject to Conditions 3(E) and 3(F) and 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 title to a Bond will be valid unless and until entered on the Register.

(C) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within five 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.

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, converted or redeemed, a new Certificate in respect of the Bonds not so transferred, converted or redeemed will, within five business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted or redeemed (but free of charge to the holder) to the address of such holder appearing on the Register.

Except where otherwise stated in these Conditions for the purposes of these Conditions (except Condition 8), "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*

A transfer of Bonds will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon payment (or the giving of such indemnity as the Issuer 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 15 days ending on (and including) the due date for any payment of principal or interest in respect of that Bond; (ii) after a Conversion Notice (as defined in Condition 7(B)) has been delivered with respect thereto; or (iii) after a Put Exercise Notice (as defined in Condition 9(E)) or a Change of Control Put Exercise Notice (as defined in Condition 9(F)) has been delivered with respect thereto.

(F) *Regulations*

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer in certain circumstances with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Bondholder) by the Registrar to any Bondholder who asks for one. In case of amendment of the regulations, Bondholders will be informed in accordance with Condition 16.

4. *Negative Pledge*

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not and will procure that no Subsidiary will create or permit to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of its business, undertaking, assets or revenues (including any uncalled capital), present or future, to secure any present or future indebtedness in the form of, or represented by, Investment Securities (as defined below) or to secure any guarantee of or indemnity in respect of any Investment Securities unless, at the same time or prior thereto, all the Issuer's obligations under the Bonds and the Trust Deed (a) are secured equally and rateably therewith to the satisfaction of the Trustee, or (b) have the benefit of such other Security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

For the purposes of these Conditions:

"Investment Securities" means bonds, debentures, notes or other investment securities with a maturity of not less than one year which are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over the counter market or other securities market.

"Subsidiary" means any company or other business entity of which the Issuer owns or controls (either directly or through one or more subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors or trustees of such company or other business entity, or any company or other business entity which at any time has its accounts consolidated with those of the Issuer or

which, under Hong Kong law or regulations, should have its accounts consolidated with those of the Issuer and, for the avoidance of doubt, excludes any company or business entity which the Issuer recognises in its consolidated financial statements as a jointly controlled entity under the generally accepted accounting principles of Hong Kong.

5. Interest

(A) *Interest Commencement and Rate*

The Bonds bear interest from and including 29 June 2005 (the "Issue Date") at the rate of 1 per cent. per annum (the "Rate of Interest"), payable semi-annually in equal installments in arrear on but excluding 29 June and 29 December in each year (each, an "Interest Payment Date"), subject as provided in Condition 8 and provided that if any Interest Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which event it shall be brought forward to the immediately preceding business day. Such interest shall be paid to holders of Bonds on the register 5 business days prior to the relevant Interest Payment Date. If the Listing Committee of the Stock Exchange (or any alternative stock exchange agreed between the Issuer and the Trustee) has not granted listing of and permission to deal in the Bonds prior to the first anniversary of the Issue Date, the Rate of Interest shall be increased to 2 per cent. per annum with effect from the first anniversary of the Issue Date.

(B) *Cessation of Interest Accrual*

Each Bond will cease to bear interest (a) (subject to Condition 7(B)(iv)) from and including the Interest Payment Date last preceding its Conversion Date (or, if such Conversion Date falls on or before the first Interest Payment Date, the Issue Date) subject to conversion of the relevant Bond in accordance with the provisions of Condition 7(B) or (b) from the due date for redemption, subject as provided in paragraph (C) below.

Save as provided in Condition 7(B)(iv), no payment or adjustment will be made on conversion for any interest accrued on converted Bonds since the Interest Payment Date last preceding the relevant Conversion Date or, if the Bonds are converted on or before the first Interest Payment Date, the Issue Date.

(C) *Principal Amount Not Paid on Due Date*

If, upon due presentation of any Bond on the due date for redemption, payment of principal is improperly held or refused, such Bond will continue to bear interest at the Rate of Interest (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

(D) *Interest Amounts*

The amount of interest payable on each semi-annual Interest Payment Date shall be US\$500 in respect of each Bond of US\$100,000. If interest is required to be paid in respect of a Bond on any other date or on an Interest Payment Date but in respect of a period which does not commence on an earlier Interest Payment Date, it shall be calculated by applying the Rate of Interest to the principal amount of such Bond, multiplying the product by the relevant Day

Count Fraction and rounding the resulting figure to the nearest cent (half a cent rounded upwards), where "Day Count Fraction" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

6. Consolidation, Merger and Sale of Assets

The issuer will not consolidate with, amalgamate with, merge with or into, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its business, property and assets (as an entirety or substantially an entirety in one transaction or a series of related transactions) to any entity unless:

- (A) the entity (if other than the Issuer) formed by such amalgamation or consolidation or into which the Issuer is merged or which acquired or leased such business, property and assets of the Issuer shall be a corporation organised and validly existing under the laws of its place of incorporation, and shall expressly assume, by a trust deed supplemental to the Trust Deed and an agency agreement supplemental to the Agency Agreement and such other undertakings or documents as the Trustee may require, executed and delivered in form and content acceptable to the Trustee, all of the obligations of the Issuer in respect of all of the Bonds and under the Trust Deed and the Agency Agreement;
- (B) the supplemental Trust Deed referred to in paragraph (A) above will ensure that (a) the holder of each Bond then outstanding will have the right (during the period in which such Bond shall be convertible) to convert such Bond into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale, conveyance, transfer lease or other disposal by a holder of the number of Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale, conveyance, transfer, lease or other disposal (and such supplemental Trust Deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the provisions of Condition 7(C)), (b) the rights of Bondholders shall not be adversely affected as a result of such transaction; and (c) that there shall be no right to exercise a redemption of the Bonds under Condition 9(C) as a result of any change in the domicile or place of incorporation of the Issuer or the successor entity not being incorporated in Bermuda and the provisions of Condition 10 shall also be supplemented or modified as the Trustee deems appropriate; and
- (C) immediately after giving effect to such transaction, no default or event of default (including an Event of Default) shall have occurred and be continuing as a result of this transaction.

The above provisions of this Condition 6 will apply mutatis mutandis to any subsequent consolidations, amalgamations, mergers, sales or transfers.

7. 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 29 June 2005 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 19 June 2010 (but, except as provided in Condition 7(A)(iv), in no event thereafter) or if such Bond shall have been called for redemption before 19 June 2010, then up to the close of business (at the place aforesaid) on the date no later than seven business days (as 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 (translated into HK dollars at the fixed rate of HK\$7.8000 = US\$1.0000) by the Conversion Price in effect at the Conversion Date (both as hereinafter defined). On conversion the right of the converting Bondholder to repayment of the principal amount of the Bond to be converted shall be extinguished and released, and in consideration and in exchange therefor the Issuer shall allot and issue Shares credited as paid up in full as provided in this Condition 7. A Conversion Right may 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 unless more than one Bond is to be exercised at any one time and Shares arising on conversion are to be issued in the same name in which case the number of Shares to be issued in such name shall be aggregated for the purposes of calculating the number of Shares to be issued upon conversion. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares by operation of law or otherwise occurring after 29 June 2005 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash 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 reclassification aforesaid if such sum exceeds HK\$100.
- (iii) *Conversion Price:* The price at which Shares will be issued upon conversion (the "Conversion Price") will initially be HK\$1.7310, translated at the fixed rate of exchange referred to in Condition 7(A)(i) above) but will be subject to adjustment in the manner provided in Conditions 7(C) and 7(D).
- (iv) *Revival and/or Survival after Default:* Notwithstanding the provisions of Condition 7(A)(i), if (a) the Issuer 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 11 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 9(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 7(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 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 fully paid ordinary shares of par value HK\$0.01 each of the Issuer or shares of any class or classes resulting from any subdivision, consolidation or reclassification 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 Issuer.

(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 the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate. Notice of conversion may not be given in respect of Bonds for which a Put Exercise Notice has already been given. A Conversion Notice received by the Conversion Agent within the 5 business day period ending on an Interest Payment Date shall be deemed to have been given and received on that Interest Payment Date.

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 7(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. "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 7(D) 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 authorities any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in Bermuda, Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on conversion) 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 Issuer will pay all other expenses arising on the issue of Shares on conversion of Bonds.
- (iii) *Registration*: Subject to (v) below, as soon as practicable, and in any event not later than 10 business days after the Conversion Date, the Issuer 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 deposited and amounts payable by the relevant Bondholder paid 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 Issuer'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 make such certificate or certificates available for collection at the office of the Issuer's share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong) 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.

The person or persons specified in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Issuer'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, the Issuer will (i) pay to the converting Bondholder or his designee an amount (the "Equivalent Amount") equal to the Fair Market Value (as defined below) of 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 or, (ii) at the Issuer's election prior to the Registration Date, issue to the relevant Bondholder such number of Shares as is equal to the Equivalent Amount divided by the Current Market Price of the Shares on the date of such election, such additional Shares to be issued to, and registered in the name of, the relevant person or persons specified in the Conversion Notice on the Registration Date in accordance with the provisions of this Condition 7(B)(iii). The Equivalent Amount shall, if paid in the form of cash, 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) *Interest Accrual:* If any notice requiring the redemption of any Bonds is given pursuant to Condition 9(B) or Condition 9(C) during the period beginning on the fifteenth day prior to the record date in respect of any dividend payable in respect of the Shares and ending on the Interest Payment Date next following such record date, where such notice specifies a date for redemption falling on or prior to the date which is 14 days after such next following Interest Payment Date, interest shall (subject as hereinafter provided) accrue on Bonds where Certificates have been delivered for conversion and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date from the preceding Interest Payment Date (or, if the relevant Conversion Date falls on or before the first Interest Payment Date, from, and including, the Issue Date to, but excluding, the relevant Conversion Date);

provided that no such interest shall accrue on any Bond in the event that the Shares issued on conversion thereof shall carry an entitlement to receive such dividend or in the event the Bond carries an entitlement to receive an Equivalent Amount. Any such interest shall be paid not later than 14 days after the relevant Conversion Date by Hong Kong dollar cheque drawn on, or by transfer to a Hong Kong dollar account maintained by the payee with, a bank in Hong Kong, in accordance with instructions given by the relevant Bondholder.

- (v) *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 Issuer shall have the option to pay to the relevant Bondholder an amount of cash in Hong Kong 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 Issuer 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 second business day (as defined below) 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 Issuer will make a cash payment in the manner described in this Condition. The Issuer shall pay the Cash Settlement Amount directly to the relevant Bondholder(s) no earlier than five business days but no later than ten business days following the Cash Settlement Notice Date. If the Issuer 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 Issuer shall make the same proportion of cash and Shares available to all of such converting Bondholders.

For the purpose of this Condition 7(B)(v):

"business day" shall mean a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong.

"Cash Settlement Amount" means the product of (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s) to which the Conversion Notice applies, and in respect of which the Issuer has elected the Cash Settlement Option and (ii) the Volume Weighted Average Price (as defined below) per Share for each day during the five dealing days (as defined below) immediately after the Cash Settlement Notice Date.

"Volume Weighted Average Price" means, in respect of a Share on any dealing day, the order book volume-weighted average price of a Share appearing on or derived from Bloomberg screen 384 HK Equity VAP or such other source as shall be determined to be appropriate by a leading independent investment bank of international repute (selected by the Issuer and approved in writing by the Trustee) and acting as an expert on such dealing day, provided that on any such dealing day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined.

(C) **Adjustments to Conversion Price**

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

- (i) *Consolidation, Subdivision or Reclassification:* If and whenever there shall be consolidation, subdivision or reclassification of Shares, 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 aggregate number of Share(s) in issue immediately before such consolidation, subdivision or modification; and

B is the aggregate number of Share(s) in issue immediately after such consolidation, subdivision or modification.

Such adjustment shall become effective on the date the consolidation, subdivision or reclassification takes effect.

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

- (a) If and whenever the Issuer shall issue any Shares credited as fully paid to the holders of Shares (the "Shareholders") by way of capitalisation of profits or reserves (including any share premium account, capital redemption account or other distributable capital account) including Shares paid up out of distributable profits or reserves and/or share premium account and/or issued, save where (x) Shares are issued in lieu of the whole or any part of a specifically declared cash dividend (the "Relevant Cash Dividend"), being a dividend which the Shareholders concerned would or could otherwise have received (a "Scrip Dividend"), or (y) the Shareholders may elect to receive a cash dividend in lieu of such Shares, 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.

- (b) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price on the date of the first public announcement of the terms of such Scrip Dividend of such Shares exceeds 105 per cent. of the amount of the Relevant Cash Dividend or the relevant part thereof, 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 Issuer 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.

- (iii) *Capital Distribution*: If and whenever the Issuer shall pay or make any Capital Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under Condition 7(C)(ii) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

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

Where:

- A. is the Current Market Price of one Share on the date on which the Capital Distribution is first publicly announced or, in the case of a purchase of Shares or any receipts or certificates representing Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, on which such Shares are purchased, or in the case of a Spin-Off, is the mean of the Volume Weighted Average Prices of a Share for the five consecutive dealing days ending on the dealing day immediately preceding the first date on which the Shares are traded ex- the relevant Spin-Off; and
- B. is the portion of the Fair Market Value with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase of Shares or any receipts or certificates representing shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Shares in issue immediately prior to such purchase), of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the date on which such Capital Distribution is paid or made, or in the case of a purchase of Shares or any receipts or certificates representing Shares, on the date such purchase is made or, in any such case if later, the first date upon which the Fair Market Value of the Capital Distribution is capable of being determined as provided herein.

For the purposes of the above, the Fair Market Value of Capital Distribution shall (subject as provided in paragraph (b) of the definition of "Capital Distribution" and in the definition of "Fair Market Value") be determined as at the date of the first public announcement of the relevant Capital Distribution, and in the case of a Spin-Off, the fair market value of the relevant Capital Distribution shall be the Fair Market Value of the relevant Spin-Off Securities or, as the case may be, the relevant property or assets.

- (iv) *Rights Issues of Shares or Options over Shares:* If and whenever the Issuer shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant of options, warrants or other rights to subscribe for or purchase Shares to all or substantially all Shareholders as a class by way of rights, in each case at a price per Share which is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of the issue or grant of such Shares, options, warrants or other rights, 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, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights.

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

- (v) *Rights Issues of Other Securities:* If and whenever the Issuer 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 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) to all or substantially all Shareholders as a class by way of rights, 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 date on which such issue or grant is first 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 issue or grant of such options, warrants or other rights or, where a record date is set, the first dealing day the Shares trade ex-rights (as the case may be).

- (vi) *Issues at less than Current Market Price:* If and whenever the Issuer shall issue (other than as mentioned in Condition 7(C)(iv) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (other than as mentioned in Condition 7(C)(iv) above) any options, warrants or other rights to subscribe or purchase Shares in each case (other than Shares issued pursuant to outstanding share options, warrants or subscription rights existing as at 23 June 2005) (a) if issued to Energy Investors at a price per Share which is less than 80 per cent of the Current Market Price but only to the extent that such issues (including Shares arising on exercise of any subscription, purchase, conversion or exchange rights so issued do not in aggregate exceed 614,315,584 Shares; (b) if issued to members of Senior Management or the Taiwan Affairs Office at a price per Share which is less than 85 per cent of the Current Market Price but only to the extent that such issues (including Shares arising on exercise of any subscription, purchase, conversion or exchange rights so issued) do not in aggregate exceed 172,008,363 Shares; and (c) if issued to any other person or entity at a price per Share which is less than 95 per cent. of the Current Market Price, in each case on the date of the first public announcement of the terms of such issue or grant, 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 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 aggregate number of additional Shares issued or the maximum number of Shares that may be issued upon exercise of such options, warrants or rights.

References to additional Shares in the above formula shall, in the case of an issue by the Issuer 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.

- (vii) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 7(C)(vii), if and whenever the Issuer or any of its Subsidiaries (otherwise than as mentioned in Conditions 7(C)(iv), 7(C)(v) or 7(C)(vi)), or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any

other company, person or entity shall issue or grant rights over 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 Issuer on conversion, exchange or subscription at a consideration per Share which is less than 95 per cent. of the Current Market Price on the date of the first public announcement of the terms of issue or grant 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 or grant (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for Shares which have been issued by the Issuer for the purposes of or in connection with such issue, less the number of such Shares so issued);
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such securities or, as the case may be, for the Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares which may be issued or arise from any such redesignation.

Such adjustment shall become effective on the date of issue of or grant rights over such securities.

- (viii) *Modification of Rights of Conversion etc.:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 7(C)(vii) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95 per cent. of the Current Market Price on the date of the first public 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 (but where relevant securities carry rights of conversion into or rights of exchange or subscription for shares which have been issued, purchased or acquired by

the Issuer or any of its Subsidiaries (or at the direction or request or pursuant to any arrangements with the Issuer or any of its Subsidiaries) for the purposes of or in connection with such issue, less the number of such Shares so issued, purchased or acquired);

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

C is the maximum number of Shares which could 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 Issuer and approved in writing by the Trustee, considers appropriate (if at all) for any previous adjustment under this Condition 7(C)(viii) or Condition 7(C)(vii).

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

(ix) *Other Offers to Shareholders:* If and whenever the Issuer or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer under which 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 7(C)(iv), Condition 7(C)(v), Condition 7(C)(vi), Condition 7(C)(vii) above or Condition 7(C)(x) below or would fail to be adjusted if the relevant issue or grant was less than 95 per cent of the Current Market Price per share on the relevant dealing day), 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 date on which such offer is publicly announced; and

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

Such adjustment shall become effective on the date of issue of the securities or the first dealing day on which the Shares are traded ex-rights.

(x) *Offers:* If:

(1) An offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates (as defined in the Codes on Takeovers and Mergers and Share Repurchases of the Securities and Futures Commission of Hong Kong) to acquire the whole or any part of the issued ordinary share capital of the Issuer, or

(2) any person proposes a scheme of arrangement with regard to such acquisition, and (such offer or scheme having become or been declared unconditional in all respects) the right to cast more than 50 per cent of the votes which may ordinarily be cast on poll at a general meeting of the Issuer has or will become unconditionally vested in the offeror and/or such associate(s) as aforesaid, or an event occurs which has a like or similar effect (a "Relevant Event"), then upon any exercise of Conversion Rights where the Conversion Date falls during the period (the "Relevant Event Period") commencing on the occurrence of the Relevant Event and ending 60 calendar days following the Relevant Event or, if later, 60 calendar days following the date on which a Relevant Event Notice as required by Condition 7(D) is given, the Conversion Price shall be decreased by 10%.

- (xi) *Other Events:* If the Issuer or the Trustee (acting reasonably and independently in its professional capacity) 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 7 the Issuer shall, at its own expense, consult a leading independent investment bank of international repute (acting as expert), selected by the Issuer 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 7 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 7 as may be advised by the independent investment bank to be in their opinion appropriate to give the intended result.
- (xii) If elected by the Issuer, no adjustment to the Conversion Price shall be made under this Condition 7 until such adjustment has been determined by a leading independent investment bank of international repute (acting as expert) selected by the Issuer and approved by the Trustee in writing.

If the Issuer fails to select a leading independent investment bank of international repute for the purposes of these Conditions, the Trustee may select such bank and shall have no liability to any person in respect of any such selection. The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (x) above or confirm the accuracy or appropriateness of any adjustments made to the Conversion Price, will not be responsible to Bondholders for any loss arising from any failure by it to do so and shall assume that no such event has occurred until it has actual knowledge by way of notice in writing from the Issuer to the contrary.

For the purposes of this Condition 7(C):

- (i) "Average Closing Price" is the arithmetic average of the closing price per Share for each dealing day during the Relevant Period.

- (ii) "Capital Distribution" means (a) any distribution of assets in specie by the Issuer 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); and (b) any cash dividend or distribution in kind to all Shareholders by the Issuer for any financial year (whenever paid and however described and whether or not a Scrip Dividend alternative is made available), unless (c) it comprises Exempt Cash Dividends or (d) it comprises a purchase or redemption of Shares by or on behalf of the Issuer (or a purchase of Shares by or on behalf of a Subsidiary), 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 the case may be, by more than 5 per cent. either (1) on that date, or (2) where an announcement has been made (excluding for the avoidance of doubt, any general authority given by shareholders in general meeting of the Issuer or any notice convening such meeting) of the intention to purchase Shares at some future date at a specified price, on the dealing day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a dealing day, the immediately preceding dealing day.

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 Issuer and approved 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.

- (iii) "Current Market Price" means in respect of a Share at a particular date the average of the closing prices published in the Hong Kong Stock Exchange's daily quotations sheet (the "Daily Quotations Sheet") for shares traded on the Hong Kong Stock Exchange (or the equivalent quotations sheet of an Alternative Stock Exchange (as defined below), as the case may be) for one Share (assuming a transaction in a board lot) for the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five dealing days the Shares shall have been quoted ex-dividend or ex- any other entitlements and during some other part of that period the Shares shall have been quoted cum- dividend or cum- any other entitlements then:

X. if the Shares to be issued or purchased do not rank for the dividend or other entitlements in question, the quotations on the dates on which the Shares shall have been quoted cum- dividend or cum- any other entitlements shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend or other entitlements per Share; and

Y. if the Shares to be issued or purchased rank for the dividend or other entitlements in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend or ex- any other entitlements shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of that dividend or other entitlement per Share;

and provided further that if the Shares on each of the said five dealing days have been quoted cum- dividend or cum- any other entitlements in respect of a dividend

which has been declared or announced but the Shares to be issued or purchased do not rank for that dividend or other entitlements, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend or other entitlement per Share.

For the purposes of these Conditions, a “dealing day” means a day when the Hong Kong Stock Exchange (or an Alternative Stock Exchange, as the case may be) 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.

- (iv) “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 Issuer 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 Spin-Off Securities options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such investment bank) in the Volume Weighted Average Prices of such Spin-Off Securities or the fair market value of such options, warrants or other rights, in each case shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five dealing days on the relevant market commencing on the first such dealing day such Spin-Off Securities options, warrants or other rights are publicly traded.
- (v) “Relevant Period” means the period beginning on the 10th dealing day prior to, and ending on, the dealing day immediately preceding the date of declaration for a dividend or distribution in respect of a relevant financial year, which when aggregated with any other dividends or distributions declared or made in respect of that financial year, causes an adjustment to the Conversion Price to be made pursuant to Condition 7(C)(iii).
- (vi) “Spin-Off” means:
 - (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or
 - (b) any transfer of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class pursuant to any arrangements with the Issuer or any of its Subsidiaries.
- (vii) “Spin-Off Securities” means equity share capital of an entity other than the Issuer.
- (viii) 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 per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 16 as soon as practicable after the determination thereof.

- (ix) The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value or would require Shares to be issued in any other circumstances not permitted by applicable law.
- (x) 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 Issuer 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 bank to be in its opinion appropriate in order to give such intended result.
- (xi) No adjustment will be made to the Conversion Price when Shares or other securities (including rights, warrants or options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees (including directors) or former employees (including former directors) of the Issuer or any of its subsidiaries and/or its associated companies or other eligible persons (as set out in the relevant employee share scheme or plan) pursuant to any employee share scheme or plan (including a dividend investment plan).
- (xii) 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 7(C)(i) above or to correct an error.
- (xiii) "Energy Investor" means any person whose business or undertaking or substantially all of whose business or undertaking comprises investment in oil and/or gas activities or in securities of entities engaged in such activities.
- (xiv) "Exempt Cash Dividends" means cash dividends which are paid or offered to be paid on all Shares but only to the extent that such cash dividends when aggregated with all other cash dividends paid on any Shares during the relevant fiscal year do not exceed an amount equal to 5 per cent. of the market capitalisation of all the Shares then in issue on the basis of the Current Market Price as at the date of first public announcement of the relevant dividend.
- (xv) "Senior Management" means all of the officers, executive directors, chief financial officer, and other employees of the Company holding a position equivalent to vice president or more senior from time to time.
- (xvi) "Taiwan Affairs Office" includes subsidiaries of it and other entities over which it and/or its subsidiaries exercise management control.

(D) **Relevant Event**

Following the occurrence of a Relevant Event, the Issuer shall give notice thereof to the trustee and the Bondholders in accordance with Condition 16 (a "Relevant Event Notice") within 14 calendar days of the first day on which it becomes so aware. Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and the Conversion Price applicable in consequence of the Relevant Event as set out in Condition 7(C) (x), as adjusted where appropriate. The Relevant Event Notice shall also specify:

- (i) all information material to Bondholders concerning the Relevant Event;

- (ii) The Conversion Price immediately prior to the occurrence of the Relevant Event and the Conversion Price applicable pursuant to Condition 7(C)(x) during the Relevant Event Period;
- (iii) the closing price of the Shares as derived from the Stock Exchange as at the last practicable date prior to the publication of such notice;
- (iv) the last day of the Relevant Event Period; and
- (v) such other information relating to the Relevant Event as the Trustee may require.

(E) *Notice of Change in Conversion Price*

The Issuer 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.

(F) *Undertakings*

- (i) The Issuer has undertaken in the Trust Deed that so long as any Bond remains outstanding it will (a) use all reasonable endeavours to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, (b) obtain a listing for all the Conversion Shares to be issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange by not later than 1 September 2005 (on a “when issued” basis) and use its reasonable endeavours to maintain such listing following issue, and (c) if the Issuer is unable to obtain or maintain such listing, to obtain and maintain a listing for all the Conversion Shares on such other stock exchanges (each an “Alternative Stock Exchange”) as the Issuer may from time to time (with the written consent of the Trustee, such consent not to be unreasonably withheld) determine 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 exchanges.
- (ii) The Issuer has undertaken in the Trust Deed to pay the expenses of the issue of, and all expenses of obtaining listing for, all Conversion Shares.
- (iii) Whilst any Conversion Rights remains exercisable, the Issuer undertakes to perform all of its obligations under this Agreement, and if there shall be an event giving rise to any adjustment to the Conversion Price, the Issuer shall promptly notify the Bondholders in accordance with Condition 7(E). In addition, the Issuer undertakes that save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval it will:
 - (a) not make any issue, grant or distribution or any other action taken if the effect thereof would be that, on the exercise of Conversion Rights, the Conversion Shares could not, under any applicable law then in effect, be legally issued as fully paid;
 - (b) not reduce its issued share capital, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
 - (i) pursuant to the terms of issue of the relevant share capital; or
 - (ii) by means of a purchase or redemption of share capital of the Issuer to the extent permitted by applicable law; or

- (iii) by way of transfer to reserves as permitted under applicable law; or
 - (iv) where the reduction is permitted by applicable law and the Trustee is advised by an independent financial adviser, acting as expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or
 - (v) where the reduction is permitted by applicable law and results in an adjustment to the Conversion Price,
 - (vi) provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time enjoy pursuant to applicable law to purchase its Shares and any depositary or other receipts or certificates representing Shares without the consent of Bondholders;
- (c) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associate to acquire the whole or any part of the issued ordinary share capital of the Issuer, or if any person proposes a scheme with regard to such acquisition, give the Relevant Event Notice in accordance with Condition 7(D) and, where such an offer or scheme has been recommended by the Board of Directors of the Issuer, or where such an offer has become or been declared unconditional in all respects, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders;
 - (d) ensure that the Conversion Shares issued upon exercise of Conversion Rights will be listed by the Stock Exchange and use all reasonable endeavours to ensure that such Conversion Shares will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Conversion Shares may then be listed or quoted or dealt in; and
 - (e) procure that it shall not become domiciled or resident in or subject generally to the taxing authority of any jurisdiction (other than Bermuda, the PRC or Hong Kong) unless the Issuer would not thereafter be required pursuant to then current laws and regulations to withhold or deduct 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 such jurisdiction or any political subdivision thereof or therein having power to tax in respect of any payment on or in respect of the Bonds.

8. Payments

Principal

Payment of principal on the Bonds will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder if it does not have a registered account upon surrender of the relevant Certificate at the specified office of any of the Agents.

Interest

Payments of interest on the Bonds will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder if it does not have a registered account and (in the case of interest payable on redemption) upon surrender of the relevant Certificate at the specified office of any of the Agents.

Registered Accounts

For the purposes of this Condition, a Bondholder's registered account means the US 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.

Applicable 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 10. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

Payment Initiation

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

Delay In Payment

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.

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 New York, London and 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.

9. Redemption, Purchase and Cancellation

(A) *Maturity*

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond on 29 June 2010 (the "Maturity Date") at its Redemption Amount. The Issuer may not redeem the Bonds at its option prior to that date except upon the occurrence of the circumstances provided in paragraphs (B) and (C) below (but without prejudice to Condition 11).

In these Terms and Conditions, the “Redemption Amount” of any Bond shall be the sum of its principal amount plus an amount of premium determined by reference to a yield on the Bonds of 5.75 per cent. per annum (including interest payable) compounding on a daily basis and so the redemption values of a Bond by reference to a percentage of its principal amount on each anniversary of issue to the Maturity Date shall be as set out below:

On 29 June 2008	115.314%
On 29 June 2010	127.070%

For the avoidance of doubt accrued interest to the date of redemption shall be payable in addition to any Redemption Amount.

For the avoidance of doubt, references in these Conditions to “principal” of a Bond shall, where the context so permits, be deemed to include references to the Redemption Amount payable in respect of that Bond.

(B) *Redemption at the Option of the Issuer*

On and at any time after 29 June 2008, but prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders, the Trustee and the Principal Agent (which notice will be irrevocable), redeem all (but not some only) of the Bonds at their Redemption Amount, provided, however, that no such redemption may be made unless the closing price of the Shares (as derived from the Daily Quotations Sheet or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of any 20 dealing days falling within a period of 30 consecutive dealing days, the last day of which period occurs no more than five dealing days prior to the date upon which notice of such redemption is given pursuant to Condition 16, was at least 130 per cent. of the Conversion Price then in effect on each such dealing day (and for such purpose the closing price of the Shares shall be calculated in US dollars on the basis of the spot US\$/HK\$ exchange rate quoted by Bloomberg at the close of business on the relevant dealing day).

If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive dealing day period, appropriate adjustments for the relevant days approved by a leading independent investment bank of international repute (acting as experts) selected by the Issuer and approved in writing by the Trustee shall be made for the purpose of calculating the closing price of such days.

In addition, the Issuer may at any time on or after 29 June 2005, having given not less than 30 nor more than 60 days’ notice to the Bondholders, the Trustee and the Principal Agent (which notice will be irrevocable), redeem all (but not some only) of the Bonds at their Redemption Amount if the aggregate principal amount of the Bonds outstanding is less than US\$4,000,000.

Upon the expiry of any notice given under this Condition 9(B), the Issuer will be bound to redeem the Bonds at their Redemption Amount on the date fixed for such redemption.

(C) *Redemption for Taxation Reasons*

At any time the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders, the Trustee and the Principal Agent (which notice shall be irrevocable) redeem all (but not some only) of the Bonds at their Redemption Amount (subject to the provisions of Condition 9(D) below), if (i) the Issuer has or will become obliged to pay additional amounts as referred to in Condition 10 as a result of any change in, or amendment to, the laws or regulations of Bermuda or Hong Kong or the People’s Republic of China 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 29 June 2005, and (ii) such obligation cannot be avoided by the Issuer 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 Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the delivery of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal or tax advisors of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) 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.

Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds at their Redemption Amount on the date fixed for redemption.

(D) *Non Redemption Option of the Bondholders*

If the Issuer gives a notice of redemption of the Bonds under Condition 9(C), each holder of the Bonds shall have the right (the "Non Redemption Right") to elect that all or a portion (being US\$100,000 in principal amount or an integral multiple thereof) of its Bonds not be redeemed. To exercise the Non Redemption Right, a Bondholder must complete, execute and deposit at his own expense during normal business hours at the specified office of any Paying Agent a notice in the form (for the time being current) obtainable from the specified office of each Paying Agent not less than ten business days prior to the date fixed for redemption.

Upon the exercise of the Non Redemption Right with respect to such Bonds, no additional amounts referred to in Condition 10 shall be payable on the payments due after the relevant date in respect of such Bonds and, subject to Condition 10, such payments shall be made subject to any deduction or withholding required under the laws or regulations of Bermuda or Hong Kong or the People's Republic of China. For the avoidance of doubt, any increased amounts that had been payable in respect of the Bonds under Condition 10 as a result of the laws or regulations of Bermuda or Hong Kong or the People's Republic of China in effect on the original date of their issuance shall continue to be payable to the holders of such Bonds.

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

Put Option: On 29 June 2008 ("Put Option Date"), each Bondholder shall have the right at such Bondholder's option to require the Issuer to redeem all or some only (being US\$100,000 in principal amount or an integral multiple thereof) of the Bonds held by such Bondholder on the Put Option Date at the Redemption Amount of each such Bond.

To exercise the right to require redemption of a Bond, a Bondholder must complete, execute and deposit at his own expense during normal business hours at the specified office of any Paying Agent a notice of exercise (a "Put Exercise Notice") in duplicate in the form (for the time being current) obtainable from the specified office of each Paying Agent together with the certificate evidencing the Bonds to be redeemed not earlier than 60 and not later than 30 days prior to the Put Option Date.

A Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal in writing) and the Issuer will be bound to redeem the Bonds the subject of such notice delivered as aforesaid in accordance with this Condition 9(E) on the Put Option Date at the Redemption Amount. For the avoidance of doubt, such put option may not be exercised at any time after the relevant Put Option Date.

Delisting Put: In the event that the Shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange, the Issuer shall notify the holders promptly (which notice shall be delivered in accordance with Condition 16), and each holder of the Bonds shall have the right, by completing, executing and depositing a Put Exercise Notice in the manner referred to above, to require the Issuer to redeem such holder's Bonds in whole, but not in part, at the Redemption Amount on the 20th business day after the date of such notice (the "Delisting Put Date").

(F) *Redemption of the Bonds in the Event of Change of Control*

If a Change of Control, as defined below, occurs with respect to the Issuer, each holder of the Bonds shall have the right (the "Change of Control Put Right") at such holder's option, to require the Issuer to repurchase all (or any portion of the principal amount thereof which is US\$100,000 or any integral multiple thereof) of such holder's Bonds on the date set by the Issuer for such repurchase (the "Change of Control Put Date"), which shall not be less than 30 nor more than 60 days following the date on which the Issuer notifies the Trustee of the Change of Control, at a price equal to the Redemption Amount of the Bonds.

To exercise the Change of Control Put Right, a Bondholder must complete, execute and deposit at his own expense during normal business hours at the specified office of any Paying Agent a notice of exercise (a "Change of Control Put Exercise Notice") in the form (for the time being current) obtainable from the specified office of each Paying Agent together with the certificate evidencing the Bonds to be redeemed not later than 21 days after the date on which the Issuer notifies the Trustee of the Change of Control.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal in writing).

The definitions of certain terms used in this Condition 9(F) are listed below.

The term "Control" as used in this Condition 9(F) means the acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of the Issuer or the right to appoint and/or remove all or the majority of the members of the Issuer'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 (as defined below) acting together acquires Control of the Issuer if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Issuer on 23 June 2005;
- (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer's business, property or 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 Issuer or the successor entity;

- (iii) one or more other Persons acquires the legal or beneficial ownership of all or substantially all of the Issuer's total issued and outstanding Capital Stock (as defined below); or
- (iv) the Taiwan Affairs Office and Mr. Liu Ming Hui in aggregate cease to own directly or indirectly at least 15 per cent. of the voting rights of the issued share capital of the Company.

"Capital Stock" means, with respect to any Person, any and all shares, ownership interests, participation or other equivalents (however designated), including all ordinary shares and all preferred shares, of such Person.

"Person" means any individual, limited liability company, corporation, company, firm, partnership, joint venture, tribunal, undertaking, association, organisation, trust, government or political subdivision or agency or instrumentality thereof or any other entity or organisation, in each case whether or not being a separate legal entity; provided, however, that "Person" does not include (a) the Issuer's board of directors or (b) the Issuer's wholly owned direct or indirect subsidiaries.

(G) *Exercise of Put Option*

Upon the exercise of any put option specified in Conditions 9(E) or 9(F) payment of the applicable redemption amount shall be conditional upon delivery of the Bondholder's Certificate (together with any necessary endorsements) to any Paying Agent on any business day together with the delivery of any other document(s) required by these Conditions, and will be made promptly following the later of the date set for redemption and the time of delivery of such Certificate.

(H) *Purchases*

The Issuer 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. Such Bonds may, at the option of the Issuer or the relevant Subsidiary, be held, resold or cancelled. The Bonds so acquired, while held on behalf of the Issuer or any Subsidiary, shall not entitle the holders thereof to convert the Bonds in accordance with these Conditions nor exercise any voting rights with respect to such Bonds and shall be deemed not outstanding (as defined in the Trust Deed).

(I) *Cancellation*

All Bonds which are redeemed repurchased by the Issuer or any of its Subsidiaries or converted, 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.

(J) *Redemption Notices*

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will specify the Conversion Price as at the date of the relevant notice, the closing price of the Shares (as derived from the Daily Quotations Sheet or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) as at the latest practicable date prior to the delivery of the notice, the Redemption Amount per Bond, 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 delivery of the notice.

10. Taxation

All payments of principal or interest by the Issuer will be made free from any restriction or condition and will 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 Bermuda or Hong Kong or any political subdivision thereof 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 Issuer will pay such additional amounts as will result in the receipt by the Bondholders of 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 Bermuda or Hong Kong otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond or where the withholding or deduction could be avoided by the holder making a declaration of non-residence or other similar claim for exemption to the appropriate authority which such holder is legally capable and competent of making but fails to do so; or
- (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; or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any European Union Directive (a "Directive") on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) surrendered for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by surrendering the relevant Bond to another Paying Agent in a member state of the European Union (the "EU").

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 in Hong Kong 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, Redemption Amount, Cash Settlement Amount or interest 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.

11. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution, shall (subject to its rights under the Trust Deed to be indemnified), give notice to the Issuer that the Bonds are, and they shall accordingly thereby become,

immediately due and repayable at their 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 7) if:

- (i) *Payment Default*: the Issuer fails to pay any amount of principal in respect of the Bonds on the due date for payment thereof or fails to pay any amount of interest in respect of the Bonds on the due date for payment thereof and such failure continues for a period of more than 5 days; or
- (ii) *Default on Conversion*: the Issuer fails to give effect to a Conversion Right which has been exercised by a Bondholder in accordance with the terms of these Conditions and such failure continues for a period of 14 days; or
- (iii) *Other Default*: a default is (or, but for the provisions of any applicable law, would be) made by the Issuer in the performance or observance of any obligations, covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay any amount in respect of any of the Bonds and the covenant to give effect to a Conversion Right) and such default is not capable of remedy, or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within a period of 30 days next following the service by the Trustee on the Issuer of notice requiring such default to be remedied; or
- (iv) *Cross Default*: (a) any other present or future indebtedness of the Issuer or any of the Issuer's Subsidiaries or Material Group Entities for or in respect of moneys borrowed or raised in an aggregate principal amount of HK\$75,000,000 or more (or its equivalent in any other currency or currencies) becomes due and payable prior to its stated maturity by reason of an event of default (however called) which is not remedied within any applicable grace period or (b) any such indebtedness is not paid when due (or within any applicable grace period) or (c) the Issuer or Material Group Entities fails to pay when due (or within any applicable grace period) 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 principal amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (iv) have occurred equals or exceeds HK\$75,000,000 (or its equivalent in any other currency or currencies); or
- (v) *Dissolution of the Issuer*: a resolution is passed or order of a court of competent jurisdiction is made that the Issuer be wound up or dissolved or the Issuer ceases or threatens to cease to carry on all or part of its business or operations, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation permitted by Condition 6 above; or
- (vi) *Dissolution of Material Group Entities*: a resolution is passed or an order of a court of competent jurisdiction is made for the winding up or dissolution of any Material Group Entity (as defined below) except, in any such case:
 - (a) for the purposes of or pursuant to and followed by a consolidation or amalgamation or merger permitted by Condition 6 above; or

- (b) by way of a voluntary winding up or dissolution where there are surplus assets in such Material Group Entity and such surplus assets attributable to the Issuer and/or any other Subsidiary are distributed to the Issuer and/or any such other Subsidiary; or
- (vii) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or Material Group Entities for or in respect of indebtedness of HK\$75,000,000 or more (or its equivalent in any other currency or currencies) becomes enforceable against a material part of the undertaking, property, assets or revenues of the Issuer and its Material Group Entities and any step is taken to enforce it (including the taking of possession or the appointment of a trustee, receiver, manager or other similar person) and is not discharged or stayed within 30 days; or
- (viii) *Distress etc.*: a distress, attachment, execution or seizure before judgment is levied or enforced upon or sued out against any material part of the undertaking, property, assets or revenues of the Issuer or any Material Group Entity, which is material to the Issuer and its Material Group Entities as a whole, and is not discharged or stayed within 30 days thereof; or
- (ix) *Bankruptcy*: the Issuer or any Material Group Entity is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of (or of a particular type of) its debts, 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) or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts, or a moratorium is agreed or declared in respect of or affecting all or any material part of (or of a particular type of) the debts of the Issuer or any Material Group Entity or (otherwise than for the purposes of such a consolidation, amalgamation, merger or reorganisation as is referred to in paragraph (v) of this Condition) the Issuer or any Material Group Entity ceases to carry on (but not merely to make a change in) all or a substantial part of its business or operations; or
- (x) *Bankruptcy Proceedings*: proceedings shall have been initiated against the Issuer or any Material Group Entity under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 45 days; or
- (xi) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (xii) *Analogous Events*: any event occurs which has an analogous effect under the laws of any relevant jurisdiction to any of the events referred to in paragraphs (iv) to (x) (inclusive) above,

Upon any such notice being given to the Issuer, the Bonds will immediately become due and repayable at their Redemption Amount on the date fixed for redemption.

For the purposes of these Conditions:

"Auditors" means the auditors for the time being of the Issuer or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to the terms of the Trust Deed, such other firm of certified accountants of internationally recognised standing as the Trustee may in writing nominate or approve for the purpose.

"Event of Default" means any of the events referred to in paragraphs (i) to (xii) above.

"Group Entity" means any company or other business entity which the Issuer recognises in its consolidated financial statements as a subsidiary, jointly controlled entity or associated company under the generally accepted accounting principles of Hong Kong.

"Material Group Entity" means, at any time during the subsistence of the Bonds, any Group Entity of the Issuer:

- (a) whose gross revenues or (in the case of a Group Entity which has subsidiaries) consolidated gross revenues as shown by its latest audited profit and loss account exceeds 10 per cent. of the consolidated gross revenues as shown by the then latest published audited consolidated profit and loss account of the Issuer and its Subsidiaries;
- (b) whose profit after taxation and minority interests ("after-tax profit") or (in the case of a Group Entity which has subsidiaries) consolidated after-tax profit as shown by its latest audited profit and loss account exceeds 10 per cent. of the consolidated after-tax profit as shown by the then latest published audited consolidated profit and loss account of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Group Entities' share of profits of Group Entities not consolidated and of associated companies (including Jointly Controlled Entities);
- (c) whose gross assets or (in the case of a Group Entity which has subsidiaries) gross consolidated assets (as consolidated into the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries) as shown by its latest audited balance sheet exceeds 10 per cent. of the gross consolidated assets of the Issuer and its Subsidiaries as shown by the then latest published audited consolidated balance sheet of the Issuer and its Subsidiaries; or
- (d) to which is transferred the whole or substantially the whole of the assets and undertaking of a Group Entity which immediately prior to such transfer is a Material Group Entity, provided that, in such a case, the Group Entity so transferring its assets and undertaking shall thereupon cease to be a Material Group Entity.

In addition, any Group Entity which is not itself a Material Group Entity shall nevertheless be treated as a Material Group Entity in any of the events referred to in paragraphs (iv), (vi), (vii), (viii), (ix) and (x) of this Condition if its gross revenues, after-tax profit or gross assets (or consolidated gross revenues, consolidated after-tax profit or gross consolidated assets in the case of a Group Entity which has subsidiaries) when aggregated with the gross revenues, gross after-tax profit or gross assets of each other Group Entity which is not itself a Material Group Entity (or consolidated gross revenues, consolidated after-tax profit or gross consolidated assets in the case of a Group Entity which has subsidiaries) with respect to which any of the events referred to in paragraphs (iv), and (vi) to (x) of this Condition (disregarding the necessity for any opinion or certificate of the Trustee or any requirement for the Trustee to be satisfied as to any matter) has occurred during the preceding 12 months, exceeds 10 per cent. of the consolidated gross revenues, consolidated after-tax profit or gross consolidated assets of the Issuer and its Subsidiaries.

A report by the Auditors that, in their opinion, a Group Entity is or is not or was or was not at any particular time a Material Group Entity shall, in the absence of manifest error, be conclusive and binding on all parties concerned. References to the audited profit and loss account and balance sheet of a Group Entity which has subsidiaries shall be construed as references to the audited consolidated profit and loss account and consolidated balance sheet of such Group Entity and its subsidiaries, if such are required by law to be produced, or if no such profit and loss account or balance sheet is required by law to be produced, to a pro forma profit and loss account or balance sheet, prepared for the purpose of such report. References to "gross revenues", "after-tax profit", "gross assets", consolidated or non consolidated, shall include references to equivalent items in the relevant accounts as determined by the Auditors.

12. Prescription

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

13. Enforcement

At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer 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 per cent. 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 to its satisfaction. No Bondholder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

14. Meetings of Bondholders, Modification, Waiver and Substitution

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 one or more persons holding or representing over 50 per cent. in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal or Equivalent Amount payable in respect of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Conversion Rights or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66 per cent., or at any adjourned such meeting not less than 33 per cent., in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting.

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

Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 14(A) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds, the Trust Deed or the Agency Agreement 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 Issuer to the Bondholders as soon as practicable thereafter.

Interests of Bondholders

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation, waiver or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

15. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar 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 Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16. Notices

Any notice or demand to the Issuer to be given, made or served for any purposes under these Conditions shall be given, made or served by sending the same by post (first class if inland, first class airmail if overseas) or facsimile transmission or by delivering it by hand as follows:

China Gas Holdings Limited
Room 1601
16th Floor AXA Centre
No.151 Gloucester Road
Wanchai
Hong Kong
For the Attention of: Mr. Liu Ming Hui, Managing Director

or to such other address or facsimile number as shall have been notified (in accordance with this Condition) to the Bondholders and any notice or demand sent by post as aforesaid shall be deemed to have been given, made or served three days in the case of inland post or seven

days in the case of overseas post after despatch and any notice or demand sent by facsimile transmission as aforesaid shall be deemed to have been given, made or served 24 hours after the time of despatch provided that in the case of a notice or demand given by facsimile transmission such notice or demand shall forthwith be confirmed by post. The failure of the addressee to receive such confirmation shall not invalidate the relevant notice or demand given by facsimile transmission.

Notices to the Bondholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register, or upon application by a Bondholder to the Issuer, by facsimile. Any notice sent by mail shall be deemed to have been given on the fourth day after the date of mailing and any notice sent by facsimile shall be deemed to have been given on the day after the date the facsimile was sent.

17. Agents

The names of the initial Agents and their specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents. The Issuer will at all times maintain 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 and of any change in the identity of the Registrar or the Principal Agent will be given promptly by or on behalf of the Issuer 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 Issuer and any entity related to the Issuer without accounting for any profit.

19. Contracts (Rights of Third Parties) Act 1999 and Trustee Acts

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

The Trust Deed contains provisions which have the effect of giving priority, to the extent permitted by law, to the provisions of the Trust Deed over the relevant provisions of the Trustee Act 1925 and/or the Trustee Act 2000.

20. Governing Law

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, English law. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds, the Issuer has, in the Trust Deed, irrevocably submitted to the courts of England and provision is made in relation thereto for the Issuer to appoint Clifford Chance Secretaries Limited as its agent for service of process in England.

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 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. Title 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.

Exchange

The Global Bond will be convertible in whole but not in part (free of charge to the holder by the Issuer, the Registrar or the Principal Paying Transfer and Conversion Agent) for individual Bond certificates in registered form following the occurrence of an Exchange Event. An Exchange Event shall have occurred if Euroclear or Clearstream (or any alternative successor clearing system on behalf of which the Global Bond may be held) is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available. In the circumstances set out above, any individual Bond certificates issued in exchange for beneficial interests in this Global Bond will, by not later than the Global Exchange Date, be issued to and, subject to the provision of the instruction referred to below, delivered to such persons and registered in such name or names, as the case may be, as the holder of this Global Bond shall instruct the Registrar.

“Global Exchange Date” means a day falling not later than 30 days after that on which the notice requiring exchange is given or, as the case may be, the occurrence of an Exchange Event and on which banks are open for business in the city in which the specified office of the Registrar is located.

In such circumstances, the Issuer will cause sufficient individual Bond certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Bondholders. A person with an interest in the Bonds in respect of which this Global Bond is issued must provide the Registrar with a written order containing instructions and other such information as the Issuer and the Registrar may require to complete, execute and deliver such individual Bond certificates.

The provisions of Condition 3 will otherwise apply, except that new certificates to be issued upon transfer of Bonds will, within 21 days of receipt by the Registrar or an Agent of the form of transfer attached to this Global Bond, be mailed by uninsured mail at the risk of the holders entitled to the relevant Bonds to the addresses specified in the form of transfer.

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

Meetings

The holder of the Global Certificate shall be treated as 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 U.S.\$100,000 principal amount of Bonds (but not part thereof only) represented by this Global Bond. The Trustee may allow to attend and speak (but not to vote) at any meeting of Bondholders any accountholder (or the representative of any such person) of a clearing system with an interest in the Bonds represented by this Global Bond on confirmation of entitlement and proof of his identity.

Conversion

Subject to the requirements of Euroclear and Clearstream (or any alternative successor clearing system on behalf of which the Global Bond may be held), the Conversion Right attaching to Bonds represented by this Global Bond may be exercised by the presentation of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bond together with this Global Bond to the Principal Paying, Transfer and Conversion Agent or such other Agent as shall have been notified to the holder of this Global Bond for such purpose for annotation. The provisions of Condition 7 of the Bonds will otherwise apply.

Redemption at the Option of the Issuer

The option of the Issuer provided for in Conditions 9(B) and 9(C) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in, and containing the information required by, those relevant Conditions.

Trustee's Powers

In considering the interests of Bondholders the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such 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 Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds represented by this Global Bond.

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 represented by this Global Bond shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount 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. For all purposes, each person who is for the time being shown in the records of Euroclear or of Clearstream as a holder of a particular principal amount of Bonds in respect of which this Global Certificate is issued, (in which regard any certificate or other document issued by Euroclear or Clearstream as to the principal amount of Bonds represented by a Global Certificate standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

Purchase and Cancellation

Cancellation of any Bond following its purchase will be effected by reduction in the principal amount of the Bonds in the Register.

Payments

Payments of principal in respect of Bonds represented by the Global Bond will be made against presentation and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Bond to or to the order of the Principal Paying, Transfer and Conversion Agent or such other Agent as shall have been notified to the holder of the Global Bond for such purpose.

Transfers

Transfers of interests of the Bonds with respect to which the Global Certificate is issued shall be made in accordance with the Agency Agreement. Transfers of interests in Bonds with respect to which the Global Certificate is issued shall 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.

Notices

So long as Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear or Clearstream, notices to the holders of such Bonds may be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for notification, as required by the Conditions and such notice will be deemed to have been given on the day after delivery thereof except that so long as the Bonds are listed on the Hong Kong Stock Exchange and the rules of the Hong Kong Stock Exchange so require, notices shall also be published in a leading daily newspaper having general circulation in Hong Kong (and, in the event that the Bonds are listed on any other stock exchange, notices shall be published in accordance with the rules of such stock exchange).

Put and Change of Control Option

The option of the Bondholders in Conditions 9(E) and 9(F) may be exercised by the holder of the Global Bond giving notice to the Principal Paying, Transfer and Conversion Agent if the principal amount of Bonds in respect of which the option is exercised and presenting the Global Bond for endorsement of exercise within the time limits specified in Condition 9(E) or 9(F) (as the case may be).

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

The Global Bond is governed by, and shall be construed in accordance with English law.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, approximately HK\$301 million after deducting expenses was used for investments in the Group's core businesses in the PRC.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Group

As at March 31, 2006, the authorised share capital of the Company was HK\$214,902,477.00 consisting of 9,000,000,000 ordinary shares of HK\$0.01 par value each, 68,500,000 convertible redeemable preference shares of HK\$1.00 each and 56,402,477 class B convertible redeemable preference shares of HK\$1.00 each and its issued share capital was approximately HK\$29,215,623.38 consisting of 2,921,562,338 ordinary shares. All of the issued ordinary shares of the Company are fully paid and non-assessable.

The following table sets forth the unaudited consolidated capitalisation and indebtedness of the Group as at September 30, 2005, which has been extracted from the Group's unaudited consolidated financial statements (without material adjustment) and as adjusted as at September 30, 2005 to give effect to the issue of the Bonds (assuming the Optional Bonds are issued in full):

	As at September 30, 2005
	Actual
	HK\$'000
Bank and other borrowings — due within one year	64,291
Obligations under a hire purchase contract — due within one year	126
Total borrowings — due within one year	64,417
Bank and other borrowings — due after one year	1,626,526
Amount due to a minority shareholder of a subsidiary	181,711
Convertible bonds	275,307
Total borrowings — due after one year ⁽¹⁾	2,083,544
Shareholders' funds	
Share capital ⁽²⁾	24,725
Reserves	1,399,320
Shareholders' funds	1,424,045
Total capitalisation ⁽³⁾	3,507,589
Total borrowings — due within one year and total capitalisation	3,572,006

Notes:

- (1) In the period from September 30, 2005 to March 31, 2006, total borrowings — due after one year increased by HK\$34 million.
- (2) Subsequent to September 30, 2005 and up to March 31, 2006, the issued share capital of the Company increased to HK\$29,215,623.38 due to the issue of 93,000,000 shares to Templeton Strategic Emerging Markets Fund II, LDC and 40,000,000 shares to Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V., 210,000,000 shares to Oman Oil in December 2005 and the exercise of share options by the Group's employees as well as the exercise of warrants previously issued by the Company, exercise of the subscription rights attached to the convertible bonds issued to ML.

- (3) Total capitalisation represents the sum of total borrowings — due after one year and shareholders' funds.
- (4) If all the Bonds (assuming the Optional Bonds are issued in full) were converted at the initial conversion price of HK\$1.7310 per Share, an additional 179 million Shares would be issuable on conversion.
- (5) The independent auditors have not carried out any audit or review of the interim consolidated financial information as at September 30, 2005 as above.

As at September 30, 2005, 45% of the Group's short term debt and long term debt was comprised of guaranteed indebtedness and 55% was comprised of unguaranteed indebtedness. In the period from September 30, 2005 to March 31, 2006, the Group's short term debt and long term debt increased by HK\$403 million (HK\$269 million of which debt is guaranteed by the Company).

Other than as disclosed above, there has been no material change in the amount of capitalisation, borrowings and indebtedness in the nature of the borrowing of the Group or in the total amount of any contingent liabilities or guarantees of the Group since September 30, 2005.

THE GROUP

Introduction

China Gas Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. The Company’s ordinary shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 384). The principal activities of the Company and the Company’s subsidiaries and associated companies (together, the “Group”) are the investment in and the operation and management of pipeline infrastructure for the sale and distribution of piped natural gas and compressed natural gas (“CNG”) transported by trucks in the People’s Republic of China (“PRC”). The Group operates through 48 subsidiaries, some of which are in the form of joint ventures with local governments or State Owned Enterprises (“SOEs”).

The Group entered the downstream natural gas business in 2002 and has since developed into one of the leading gas operators in the PRC. The Group typically acquires greenfield piped gas projects from local governments or corporations located in medium-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.

As at the date of this Offering Circular, the Group has obtained concession rights for a total of 48 natural piped gas projects, comprising the following:

Category	Number of projects	Location of projects			
Projects in Operation for which the Group has obtained concession rights	43	Anhui Province	Hubei Province		
		<ul style="list-style-type: none"> • Wuhu • Wuhuxian • Huainan • Suzhou • Shouxian • Nanlingxian • Huoshanxian • Fengtaixian 	<ul style="list-style-type: none"> • Suizhou • Xiaogan • Yichang • Yunmeng • Hanchuan • Yingcheng • Tianmen 		
				Hunan Province	
				Hebei Province	<ul style="list-style-type: none"> • Yiyang • Yuanjiang
				<ul style="list-style-type: none"> • Gaocheng • Leting • Fengnan • Xinle • Pingshan • Neiqiu • Cangzhou Development Zone • Nanpi • Longyaoxian • Xintangxian • Qinghexian • Wangdu • Nanbao 	Jiangsu Province
					<ul style="list-style-type: none"> • Pizhou • Yangzhong • Nanjing Jiangbei District • Jiawang District • Xinyi • Yangzhou
					Guangxi Province
					<ul style="list-style-type: none"> • Qinzhou • Yulin • Liuzhou • Fongcheng gang
				Zhejiang Province	
				<ul style="list-style-type: none"> • Xiaoshan District 	Guangdong Province
					<ul style="list-style-type: none"> • Maoming
				Shaanxi Province	
				<ul style="list-style-type: none"> • Baoji 	

Category	Number of projects	Location of projects	
Projects in respect of which the group has obtained concession rights but is awaiting the issue of business licence	5	Zhejiang Province <ul style="list-style-type: none"> • Shaoxingxian Hubei Province <ul style="list-style-type: none"> • Guangshui 	Hebei Province <ul style="list-style-type: none"> • Cangzhou Shaanxi Province <ul style="list-style-type: none"> • Xian Hi-tech zone Guangdong <ul style="list-style-type: none"> • Conghua

The Group's strategy is to grow organically by increasing its 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- and large-sized cities located along the West-East Pipeline and the Sichuan-East Pipeline with strong potential demand for gas by industrial and commercial users.

The Group generated total sales of HK\$410.2 million for the year ended March 31, 2005 and HK\$262.5 million for the six-month period ended September 30, 2005. The Group's primary revenue source is the connection fees it charges 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 March 31, 2006, the Company had an authorised share capital of HK\$214,902,477.00 consisting of 9,000,000,000 ordinary shares of HK\$0.01 each, 68,500,000 convertible redeemable preference shares of HK\$1.00 each and 56,402,477 class B convertible redeemable preference shares of HK\$1.00 each. The issued and fully paid share capital of the Company as of such date was approximately HK\$29,215,623.38, consisting of 2,921,562,338 ordinary shares of HK\$0.01 each.

Based on the closing price of the shares of the Company on the Hong Kong Stock Exchange on March 31, 2006, the market capitalisation of the Company was approximately HK\$43.8 billion.

History and Development

The Company was established in 1995 as Iwai's International Holdings Ltd. The Company was renamed Frontier International Holdings Limited in 1998 and was further renamed eBiz.hk.com Limited in 1999. In October 2001, the Company was renamed Hai Xia Holdings Ltd. As a result of the change in the focus of Company's principal operations, the Company was renamed China Gas Holdings Ltd in July 2002.

Until 2002, the principal business of the Group was retail fashion apparel and accessories, property investment and financial and securities investment. In 2002, the management of the Company decided to dispose of its interests in the retail fashion apparel business.

Currently, the principal business of the Group includes the investment in, and the construction, operation and management of, gas pipeline infrastructure and the sale and distribution of piped natural gas and CNG in the PRC. The Group's business also includes the sale of gas appliances and equipment, the production of stored value card gas meters and the provision of repair, maintenance and other services in connection with gas supply.

Since 2002, the Group has obtained city gas supply concession rights for 48 projects in various cities or districts in the PRC, of which 43 are currently in operation. As of the date of this Offering Circular, the Group has begun selling piped gas to customers in 29 cities, most of which are situated along the West-East Pipeline and the Sichuan-East Pipeline or in Hebei Province.

On November 1, 2004, the Company entered into a strategic alliance with Sinopec. Under the terms of the strategic alliance, the Company will have a priority right to invest together with Sinopec in natural gas exploration, storage and transportation projects. In turn, Sinopec will have a right to invest in the Group's downstream natural gas projects. On October 31, 2004, the Company entered into a subscription agreement with Sinopec, pursuant to which Sinopec invested HK\$128.1 million (approximately 10% of the Company's issued capital as at November 30, 2004 on a fully-diluted basis) into the Company. The Sinopec investment is in the form of ordinary shares and Sinopec does not have any preferential rights as a shareholder.

In December 2004, the Group acquired the 82% equity stake of its joint venture partner in the Dangyang natural gas pipeline project, which was initially designed as a long distance pipeline project, thus making the Dangyang JV a wholly-owned subsidiary of the Group. The Dangyang project is currently engaged in the construction and operation of a 54 km natural gas pipeline from the Zhi Jiang sub-station of Sichuan-East Pipeline to a glass company in Dangyang. The project has applied for, but has not yet been granted, exclusive concession rights to supply natural gas to Dangyang.

On February 18, 2005, the Company entered into a subscription agreement with GAIL (India) Limited for the subscription of a total of 210,000,000 shares of the Company at a subscription price of HK\$1.158 per share. Net proceeds of approximately HK\$242,000,000 would be applied for future investment of gas projects in the PRC and as general working capital of the Group. Under the terms of the agreement, the Company will form a joint venture company with GAIL for development of CNG automobile gassing business in China.

On October 28, 2005, the Company entered into two subscription agreements with two international investors — Templeton Strategic Emerging Markets Fund II, LDC and Nederlandse Financierings — Maatschappij Voor Ontwikkelingslanden, N.V ("FMO") respectively for the placement and subscription of a total 133,000,000 shares of the Company at a subscription price of HK\$1.16 per share. Net proceeds of approximately HK\$153,000,000 were received and completion of the transaction took place in the end of November.

On October 28, 2005, the Company signed a term loan facility agreement in the amount of US\$50,000,000 with FMO and Societe De Promotion Et De Participation Pour La Cooperation Economique S.A. ("Proparco"). Each of FMO and Proparco is a development finance institution providing financing solutions for companies in developing countries. This is an unsecured bank loan based on floating interest rate and the Group will use this loan to investing natural gas projects in China.

On November 28, 2005, the Company entered into a subscription agreement with Oman Oil Company S.A.O.C. ("OOC") for the subscription of a total of 210,000,000 shares of the Company by OOC at a subscription price of HK\$1.185 per share. Net proceeds of approximately HK\$248,000,000 would be applied for future investment of gas projects in the PRC and as general working capital of the Group.

The Company is regularly involved in discussions with potential strategic and financial investors with a view to raising additional capital to assist the Group in expanding its businesses and responding to competitive pressures. Subject to reaching agreement on commercial, legal, financial and other terms, the Group may enter into strategic cooperation agreements with such potential strategic or financial investors in the near future. While the Company cannot specify with any certainty the terms of any particular transaction, to the extent the Company enters into an arrangement that results in additional capital being raised through the issuance of equity or equity-linked securities, the issuance of those securities could result in dilution to the Company's existing shareholders and affect the market price of the Company's shares. In addition, depending on the nature of the arrangement, it could result in additional restrictions on the Group's operations or could harm the Group's financial profile. There can be no assurances that the Group will reach and consummate such potential agreements with any strategic and financial investors.

THE PRC DOWNSTREAM GAS MARKET — THE COMPANY'S COMPETITIVE POSITION AND STRATEGY

Natural gas as an attractive alternative fuel source

The PRC government is seeking to reduce the PRC's dependence on fossil fuels, such as petroleum and coal, partly to reduce its vulnerability and dependence on the international oil market, and also to respond to growing international attention to environmental issues. The combustion of coal, charcoal and oil releases harmful pollutants into the environment. With greater environmental awareness and increasing demands for a higher standard of living, the PRC government is promoting natural gas as a clean fuel alternative. Natural gas burns cleanly (as it does not release harmful pollutants), is reliable, efficient (due to its higher heat rate compared with other fuels), economical (as it costs less per unit of energy released) and safer as it is not prone to explosion. China has limited oil reserves and is currently importing large volumes of oil to support its economic development, making it vulnerable to volatile oil prices. In contrast, China has abundant natural gas reserves, estimated at approximately 2,555.7 billion cubic meters. Onshore natural gas reserves are mainly concentrated in the middle and western regions of the PRC such as Sichuan, Gansu, Qinghai, Chongqing and Xinjiang. Offshore natural gas reserves are mainly concentrated near the South China Sea.

Growth potential of the PRC downstream gas market

The Group believes that the expected growth in the PRC downstream gas market as a result of the PRC's continued economic development, urbanization and improvement in living standards presents significant growth opportunities for the Group. Since 1998 the PRC government has been actively promoting higher utilization of natural gas for environmental reasons and to reduce its dependence on imported oil. China has a 10-year natural gas development plan which includes the importation of natural gas from the states of the former Soviet Union, Central Asia and Australia and the construction of major natural gas pipelines such as the West-East Pipeline. The Chinese government has also been revising its regulations to encourage foreign investors to participate in the Chinese natural gas industry.

To accelerate the conversion to "clean" fuels, the PRC government in its five-year plan for 2001 to 2005 established a nationwide framework for piped natural gas. The framework comprises plans for five major pipelines that will connect the eastern, western, southern, northern and central parts of the country. One of the major pipeline construction projects is the West-East Pipeline Project, which is expected to be completed in 2005-2006. The West-East Pipeline will cover nine of the PRC's most developed provinces. The Group believes that upon its completion, the West-East Pipeline project will help give rise to a potentially substantial market of natural gas consumers in cities stretching from Xinjiang to Shanghai. Another significant natural gas project is the Sichuan-East Pipeline Project. This 760 km pipeline runs from Zhongxian Xinjian Clarification Plant through Lichuan city, Enshi city, Zhijiang city, Jingzhou city, Qianjiang city and ends at Wuhan city. The estimated total investment of this project is RMB5 billion with an annual gas transmission volume of 3 billion cubic meters. Once these projects are completed, natural gas is expected to be accessible by approximately 70 million people in 121 cities by 2005.

The construction of the West-East Pipeline and the Sichuan-East Pipeline is significant as these pipelines will substantially transform the domestic energy structure of the PRC. These pipelines will create opportunities for the utilisation of natural gas in downstream cities thereby attracting strong competition for the exclusive natural gas operating contracts and licences in these cities. Given the above factors, an inefficient energy consumption structure,

the growing shortage of oil and the government's favourable policies concerning natural gas, the Group believes that there is continued growth potential for the natural gas market in China. The Group also believes that the attractiveness of opportunities for natural gas operators is further enhanced by low penetration rates for piped gas.

The following table lists some of the world's leading primary gas consuming countries in 2003 and sets out their respective natural gas consumption levels as a percentage of total energy consumed. The Russian Federation, with its extensive natural gas reserves, has the greatest percentage of natural gas consumption in relation to total energy consumption. By comparison, for the same period China's natural gas consumption only represents 2.5% of its total energy consumed.

	Total Natural Gas consumed	Total Energy consumed	Natural Gas share of total consumption
	(BTU trillion) ⁽¹⁾	(BTU trillion) ⁽¹⁾	(%)
USA	22,898.72	92,831.12	25
Russian Federation	14,754.08	27,100.32	54
United Kingdom	3,462.28	9,017.28	38
Canada	3,179.48	11,772.56	27
Germany	3,110.80	13,420.88	23
Iran.....	2,924.96	5,215.64	56
Japan	2,783.56	20,393.92	14
Italy	2,605.80	7,348.76	36
Ukraine	2,456.32	5,385.32	46
China	1,191.80	47,603.72	2.5
TOTAL WORLD	94,208.76	393,504.44	24

Source: BP 2004 Statistical Review of World Energy

(1) BTU means British Thermal Unit.

The Group's strategy

The Group focuses on the development of its core business of distributing piped gas in the PRC. The Group believes that it is well positioned to leverage on its sizeable customer base, its established brand name, its experience in working with SOEs, its management's expertise and its relationships with central and local government authorities and major upstream gas suppliers, such as CNPC and Sinopec, to achieve its long-term objective of becoming a leading vertically integrated energy group that combines natural gas exploration, transportation and distribution. The Group seeks to achieve this objective through acquiring market share, enhancing R&D and improving efficiency. Specifically, it seeks to achieve its objectives through:

- *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- and large-sized cities in the PRC. In particular, the Group intends to target prefecture-level cities that either currently have, or are expected to have, access to gas sources or long-distance pipelines such as the West-East Pipeline and the Sichuan-East Pipeline.

The Group will also actively pursue the northeast, northwest and southwest natural gas distribution markets. The central PRC government is currently in negotiations with the Russian government over the proposed construction of a natural gas pipeline from East Siberia to northeast China. It is currently proposed that this pipeline will be constructed in 2006 and is expected to commence operations in 2008. When completed, it will provide China with 20 to 25 billion cubic meters of natural gas annually. Given the serious air pollution problems in southwest and northeast China, the convenient access to natural gas in these regions will fuel significant demand for natural gas in these areas.

- *Focusing on medium- and large-sized cities with strong potential demand for gas by industrial and commercial users and with low to moderate levels of pipeline penetration.* Gas sales to industrial and commercial users currently account for a large proportion of the Group's total gas sales. Cities with low to moderate gas pipeline penetration rates provide considerable opportunities for the growth of the Group's gas pipeline connection revenues. The Group believes that in cities with a higher gas pipeline penetration rate, it may be difficult to earn any significant amount of gas connection fees. The Group also seeks to avoid cities which require comprehensive reconstruction of pipe networks so as to reduce reconstruction and infrastructure costs.
- *Expanding in existing piped gas markets.* The Group plans to continue its efforts to increase penetration rates in its existing markets. The Group also intends to expand its existing piped gas operations by targetting commercial and industrial users, which the Group expects to contribute substantially to the demand for natural gas in the future.
- *Maintaining control.* In order to maintain management control, where possible, the Company's policy is to own, directly or indirectly, at least 51% of the shares of the joint venture pipeline companies through which it operates.
- *Establishing strong strategic relationships with domestic and foreign energy majors.* The Group intends to co-operate with domestic and overseas energy majors to enhance its competitive position. The Group has established strategic relationships with a number of PRC and overseas oil and gas companies and has recently entered into a strategic relationship with Sinopec, GAIL (India) Limited and Oman Oil Company S.A.O.C..
- *Operational flexibility.* As some cities will not be able to obtain natural gas supply from the main long-distance pipelines such as the West-East Pipeline and the Sichuan-East Pipeline in the near future, the Group will seek to supply these cities with CNG.
- *Careful asset selection.* Local governments normally require new natural gas joint venture companies to take over all the existing employees and the existing pipeline networks. The Group's policy is to only take over quality pipelines and only hire necessary employees.
- *Enhancing R&D efforts.* The Group plans to continue enhancing its research and development with a view to improving the existing piped gas technologies to make the supply and usage of gas more convenient and safe, improve efficiencies, reduce costs and provide better services to its customers.

- *Preferential policies from the local government.* As a public utility company, urban natural gas projects in the PRC require the support of the relevant local governments. To minimise risk, reduce cost and increase returns, the Group will endeavour to obtain preferential policies from the relevant local governments by leveraging the Group's relationships with government agencies in the PRC including requesting that:
 - The local government offer the project company an exclusive license and to ensure that no other new pipeline gas enterprise and other pipeline natural gas projects will be considered or approved during the investment period.
 - Only the quality assets of the former SOE be injected into the project company, so that the project company will not be burdened with non-performing assets.
 - The local authority allow the project company to charge gas connection fees at rates not less than the existing fees.
 - The local authority ensure that the cost of the construction and installation of the natural gas pipelines in any new real estate projects will be included in the sale price of the properties and will be paid by the property developers to the project company.
 - Property developers must incorporate natural gas pipelines into their plans when applying for new developments, as a condition to the approval of these developments by the local authority.
 - Municipal governments (a) promote increases in the utilisation of natural gas, (b) impose strict controls over coal consumption in urban areas and air pollution, (c) will not approve any new coal boilers or coal-based industrial projects once natural gas utilisation is established in an urban area and (d) require that public coal boilers used in urban areas be converted to gas within a certain time limit.

Key business drivers

The Group believes that the factors which support its business prospects include:

- *Government support for the natural gas sector.* Many cities in China are ranked among the most populated and polluted in the world. With greater environmental awareness, increasing demands for higher standards of living and upcoming major international events such as the 2008 Beijing Olympics and the 2010 World Expo, the Chinese government is strongly encouraging the use of cleaner fuels. China is currently the second largest energy consumer after the United States. With its limited oil reserves, China needs to import large quantities of oil to support its rapidly growing economy, making it vulnerable to the volatility of oil prices. Given the abundance of its natural gas reserves, the Chinese government has been actively investing in infrastructure projects such as the West-East Pipeline, the Sichuan-East Pipeline and LNG terminals to reduce its reliance on oil imports. Natural gas possesses a relatively higher heat value and is cheaper than coal gas, oil and electricity. In addition, as the Chinese government has in recent years intensified its enforcement of environmental regulations so as to restrict the use of coal in urban areas, industrial and commercial users are increasingly switching to natural gas as their main energy source.

- *Inefficient energy consumption in China.* By world standards, China's energy consumption is inefficient, with natural gas making up only 3% of its energy needs in 2003, in contrast to the world average of 28%. China's per capita consumption of natural gas is 24 cubic meters, which is far below the world average of 408 cubic meters according to statistics from the International Energy Association.
- *The Group's relationships with major corporations and government agencies.* The chairman of the Company is also a director of a unit of the Taiwan Affairs Office of the State Council, which is a major shareholder of the Company. Through his experience and relationships, he is able to access and secure projects ahead of the Group's competitors. The strength of the Group's relationship with the leading PRC energy companies who also recently demonstrated the recently agreed strategic alliance with Sinopec.
- *Capable and experienced management team.* Since the current management team took over the management of the Company, the Company has made profits before taxation of HK\$169 million for the financial year ended March 31, 2005 and increased its turnover from HK\$86 million for the financial year ended March 31, 2003 to HK\$410 million in the financial year ended March 31, 2005. The management team has also demonstrated its ability to obtain new concessions and manage the operations of the Group in a prudent and disciplined manner.
- *Sizeable and expanding customer base.* As at September 30, 2005, the Group currently maintains a residential customer base of approximately 470,220 households and an industrial and commercial customer base of 566 households for its piped gas business. This customer base provides the Group with a recurring stream of revenue and facilitates economies of scale. The Group intends to continue to increase its existing customer base by increasing penetration rates in markets in which it currently operates and by acquiring additional piped gas networks in new markets.
- *Local government partnerships.* The Group's minority partners in most of its non-wholly-owned piped gas businesses are the local governments or SOEs that had been the incumbent operators of gas businesses in the relevant Operational Locations. The Group believes that the retention of minority interests by local governments helps to align the interests of the relevant city or county with those of the Group. The Group also believes that such minority interests provide local government partners with strong incentives to consider regulatory matters, such as pricing approvals, from a commercial in addition to an administrative perspective.

The following table sets out certain information on the Company's operating subsidiaries, and jointly controlled entities as at the date of this Offering Circular:

Operational data as at September 30, 2005⁽¹⁾

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

Company Name	Operational location	Year of first establishment	Registered Capital (Rmb Million)	Ownership interest attributable to the company (%)	Principal Activities	Length of existing pipelines (Km) (Not including the customer's pipeline)	Contracted number of gas supply to households	Contracted number of gas supply to commercial/ industrial customers	Number of gas connections made to households	Number of gas connections made to commercial/ industrial customers	Number of acquired households	Number of acquired commercial/ industrial customers	Number of existing processing stations	Combined designed daily capacity of existing stations
Wuhu Zhongran City Gas Development Co. Ltd.	Wuhu City, Anhui	2003	100	90%	Trading of natural gas and pipeline construction	581	53,230	132	121,738	337	82,115	293	1	720,000
Huainan Zhongran City Gas Development Co. Ltd.	Huainan City, Anhui	2003	72	100%	Trading of natural gas and pipeline construction	505	65,219	59	68,403	11	31,289	3	1	118,900
Suzhou Zhongran City Gas Development Co. Ltd.	Suzhou, Anhui	2004	40	75%	Trading of natural gas and pipeline construction	240	27,269	13	23,634	19	2,940	7		
Shouxian Zongran City Gas Development Company Ltd.	Shouxian, Anhui	2004	3	90%	Trading of natural gas and pipeline construction	3.36	5,000						1	10,699
Wuhuxian Zhongran City Gas Development Company Ltd.	Wuhuxian, Anhui	2004	10	51%	Trading of natural gas and pipeline construction	6.94			1,023					
Beijing Zhongran Xiangke Oil and Gas Technology Co. Ltd. ⁽²⁾	Beijing, Tianjin and Hebei	2002	20	60%	Trading of natural gas and pipeline construction	206	30,400	28	23,644	56	2,106	2	16	240,000
Nanpixian Zhongran Development City Gas	Nanpixian, Hebei	2004	2,124	100%	Trading of natural gas and pipeline construction	3								
Gangzhou Zhongran City Gas Development Company Ltd.	Gangzhou, Hebei	2004	2,124	100%	Trading of natural gas and pipeline construction	5.32	131	1	131	2				
Yiyang Zhongran City Gas Development Co. Ltd.	Yiyang City, Hunan	2003	44	80%	Trading of natural gas and pipeline construction	5	62,304	5	31,631				1	222,222
Suizhou Zhongran City Gas Development Co. Ltd.	Suizhou City, Hubei	2003	35	100%	Trading of natural gas and pipeline construction	14	44,085	0	32,303				1	117,500
Yichang Zhongran City Gas Development Co. Ltd.	Yichang City, Hubei	2002	70	70%	Trading of natural gas and pipeline construction	306	12,612		72,203	91	59,842	87	1	265,333
Xiaogan Jiayu Natural Gas Co. Ltd.	Xiaogan City, Hubei	2003	16 ⁽³⁾	100%	Trading of natural gas and pipeline construction	18	7,802		22,279		3,000		1	190,000
Hanchuan Jiayu Natural Gas Co. Ltd.	Hanchuan City, Hubei	2003	11.27 ⁽³⁾	100%	Trading of natural gas and pipeline construction	0.48	8,388	3	15,737				1	130,000
Yunmeng Jiayu Natural Gas Co. Ltd.	Yunmeng City, Hubei	2003	9.7 ⁽³⁾	100%	Trading of natural gas and pipeline construction	4	7,311	3	11,987				1	110,000
Dangyang Zhongran Gas Co., Ltd.	Dangyang, Hubei	2004	21.24	100%	Trading of natural gas and pipeline construction	54		1					1	72,000,000

Company Name	Operational location	Year of first establishment	Registered Capital (Rmb Million)	Ownership interest attributable to the company (%)	Principal Activities	Length of existing pipelines (Km) (Not including the customer's pipeline)	Contracted number of gas supply to households	Contracted number of gas supply to commercial/ industrial customers	Number of gas connections made to households	Number of gas connections made to commercial/ industrial customers	Number of acquired households	Number of acquired commercial/ industrial customers	Number of existing processing stations	Combined designed daily capacity of existing stations
Tianmen Zhongran City Gas Development Company Ltd.	Tianmen, Hubei	2005	10	100%	Trading of natural gas and pipeline construction	8.26	1,651	4	607					30,000
Yingcheng Jiaxu Natural Gas Co. Ltd.	Yingcheng City, Hubei	2003	10 ⁽³⁾	100%	Trading of natural gas and pipeline construction	3	5,365	3	15,450				1	150,000
Xiaogan Zhenrong Jiaxu Natural Gas Co. Ltd.	Hubei	2002	48.95 ⁽³⁾	55%	Trading of natural gas and pipeline construction	201		2		1			1	2,080,000
Pizhou Zhongran City Gas Development Co.Ltd..	Pizhou, Jiangsu	2004	25	100%	Trading of natural gas and pipeline construction	102	22,247		15,356				1	191,780
Yangzhong Zhongran Development City Gas Co., Ltd.	Yangzhong, Jiangsu	2005	83	100%	Trading of natural gas and pipeline construction	158.61	7,800		13,584	49	5,748	48	1	55,888
Nanjing Zhongran City Gas Development Company Ltd.	Pukou District, Louhe District, Nanjing, Jiangsu	2005	203	100%	Trading of natural gas and pipeline construction	4.92	10,777		9,302					54,705
Yulin Zhongran City Gas Development Company Ltd.	Yulin, Guangxi	2005	20	75%	Trading of natural gas and pipeline construction									38,356
Qinzhou Zhongran City Gas Development Company Ltd.	Qinzhou, Guangxi	2005	20	100%	Trading of natural gas and pipeline construction	14.38	4,552		1,552					
Liuzhou Zhongran City Gas Development Company Ltd.	Liuzhou, Guangxi	2006	168	50%	Trading of natural gas and pipeline construction									
Yangzhouzhong Zhongran City Gas Development Company Ltd.	Yangzhou Jiangsu	2006	269	50%	Trading of natural gas and pipeline construction									
Subtotal			1,239,780			2,443.4	376,153	272	470,644	566	187,050	440	30	76,728,140.52

- (1) As of September 30, 2005, the construction of the Group's project in Pizhou has not yet commenced. After September 30, 2005, the Group established four more operating subsidiaries in the following cities or districts: Suzhou, Shouxian, Cangzhou Development Zone, Nanpi and Pizhou.
- (2) Beijing Zhongran Xiangke Oil and Gas Technology Co. Ltd. also holds investments in seven operating subsidiaries in the following cities or districts: Zhunhua, Gaocheng, Leting, Fengnan, Xinle, Pingshan and Neiqiu.
- (3) The amount of the registered capital of these companies is as of November 30, 2004.

Principal shareholders

The following table sets out certain information regarding ownership of the Company's outstanding shares as of December 31, 2005⁽¹⁾ by those persons who beneficially own more than 5% of the Company's outstanding shares, as recorded in the register maintained by the Company pursuant to Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO").

<u>Name of Shareholder</u>	<u>(As of December 31, 2005)</u>	
	<u>Number of Shares</u>	<u>Shareholder's Interest (%)</u>
Liu Ming Hui ⁽¹⁾	340,156,000	13.02%
Hai Xia Finance Holdings Limited ⁽²⁾	211,500,003	8.10%
China Petroleum and Chemical Corporation	210,000,000	8.04%
GAIL (India) Limited	210,000,000	8.04%
Mackenzie Financial Corporation	231,010,000	8.84%
Public	<u>1,409,716,335</u>	<u>53.96%</u>
	2,612,382,338	100%

(1) These 340,156,000 Shares represent the 211,656,000 Shares beneficially owned by Mr. Liu Ming Hui, an Executive Director and 128,500,000 shares to be delivered to Hai Xia pursuant to the sale and purchase agreement dated March 8, 2005 and entered into between Hai Xia and Mr. Liu Ming Hui. Details of the transaction were set out in the announcement of the Company dated March 9, 2005. Mr Liu Ming Hui also held options to subscribe for 135,000,000 Shares in the Company.

(2) Hai Xia Finance Holdings Limited (“Hai Xia”) is a company incorporated in B.V.I. that is a wholly-owned subsidiary of Strait Economic and Technologic Cooperation Center.

The Strait Economic and Technologic Cooperation Center, a unit of the Taiwan Affairs Office of the State Council, is a business entity founded in October 1993 that is registered with the State Administration for Industry and Commerce and is under the direct leadership of the Taiwan Affairs Office of the State Council. The Strait Economic and Technologic Cooperation Center is engaged in activities including real estate development, import and export trade, tourism service, marketing, commercial investigation and investment inquiry, talent exchanges and training, products and technologies exhibition. Its primary purpose is to promote cross-strait mutual exchange, mutual economic development, encourage science, technology and culture and to expedite the realization of the reunification of the China. Mr. Li Xiaoyun, director of the Strait Economic and Technologic Cooperation Center under Taiwan Affairs Office of the State Council is currently the Chairman of China Gas Holdings Ltd.

Strategic alliances

- On November 1, 2004, the Company and Sinopec entered into a co-operation strategic agreement pursuant to which the parties agreed to co-operate as strategic business partners in various activities including the development of natural gas markets, the exploration, extraction, transportation and distribution of natural gas and the investment in natural gas projects in the PRC. In conjunction with this cooperation strategy agreement, Sinopec invested HK\$128.1 million (approximately 10% of the Company's issued share capital as at November 30, 2004 on a fully-diluted basis) into the Company (see "Recent fund raising activities" above). Sinopec's investment is in the form of ordinary shares and Sinopec does not have any preferential rights as a shareholder.
- On May 7, 2004, the Company signed a letter of intent with OAO Gazprom of Russia ("Gazprom") in connection with a possible co-operation between the Company and Gazprom to jointly develop natural gas projects in the PRC. Gazprom may become a strategic investor in the Company pursuant to this letter of intent. Gazprom is one of the largest gas suppliers in Russia. It controls almost 60% of the natural gas reserves in Russia and produces 90% of the natural gas in Russia. As of the date of this Offering Circular there is no definitive timetable for completion nor are there any definitive terms for this proposed alliance.
- On February 18, 2005, the Company entered into a subscription agreement with GAIL (India) Limited for the subscription of a total of 210,000,000 shares of the Company at a subscription price of HK\$1.158 per share. Net proceeds of approximately HK\$242,000,000 would be applied for future investment of gas projects in the PRC and as general working capital of the Group. Under the terms of the agreement, the Company will form a joint venture company with GAIL for development of CNG automobile gassing business in China.
- On January 17, 2005, the Company signed a Memorandum of Understanding ("MOU") with Korea Gas Corporation ("Kogas") in connection with a possible co-operation between the Company and Kogas to jointly develop natural gas projects in the PRC. Kogas may become a strategic investor in the Company pursuant to this MOU. Kogas is one of the largest Liquefied Natural Gas ("LNG") business operators in the world.
- On November 28, 2005, the Company entered into a subscription agreement with Oman Oil Company S.A.O.C. ("OOC") for the subscription of a total of 210,000,000 shares of the Company by OOC at a subscription price of HK\$1.185 per share. Net proceeds of approximately HK\$248,000,000 would be applied for future investment of gas projects in the PRC and as general working capital of the Group.

Recent Acquisitions

- In April 2005, the Group, through its subsidiaries, signed a joint venture agreement with Shaoxing County China Qing Fang City Piped Gas Company Limited for the establishment of Shaoxing Zhongran to be engaged in the natural gas project in Shaoxing, Zhejiang province with exclusive rights for the operation of the piped gas business for 30 years. Shaoxing Zhongran will have registered capital of RMB70,000,000 and owned as to 55% by the Group and 45% by China Qing Fang City.
- In October 2005, in response to the tender made by the Group regarding its investment in Yangzhou city, the Group was granted the license for a period of 25 years to operate natural gas project in Yangzhou city, Jiangsu province. The new joint venture company would be named as Yangzhou Zhongran and would be beneficially owned as to 50% by the Group and as to 50% by Yangzhou City Construction National Assets Holdings (Group) Company Limited.
- In November 2005, the Group through its subsidiary, signed a joint venture agreement with Baoji City Gas Company for the establishment of a joint venture company to be engaged in the natural gas project in Baoji city, Shaanxi province with an exclusive right for the operation of the piped gas business for 30 years. The joint venture company would have a registered capital of RMB281,356,400 and would be owned as to 64% by the Group, 34% by Baoji City Gas Company and 2% by the management of the joint venture company.
- In December 2005, the Group through its subsidiary, acquired 50% interest in Liuzhou City Gas Company and obtained the piped gas operating right in Liuzhou city, Guangxi Zhuang Autonomous Region for a period of 30 years.
- In March 2006, the Group through its subsidiary, signed the Guangzhou Conghua Natural Gas Utilization Project Agreement with the Conghua Municipal Government. According to the agreement, China Gas will establish a wholly owned subsidiary in Conghua City with registered capital of RMB30 million. The subsidiary has the rights to supply piped-gas in Conghua City for a period of 30 years.

Recent Projects

The Group has recently entered into a number of joint ventures with various natural gas companies.

- In August 2005, the Group through its subsidiary signed an agreement with People's Government of Wangduxian for the establishment of a wholly owned subsidiary in Wangduxian namely Wangdu Zhongran which would be engaged in the natural gas project in Wangduxian, Hebei province with an exclusive right for the operation of the piped gas business for 30 years.
- In January 2005, the Group was granted the licence for a period of 30 years to operate the piped gas for the Jiangbei District of Nanjing City, the PRC, Nanjing Zhongran is a wholly owned subsidiary of the Company with registered capital of US\$24,180,400 and was duly set up in June 2005, Nanjing city is the capital of Jiangsu Province and Jiangbei district of Nanjing city includes Luhe district and Pukou district and the area of which covers more than 50% of the Nanjing city. The

planned population of this area is about 3.6 million. Pukou district is an important strategic development area and is planned to be a luxury residential area and high technology development zone while Luhe district is a major area for petroleum chemical industry for Nanjing city.

- In March 2005, the Group signed a cooperation agreement with People's Government of Xiaoshan District, Hangzhou city to establish a wholly owned subsidiary to be named Hangzhou Zhongran and was granted an exclusive licence to operate natural gas projects in Xiaoshan District, Hangzhou city for a term of 30 years. Hangzhou Zhongran will have its registered capital of RMB100,000,000 and is a wholly-owned subsidiary of the Group. As of March 31, 2005, Hangzhou Zhongran was in the process of establishment.
- In April 2005, the Group signed a cooperation agreement with Maoming City Construction Bureau, Guangdong Province for the establishment of a wholly-owned subsidiary of the Company, namely Maoming Zhongran, to operate natural gas project in Maoming city, Guangdong province, Maoming Zhongran will have a registered capital of RMB50,000,000.

Ongoing negotiations

In addition to the foregoing, the Group is currently in discussions in relation to potential investments in a number of natural gas projects in the PRC. There can be no assurance that the Group will consummate any of these investments.

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 refineries via long distance pipelines under super high pressure so that natural gas may be supplied to a large number of locations near these 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 a city (including the intermediate pipelines, the processing stations, the main pipelines and the branch pipelines). Distribution companies purchase natural gas from oil and gas exploration and production companies and determine the method of delivering natural gas to desired destinations 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 involves the delivery of CNG by CNG 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 pressure regulating facilities which will depressurise the CNG 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.

The processing station is usually located on the outskirts of the 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 the 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. Usually, the customers' pipelines are not owned by the distribution company.

Different stages of the 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 Group's business activities, from the identification of a project to the supply of gas to end users, can be described as follows:

Identifying and securing new projects

(a) Preliminary review and feasibility studies

The selection of any new project 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) the extent and concentration of industrial and commercial activities; (iii) the likely level of connection fees and gas usage charges; (iv) whether exclusive operational rights and preferential treatment on tax and governmental fees will be obtained; (v) types of gas supply (piped natural gas, CNG or LNG) and methods of delivery (whether by way of intermediate pipeline or by CNG trucks); (vi) the 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, the 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.

(b) Securing a new project

Once management has approved a potential project, the Group will prepare and submit a detailed proposal to the local government and commence negotiations on major issues such as the granting of exclusive rights to supply gas to that Operational Location, the 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 more familiar with the local environment.

The Group will attempt to reach an agreement with the local government on the proposed connection fees and gas usage charges, but such fees and charges are subject to final approval of the local state price bureau. After the formation of a project company, the Group will begin to negotiate gas purchase agreements to purchase gas from oil and gas exploration and production companies. To date all the Group's operating project companies have entered into take-or-pay gas purchase contracts with CNPC.

Construction of the gas pipeline infrastructure

(a) 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 technical requirements of the Group and will take into account the local population size and needs, the development of the economy, the utilisation of energy resources and the environmental conditions.

(b) Construction stage

The Group generally enters into turnkey contracts with independent contractors for the construction, installation of major gas pipes and processing stations. The Group generally provides a down payment with the remainder to be paid upon completion of the 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.

(c) 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 the customer's pipelines. Unless complex designs are involved, these designs are normally prepared by the Group, reviewed by a government approved design institute, and carried out by the Group itself.

The projects

The Group has obtained exclusive rights from local governments to supply piped gas to all of its existing Operational Locations. As at the date of this Offering Circular, the Group had secured concession rights in 48 Operational Locations and operates in two other Operational Locations, (each with an operational period of 20-30 years) in the PRC.

Market expansion opportunities for the Group are mainly sourced with the assistance of substantial shareholders in the Taiwan Affairs Office of the Central Government. Since 2002, the Group has pursued commercial opportunities in relation to the West-East Pipeline, with particular focus on medium-sized cities with low penetration rates. As of the date of this Offering Circular, the Group obtained exclusive gas operation rights in 48 cities along the West-East Pipeline and Sichuan-East Pipeline and two long Distance Pipeline projects.

There is intense competition in the natural gas distribution industry. As competitors have made inroads into cities along the West-East Pipeline and Sichuan-East Pipeline, the Group has adjusted its strategy by also entering into the Zhejiang, Guangdong and Guangxi provinces. Although most of the cities in these provinces will not have any supply of natural gas until around 2007, securing these markets is critical to the Group's future success. Most of the cities in these provinces are relatively wealthy with substantial potential for developing their natural gas markets. It will therefore be possible to charge higher connection fees during the construction stage of projects in these cities. Some bigger cities in the northeast and northwest area also have the potential to be a substantial consumer of natural gas. The Group is examining natural gas opportunities in these cities as well.

The table below set out the exclusive concessions which the Group has secured:

Projects Currently in Operation

Province	City/districts of operation	Registered Capital	Group's Share-holding	Share capital injected	Population (estimate based on historical statistics)	Urban Population (estimate based on historical statistics)	Connectable Household (calculated based on the assumption that each household has 3.2 persons)	No. of concessions
		(as at December 31, 2005)	(as at December 31, 2005)	(as at December 31, 2005)	(estimate based on historical statistics)	(estimate based on historical statistics)	based on the assumption that each household has 3.2 persons)	
		RMB '000		RMB '000	('000)	('000)	('000)	
Anhui	Wuhu	100,000	90%	90,000	2,190	650	203	1
Anhui	Wuhuxian	10,000	100%	10,000	5,350	550	172	1
Anhui	Huainan	72,000	100%	72,000	2,065	1,090	341	1
Anhui	Shouxian	3,000	90%	2,700	1,270	150	47	1
Anhui	Suzhou	30,000	75%	10,000	5,707	360	113	1
Hebei	Gaocheng, Leting, Fengnan, Xinle, Pingshan, Neiqiu*	20,000	60%	12,000	4,060	731	228	6
Hebei	Cangzhou Development Zone	2,000	100%	2,000	20	20	6	1
Hebei	Nanpi	2,000	100%	2,000	760	152	48	1
Hubei	Hanchuan	11,274	100%	11,274	1,061	173	54	1
Hubei	Suizhou	35,000	100%	35,000	2,580	782	244	1
Hubei	Xiaogan	16,000	100%	16,000	883	230	72	1
Hubei		48,000	55%	26,923			—	—
Hubei	Yichang	70,000	70%	49,000	3,990	1,209	378	1
Hubei	Yunmeng	9,708	100%	9,708	579	94	29	1
Hubei	Yingcheng	10,070	100%	10,070	669	175	55	1
Hunan	Yiyang**, Yuanjiang, Taojiang***	44,000	80%	35,200	4,600	860	269	3
Jiangsu	Pizhou	5,000	100%	5,000	1,580	180	56	1
Jiangsu	Yangzhong	8,300	100%	8,300	230	90	28	1
Jiangsu	Nanjing	200,000	100%	200,000	1,348	420	131	1
Guangxi	Yulin	20,000	100%	5,080	6,400	400	125	1
Guangxi	Qinzhou	20,000	100%	10,800	3,320	220	69	1
Guangxi	Liuzhou	168,000	50%	140,000	3,580	1,300	406	1
Jiangsu	Yangzhou	369,000	50%	210,000	4,570	1,150	359	1
SUBTOTAL		1,273,352	—	973,055	55,862	10,086	3,433	29

* The Group's operations in these six areas are held by six different companies, which are majority or wholly owned by Beijing Zhongran Xiangke Oil and Gas Technology Co. Ltd, which is a 60% subsidiary of the Company. The information on registered capital, Group's shareholding and share capital injected in this row relate to those of Beijing Zhongran Xiangke Oil and Gas Technology Co. Ltd.

** The Company's subsidiary, Yiyang Zhongran City Gas Development Co. Ltd. operates projects in three different areas.

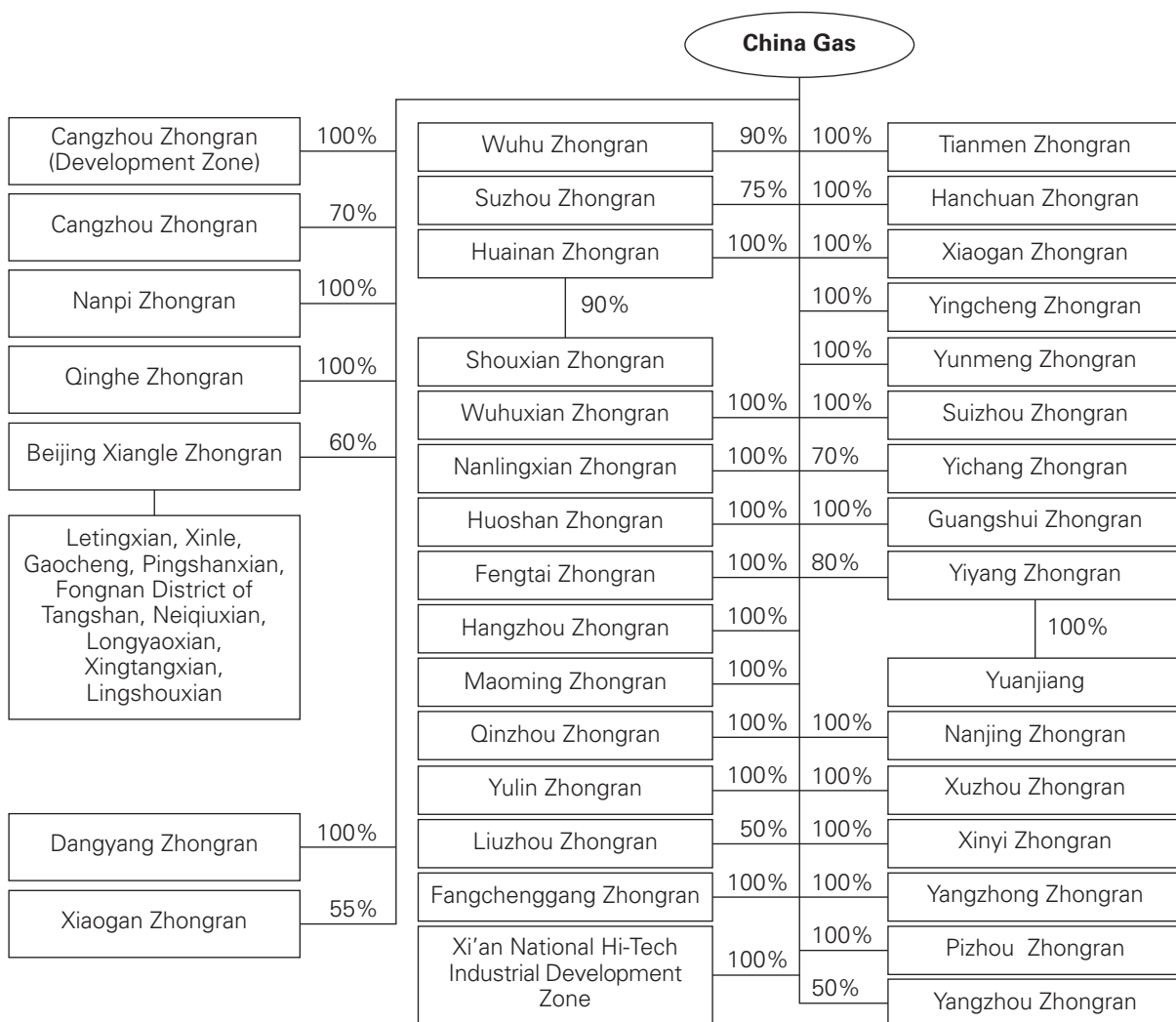
*** In operation but the Group has not obtained a concession right.

Projects signed

Province	City/districts of operation	Group's Share-holding (as at December 31, 2005)	Population (estimate based on historical statistics)	Urban Population (estimate based on historical statistics)	Connectable Household (calculated based on the assumption that each household has 3.2 persons)	No. of concessions
			('000)	('000)	('000)	
Beijing	Fangshan, Changping, Daxing, Tongzhou, Yanqing, Shunyi	49%	4,419	2,584	808	6
Shannxi	Xian Gaoxin District	100%	20	20	6	1
Shanxi	Baoji	64%	3,720	1,000	313	1
				3,616	1,150	9

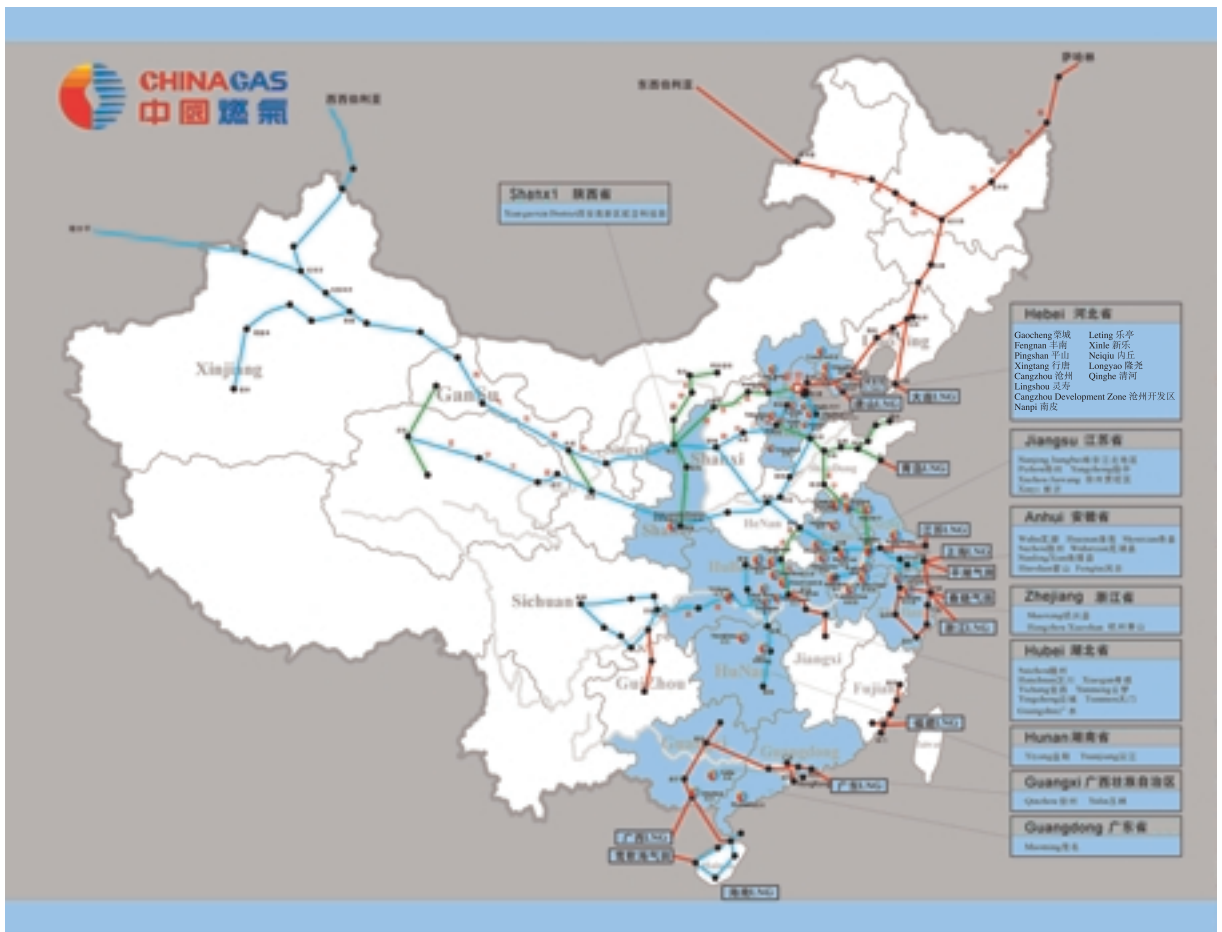
Through the projects described above, the Group has a population coverage of approximately 52 million, with an urban population of approximately 8.6 million in an estimated 2.7 million households.

The corporate structure of the Group for its projects in operation is as follows:



Areas of operations

The map below shows the locations of the Group's projects.



Construction of Piped Gas Networks

One of the Group's principal businesses is the construction of city gas pipeline networks. The Group builds the main city pipeline network and the branch pipeline network which connects to residential users and industrial and commercial users. The Group charges users a gas connection fee and a gas usage fee. During the financial year ended March 31, 2005, the Group had constructed a gas pipeline network of approximately 3,751 km (including branch and customer pipeline networks). During the financial year ended March 31, 2005, 411,064 domestic households and 524 industrial and commercial users were connected to the Group's networks and the Group's gas connection fee income amounted to approximately HK\$292 million. The average connection fee for domestic households was RMB2,217 and the average connection fee for industrial and commercial users was RMB50 per cubic meter. Gas connection fee income accounted for 71% of the Group's total turnover for that financial year.

As of September 30, 2005, the Group owned a total gas pipeline network of approximately 4,285 km.

As at September 30, 2005, the Group had made gas connections to a total of approximately 470,220 domestic households, representing 10.5% of the Group's overall users available for connection.

As at September 30, 2005, the Group had made gas connections to a total of 566 industrial and commercial users.

Sale of Piped Gas

Although connection fees represent a significant component of the Group's income, these fees will diminish in line with the rise of gas pipeline penetration rates. The Group's recurring revenues are derived from the sales of piped gas. Gas usage charges are based on actual usage on a per cubic meter basis. The gas usage charges per cubic meter vary between city or district, and the payment mechanism between different categories of customers is different. In general, the agreed tariff permits the Group to pass through any increase in the cost of gas to the users.

In most cases, residential customers purchase gas units through auto-pay arrangements with banks.

For commercial and industrial customers, usually a deposit is paid up front and 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. If customers default in payment of gas usage charges, gas supply will be suspended within one month of billing. For industrial users with large gas usage volumes, 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 September 30, 2005 the average approved natural gas usage charges (inclusive of value added tax of 13%) ranged from RMB1.8 to RMB2.5 per cubic meters for residential users and commercial and industrial users. During the financial year ended March 31, 2004, other than coal gas sales income from the Wuhu joint venture company and Huainan joint venture company and CNG sales income from Beijing Zhongran Xiangke, the other projects recorded no gas sales income as CNPC's long distance pipelines were not completed. During the financial year ended March 31, 2005, the Group sold 9,666,920 cubic meters of natural gas to domestic households, 27,443,600 cubic meters to industrial and commercial users, and recorded gas sales income of HK\$76,218,000, representing approximately 19% of the Group's total turnover for the year. Gas sales income was approximately 108% higher than that of the same period last year. During the period ended September 30, 2005 the Group sold 8,928,990 cubic metres of natural gas to domestic households, 50,462,850 cubic metres to industrial and commercial users and recorded gas sales income of HK\$94,817,000 representing approximately 36.6% of the Group's total turnover for the period. Gas sales income was approximately 163.5% higher than that of the same.

In May 2004, the Group's Wuhu JV established gas connections to the West-East Pipeline. All the Group's project companies have entered into take-or-pay gas purchase contracts with CNPC to secure an adequate gas supply. Therefore, it is expected that the Group's natural gas sales will record greater growth although no assurances can be made that such growth will actually occur.

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 teams of each project company work 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 the use of 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.

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 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.

For new residential developments, connection fees are collected in advance by instalment based on the percentage-of-completion of the pipeline construction work and the timing on supply of natural gas.

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 with an upfront deposit) are borne by such customers. Although the existing number of commercial and industrial customers is less than the number of residential customers, these customers tend to be high volume gas users compared to residential customers.

The Group's pricing policy

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 to 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 March 31, 2004 and 2005 and the six months ended September 30, 2004 and 2005, connection fees accounted for approximately 49.1%, 71%, 75.2% and 50.1% of the Group's total turnover, respectively and sales of piped gas accounted for approximately 13.2%, 25.3%, 19.4% and 36.6% of the Group's total turnover, respectively.

Connection fees

The Group charges residential customers a different flat connection fee for different cities which are approved by the relevant local state price bureau. As of March 31, 2005, the average approved connection fee for residential customers was RMB2,217 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 meter 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 on 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. As at March 31, 2005, the average connection fee for commercial and industrial users was RMB50 per day per cubic meter.

Purchases

The main types of purchases made by the Group are gas, pipes, machinery, equipment and gas appliances. All of the materials purchased by the Group were acquired from independent third parties during the two years ended March 31, 2005 and the six months ended September 30, 2005.

For the two years ended March 31, 2004 and 2005, the Group's largest supplier accounted for approximately 23% and 19% of the Group's total purchases, respectively, and the Group's five largest suppliers accounted for approximately 65% and 53% 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 relatively 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 long term take-or-pay gas purchase agreements to purchase natural gas from CNPC. The term of these contracts is 10 to 20 years.

The quantity of natural gas to be supplied to the Group by CNPC is usually stated in the gas purchase agreements. During the first three years of each contract, the Group may adjust the volume of gas it takes (or pays), to enable the Group to better assess the actual volume of gas required by the relevant project company. Any unused take-or-pay volume in each year may be rolled over for use in the following three years. The Group can also convert the unused volume of natural gas into CNG and supply such CNG to other projects in neighboring Operational Locations which do not have access to piped gas. The Directors believe that the stated quantities of natural gas as set out in the relevant existing gas purchase agreements are sufficient for the potential demand of gas by the respective project companies.

The wholesale price of natural gas is agreed between the supplier 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 Reform Commission with approval from the State Council according to the location of the natural gas source, is subject to a 10% allowance for upward or downward adjustments as a result of negotiations between suppliers and distribution companies. Each contract contains a fixed purchase price for the first year of the term of the contract.

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 arrangements are beneficial to the Group as they enable the relevant projects to secure long term guaranteed gas supply at predictable price levels, 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.

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.

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 provides 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

The Group emphasizes safety control and has, accordingly, established a safety department to oversee and implement safety policies and to conduct both spot and regular inspections of its pipelines, storage facilities and filling sites. Each new employee receives safety training. The managing director of each operating subsidiary is also responsible for safety.

The Group is active in educating its consumers about safety procedures. Accordingly, before gas is actually supplied, the Group's policy is to give a thorough explanation of safety procedures to users and to arrange regular seminars or distribute brochures and booklets on safety for its customers. Such explanations generally include showing customers how to connect to the gas supply, how to check for gas leaks, and similar tasks.

The Group has not experienced any major accidents which have resulted in serious injury or death since the Group began operations in the natural gas industry in 2002. There can be no assurance, however, that such accidents will not occur in the future.

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.

To monitor the quality of gas purchased by the Group, the Group obtains gas composition reports regularly from CNPC 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;
- industrial machinery and use of CNG in motor vehicles; and
- improvement of gas storage and transportation methods.

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 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, the Group may face competition from other distribution companies which include SOEs, private enterprises and foreign companies. Once the Group has successfully obtained an exclusive right, 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 to supply gas to new locations notwithstanding inevitable strong competition from other companies but there can be no assurances that such will always be the case.

After the Group secures a location, the Group faces competition from existing providers of other fuel substitutes such as bottled LPG, coal and, to a lesser extent, electricity. New substitutes may also be developed. 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.

The Group also faces competition in bidding for new PRC piped gas markets from other domestic or foreign piped gas providers. The Group expects competition to intensify as a result of new entrants attracted by high margins in the piped gas business. In view of the Group's competitive strengths in the market, however, it believes it is well-positioned to compete with such new entrants. There is no assurance that future competitors will not have a competitive advantage over the Group as a result of superior products, services or more competitive pricing. Once a bidder is selected by an SOE as a joint venture partner for provision of piped gas to a city, that bidder usually acquires exclusive rights to provide piped gas to that city for a term of no more than thirty years.

Insurance

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, among other items, (i) the loss of life or property of third parties arising out of any accident that may occur in business 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.

Regulation

The Group operates in an industry that is 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 March 4, 2002 and promulgated on April 1, 2002 the Group's business is not in contravention of the relevant PRC rules and regulations.

Litigation

Neither the Company nor any of its subsidiaries is party to any litigation or other legal proceedings which the Directors believe could, individually or taken as whole, have a material adverse effect on the business, financial condition or results of operations of the Company.

Employees and Employee Benefits

As at March 31, 2006, the Group employed approximately 4,541 employees.

The Group has never experienced any strikes, labour disputes or other similar disturbances that have had a material impact on its operations. On the whole, the Group believes that its relations with its employees are good.

The total remuneration of the Group's employees includes salary and contributions to pension funds. All full-time employees in the PRC are covered by a government-regulated pension. The PRC government is responsible for providing pensions to these employees upon their retirement. Certain senior management personnel (at the Company level and at the level of the project companies) are entitled to share options and other bonuses. As of December 31, 2005, a total of approximately 679 million options have been granted, with the underlying shares representing 25.99% of the issued share capital of the Company as of that date. Senior management at some project companies are also entitled to bonuses should the performance of that company meet certain set objective targets.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

Substantial shareholders' interests

So far as is known to the Directors and the chief executive of the Company, as at March 31, 2006, the following persons (not being Directors or the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital as of March 31, 2006
		Personal interests	Corporate interests				
Xu Xau Lan (note)	deemed interest	470,100,000 (L) 118,500,000 (S)		335,100,000	135,000,000	470,100,000	16.09%
Hai Xia Finance Holdings Limited	beneficial owner		340,000,003 (L) 150,000,003 (S)	221,500,003	N/A	221,500,003	7.58%
China Petroleum and Chemical Corporation	beneficial owner		210,000,000 (L)	210,000,000	N/A	210,000,000	7.19%
GAIL (India) Limited	beneficial owner		210,000,000 (L)	210,000,000	N/A	210,000,000	7.19%
Oman Oil Company S.A.O.C	beneficial owner		210,000,000 (L)	210,000,000	N/A	210,000,000	7.19%
Mackenzie Financial Corporation	Investment manager		231,010,000 (L)	231,010,000	N/A	231,010,000	7.91%

L: Long Position

S: Short Position

Note: These 470,100,000 shares represent the 216,600,000 shares beneficially owned by, Mr. Liu Ming Hui, an executive Director and 118,500,000 shares to be delivered to Hai Xia Finance Holdings Limited and the 135,000,000 shares to be allotted and issued upon exercise of the options granted to Mr. Liu Ming Hui under the share option scheme adopted by the Company on February 6, 2003. Ms. Xu Xau Lan is the spouse of Mr. Liu Ming Hui.

Directors' interests

As at March 31, 2006, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital as of March 31, 2006
		Personal interests	Corporate interests				
Liu Ming Hui	Beneficial	470,100,000 (L) 118,500,000 (S)	N/A	335,100,000	135,000,000	470,100,000	16.09%

L: Long Position

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 March 31, 2006, 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 as of March 31, 2006 are as follows:

Name	Number and description of equity derivatives	Nature of interests	Number of underlying Shares	Approximate percentage of the issued share capital of the Company as of March 31, 2006
Liu Ming Hui	5,000,000 Options <i>(Note 1)</i>	Personal	5,000,000	0.17%
	130,000,000 Options <i>(Note 3)</i>	Personal	130,000,000	4.45%
Li Xiaoyun	5,000,000 Options <i>(Note 5)</i>	Personal	5,000,000	0.17%
	5,000,000 Options <i>(Note 1)</i>	Personal	5,000,000	0.17%
Xu Ying.....	5,000,000 Options <i>(Note 1)</i>	Personal	5,000,000	0.17%
	90,000,000 Options <i>(Note 3)</i>	Personal	90,000,000	3.08%
Ma Jin Long	9,240,711 Options <i>(Note 1)</i>	Personal	9,240,711	0.32%
Zhu Wei Wei.....	4,000,000 Options <i>(Note 1)</i>	Personal	4,000,000	0.14%
	6,000,000 Options <i>(Note 2)</i>	Personal	6,000,000	0.21%
Mao Er Wan	1,000,000 Options <i>(Note 1)</i>	Personal	1,000,000	0.03%
Wong Sin Yue, Cynthia .	1,000,000 Options <i>(Note 1)</i>	Personal	1,000,000	0.03%
	700,000 Options <i>(Note 4)</i>	Personal	700,000	0.02%
Zhao Yu Hua	1,000,000 Options <i>(Note 1)</i>	Personal	1,000,000	0.03%
	700,000 Options <i>(Note 4)</i>	Personal	700,000	0.02%

Notes:

1. These options were granted under the share option scheme adopted by the Company on February 6, 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.80 per Share during the period from September 1, 2004 to January 8, 2014.
2. These options were granted under the share option scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.71 per Share during the period from March 20, 2005 to October 5, 2014.

3. The options were granted under the share option scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.71 per Share during the period from November 22, 2004 to October 5, 2014. The exercise of options will be subject to the condition that the consolidated net asset value of the Group which shall be certified by the auditors appointed by the Company as at the date of exercise of the options being not less than HK\$1billion.
4. These options were granted under the share options scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.71 per Share during the period from January 1, 2005 to October 5, 2014.
5. These options were granted under the share options scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$1.50 per Share during the period from October 20, 2010 to October 19, 2015.

Save as disclosed above, as at March 31, 2006, none of the Directors nor the Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

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.

Overview

The Company is principally engaged in the investment in and the operation and management of gas pipeline infrastructure for the sale and distribution of piped natural gas and compressed natural gas transported by trucks in the PRC. The Company's operational activities are conducted through its 48 PRC operating subsidiaries, 29 of which are wholly-owned.

Turnover represents the net amounts received and receivable for goods sold, sales of piped gas and petroleum, income from trading of securities, gas connection fees, dividend income and rental income received and receivable by the group. The Group derives the majority of its turnover from gas connection fee revenue and piped gas sales. Revenues derived from connection fees are accrued during the construction phase of the Group's projects, while piped gas sale revenues are received during the term of the provision of services to the Group's customers.

For the year ended March 31, 2005, gas connection fees and piped gas sales revenue combined accounted for approximately 96.5% of total turnover. For the six-month period ended September 30, 2005, gas connection fees and piped gas sales revenue combined accounted for approximately 86.7% of total turnover. Gas connection revenue is recognized when the outcome for a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognized using the percentage of completion method, in which revenues are measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognized only to the extent of contract cost incurred that is probably recoverable.

The balance of the Group's turnover is comprised of sales of goods, rental income, dividend income and other items.

The significant factors that affect the Group's turnover include the demand and price of gas relative to other energy sources and the availability of government concessions. A change in the Group's revenue recognition policies or a failure to make the necessary connection could also affect the Group's turnover.

Cost of sales primarily represents the cost of purchasing natural gas. Cost of sales also includes other direct expenses including depreciation of assets directly involved in the Group's operations, transportation costs for gas and wages, salaries and benefits for administrative personnel.

Operating expenses primarily consist of administrative expenses and distribution costs. Administrative expenses include expenses incurred in the daily operation of the Group, transaction expenses for the acquisition of interests in new project companies and the depreciation of the Group's administrative facilities. Distribution costs associated with expenses have increased as the Group's business has grown and are likely to increase as the Group further expands its business.

Results of operations in the years ended March 31, 2004 and 2005

Turnover

Turnover increased 9.0% to HK\$410,202,000 for the year ended March 31, 2005 from HK\$376,491,000 for the year ended March 31, 2004 primarily due to the expansion of the Group's existing projects and acquisition of new projects, and an increase in gas connection fees and revenues from the distribution of piped gas.

Revenues from gas connection fees increased to HK\$292,150,000 for the year ended March 31, 2005 from HK\$185,045,000 for the year ended March 31, 2004 primarily due to increased customer penetration of the Group's existing projects, increased demand from new projects acquired by the Group and increased average connection fees from residential customers.

Piped gas sales increased 108.8% to HK\$103,843,000 for the year ended March 31, 2005 from HK\$49,727,000 for the year ended March 31, 2004 primarily due to increased penetration of the Group's existing projects and the acquisition of new projects.

Cost of Sales

Cost of sales decreased 21.6% to HK\$163,086,000 for the year ended March 31, 2005 from HK\$208,081,000 for the year ended March 31, 2004, primarily due to the disposal of low margin petroleum sales business. The decrease in cost of sales by the disposal of business outweighed the effect of increase in revenue from gas pipeline construction and sales of piped gas.

Operating Expenses

Administrative expenses increased 22.3% to HK\$75,526,000 for the year ended March 31, 2005 from HK\$61,730,000 for the year ended March 31, 2004 principally due to the costs associated with the expansion of the Group's existing projects and the acquisition of new projects. Distribution costs increased 63.0% to HK\$12,469,000 for the year ended March 31, 2005 from HK\$7,649,000 for the year ended March 31, 2004 due largely to increased gas connections and increased gas sales.

Finance Costs

Finance costs decreased 13.5% to HK\$21,270,000 for the year ended March 31, 2005 from HK\$24,602,000 for the year ended March 31, 2004 primarily due to the capitalisation of finance cost to associated gas projects.

Gross Profit Margin and Net Profit Margin

Gross margins increased to 60.2% in the year ended March 31, 2005 from 44.7% in the year ended March 31, 2004. Net profit margins also increased to 32.2% in the year ended March 31, 2005 from 21.3% in the year ended March 31, 2004. Gross margins and net profit margins increased primarily due to the increase in revenue from gas pipeline construction and piped gas sales and disposal of low margin petroleum sales business.

Results of operations for the six months ended September 30, 2005

Turnover

Turnover increased 39.8% to HK\$262,520,000 for the six months ended September 30, 2005 from HK\$187,724,000 for the six months ended September 30, 2004 due to the expansion of the Group's existing projects, its acquisition of new projects and piped gas sales.

Revenues from gas connection fees decreased 6.8% to HK\$131,433,000 for the six months ended September 30, 2005 from HK\$141,109,000 for the six months ended September 30, 2004 due to a change in our construction and engineering strategy in 2006, with priority given to complete our gateway works instead of connecting new customers.

Piped gas sales increased 163.5% to HK\$96,107,000 for the six months ended September 30, 2005 from HK\$36,478,000 for the six months ended September 30, 2004, primarily reflecting the increased penetration of the Group's existing projects and increased sales from the new projects acquired by the Group.

Cost of Sales

Cost of sales increased 91.9% to HK\$134,360,000 for the six months ended September 30, 2005 from HK\$70,012,000 for the six months ended September 30, 2004, mainly due to increase in turnover.

Operating Expenses

Administrative expenses increased 91.2% to HK\$61,695,000 for the six months ended September 30, 2005 from HK\$32,261,000 for the six months ended September 30, 2004 largely due to the expansion of the Group's existing projects. Distribution costs increased 143.3% to HK\$10,777,000 for the six months ended September 30, 2005 from HK\$4,429,000 for the six months ended September 30, 2004, primarily reflecting the increase in turnover.

Finance Costs

Finance costs increased 148.5% to HK\$21,383,000 for the six months ended September 30, 2005 from HK\$8,605,000 for the six months ended September 30, 2004 primarily due to the issue of convertible bonds and increase in bank and other borrowings.

Gross and Net Profit Margins

Gross margins decreased to 48.8% in the six months ended September 30, 2005 from 62.7% in the six months ended September 30, 2004. Net profit margins were 33.2% in the six months ended September 30, 2005 and 48.3% in the six months ended September 30, 2004. The decrease in gross margins and net profit margins was mainly attributable to increase in sales of piped gas in the Group's revenue mix.

Prospects

As the Group has made significant efforts to construct 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 supply and demand. With the strong support of the PRC government to utilise natural gas, the Group expects further growth in its business.

Financial condition and liquidity

The Group requires substantial capital for investment start-up costs, capital commitments and working capital requirements. The Group's principal capital and liquidity needs are in relation to acquiring interests in joint venture companies and property, plant and equipment and construction materials. The Group's capital commitments in respect of the acquisition property, plant and equipment and construction materials as at September 30, 2005 is approximately HK\$1,067 million which will be financed through equity contributions by the company and loan financing.

Liquidity and Capital Resources

Currently, the Group's operating and capital expenditures are funded by existing cash resources, and proceeds from debt financing and equity and equity-linked placements. Cash and cash equivalents were HK\$1,601,881,000 as at September 30, 2005 and HK\$712,015,000 as at March 31, 2005. Total indebtedness as at September 30, 2005 was HK\$2,147,961,000 as compared to HK\$1,492,462,000 as at March 31, 2005. As at September 30, 2005, the Group's net gearing ratio was 0.36. The calculation of net gearing ratio was based on the net borrowings of HK\$546,080,000 and the net assets of HK\$1,532,815,000 as at 30 September, 2005.

As at September 30, 2005, the Group had bank loans of approximately HK\$1,530,370,000, other loans of approximately HK\$322,457,000, convertible bonds of approximately HK\$275,307,000 and a mortgage loan of approximately HK\$19,827,000. The bank loans, denominated in Renminbi, were granted by local banks in the PRC to the project companies with fixed interest rates subject to an annual review after drawdown.

As of September 30, 2005, the short-term portion of total bank and other borrowings amounted to HK\$64,291,000.

Debt Financing

In order to expand its business and funds its expansion, the Company has entered into bank-enterprise partnership agreements with China Development Bank ("CDB") and the Industrial and Commercial Bank of China ("ICBC"), under which CDB and ICBC will make available financing facilities of up to RMB20 billion and RMB6 billion respectively to meet the capital expenditure requirements of the Group. Depending on the nature of the project (and the Group's shareholding in the project company), the Group may be required to either grant a 100% guarantee of the loan to the project company or a guarantee pro rata to the Group's shareholding in the project company. In certain cases, loans to a project company are secured by a pledge over the Group's equity interests in that project company. In some instances, the project company is required to provide a pledge over its fixed assets. The Group has also secured project-level debt from Agricultural Bank of China and China Construction Bank for certain of the Group's projects.

Pledged Assets

As at September 30, 2005, the Company had pledged land and buildings of net book value of approximately HK\$390 million and certain investments in subsidiaries to banks to secure loan facilities granted to the group.

Contingent Liabilities

As at September 30, 2005, the Group had no contingent liabilities.

Cash Flows from (used in) Operating Activities

Primarily due to the increase in the Group's trade and other receivables position and amounts due from customers from contract work, the Group registered deficits in cash flows from operations of HK\$36 million for the six-month period ending September 30, 2005 in contrast to cash inflow of HK\$34 for the 12-month period ending March 31, 2005. As of September 30, 2005, trade and other receivables stood at HK\$170 million, an increase of 95.4% compared to HK\$87 million as of March 31, 2005. Amounts due from customers for contract work increased by 12.8% to HK\$414 million as of September 30, 2005 from HK\$367 million as of March 31, 2005.

The Group's trade receivables account primarily comprises gas connection fees which are due for payment by building developers and other customers upon the commencement of the delivery of gas from the West-East Pipeline and the Sichuan-East Pipeline to certain of the Group's projects. While the Group's revenue recognition policies allow it to book gas connection fee revenues based on the percentage of completion basis, the Group can only collect final payments from building developers and other customers upon the commencement of delivery of gas from the West-East Pipeline and the Sichuan-East Pipeline to the Group's projects.

Equity-linked Financing Activities

Recent Financing Activities

Since September 30, 2004, the Group has conducted certain debt and equity financing activities in order fund its operating activities and capital commitments.

Equity financing — The Group conducted the following recent equity financing activities:

- On September 28, 2004, the Company issued and placed a total of 260,000,000 unlisted warrants to investors at an issue price of HK\$0.01 per warrant. Each warrant entitles the holder thereof to subscribe for one new ordinary share in the Company at the exercise price of HK\$0.66 (subject to adjustment) at any time during a period of five years commencing from the date of issue of the warrants. Assuming full exercise of the warrants at the exercise price, the holders of the warrants would be entitled to 260,000,000 ordinary shares in the Company, representing 11.16% of the outstanding share capital of the Company on a fully-diluted basis as of December 31, 2004.
- Also on September 30, 2004, the Company issued and placed a total of 90,000,000 new shares in the Company at HK\$0.52 per new share.
- The net proceeds of approximately HK\$2,600,000 from the November 2004 warrant issue and HK\$46,800,000 from the November 2004 share placement were applied towards certain capital commitments and the general working capital requirements of the Group.

- On October 31, 2004, the Company and Sinopec entered into a subscription agreement pursuant to which Sinopec agreed to subscribe for 210,000,000 shares in the Company at HK\$0.61 per share. Completion of the subscription took place on December 28, 2004. The net proceeds of approximately HK\$128,000,000 were applied as to HK\$111,000,000 towards investment of natural gas projects as to HK\$10,000,000 for repayment of short-term loan and as to HK\$7,000,000 towards the general working capital of the Group.

On February 18, 2005, the Company entered into a subscription agreement with GAIL (India) Limited for the subscription of a total of 210,000,000 shares of the Company at a subscription price of HK\$1.158 per share. Completion of the subscription took place on May 5, 2005. Net proceeds of approximately HK\$242,000,000 would be applied for future investment of gas projects in the PRC and as general working capital of the Group. Under the terms of the agreement, the Company will form a joint venture company with GAIL for development of CNG automobile gassing business in China.

On October 28, 2005, the Company entered into two subscription agreements with two international investors — Templeton Strategic Emerging Markets Fund II, LDC and Nederlandse Financierings — Maatschappij Voor Ontwikkelingslanden, N.V (“FMO”) respectively for the placement and subscription of a total 133,000,000 shares of the Company at a subscription price of HK\$1.16 per share. Net proceeds of approximately HK\$153,000,000 were received and completion of the transaction took place on November 25, 2005.

On November 28, 2005, the Company entered into a subscription agreement with Oman Oil Company S.A.O.C. (“OOC”) for the subscription of a total of 210,000,000 shares of the Company by OOC at a subscription price of HK\$1.185 per share. Completion of the subscription took place on January 19, 2006. Net proceeds of approximately HK\$248,000,000 would be applied for future investment of gas projects in the PRC and as general working capital of the Group.

In the period from September 30, 2004 to the date of this Offering Circular, of the HK\$54.5 million convertible notes of the Company held by Merrill Lynch as of September 30, 2004, HK\$7.8 million have since been converted into Shares in the Company and the remaining HK\$46.8 million have since been redeemed by the Company.

Market Risk

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 and does not hedge against currency or other financial risks.

DIRECTORS AND MANAGEMENT

The Company is governed by a Board of Directors which is responsible for the Company's direction 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:

Board of Directors

The Company's Board of Directors is comprised of the following individuals:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Li Xiaoyun	50	Chairman
Xu Ying	44	Vice-Chairman
Liu Ming Hui.....	42	Managing Director
Zhu Wei Wei.....	33	Executive Director
Ma Jin Long	39	Executive Director
Feng Zhuo Zhi.....	50	Non-Executive Director
Raghavanachari Suresh	51	Non-Executive Director
Harrison Blacker.....	55	Non-Executive Director
Zhao Yuhua	38	Independent Non-executive Director
Mao Er Wan.....	43	Independent Non-executive Director
Wong Sin Yue, Cynthia.....	54	Independent Non-executive Director

Executive Directors

Mr. Li Xiaoyun, aged 50, has been a Director since August 2001 and has been Chairman since April 2002. Mr. Li graduated from Beijing University in 1979 and has over 21 years experience in economic management. Mr. Li is a director of the Strait Economic and Technologic Cooperation Center and the President of Strait Travel Agency.

Mr. Xu Ying, aged 44, has been a Director since August 2001 and was appointed Vice-Chairman in April 2002. Mr. Xu graduated from Shanghai Jiao Tong University of Agriculture and Biology in 1983. Mr. Xu is the Assistant Director of the Strait Economic and Technologic Cooperation Center and the Deputy President of The Strait Travel Agency.

Mr. Liu Ming Hui, aged 42, has been a Director since April 2002 and has been Managing Director since July 2002. Mr. Liu received his Bachelor of Science Degree in Mathematics from Hebei Normal University in 1984. He has worked in various local government authorities and Chinese enterprises.

Mr. Ma Jin Long, aged 39, has been a Director since September 2002. Mr. Ma received his Degree in Economics from Hebei University and has over 16 years experience in financial management. Mr. Ma is the President of Beijing Zhongran Xiangke Oil Gas Technology Company Limited.

Mr. Zhu Wei Wei, aged 33, has been a Director since September 2002. Mr. Zhu received his Master in Finance from Zhong-nan University of Finance & Economic. Mr. Zhu has over 10 years experience in project management.

Non-executive Directors

Mr. Feng Zhuo Zhi, aged 50, has been a Non-executive Director since May 2005. Mr. Feng graduated from Artillery College of the People's Liberation Army. Mr. Feng is the general manager of Straits Travel Agency.

Mr. Suresh Raghavanachari, aged 51, was appointed as a Non-Executive Director of the Company in January 2006. Mr. Suresh obtained his post-graduate degree in energy studies from the India Institute of Technology, Delhi, India and has 27 years of experiences in the energy sector. He took part in the construction of the first natural gas pipeline from Mumbai High to Uran, the first LPG recovery unit at Uran and the GAIL's petrochemical plant at UPPC Pata. He worked in the Oil and Natural Gas Corporation, India before joining GAIL in 1985 and is currently the Executive Director (Marketing) of GAIL.

Mr. Harrison Blacker, aged 55, holds a master degree in mechanical engineering and has 30 years of experiences in the energy sector, Mr. Blacker had been working in Atlantic Richfield Company, an integrated US energy company principally engaged in the development, transportations, and marketing of oil, gas, and petroleum products, for over 20 years. He served as a President in Arco Venezuela Energy before joining OOC in 2001 and is currently a Senior Investment Advisor for OOC. Mr. Blacker is a member and former Director of the Society of Petroleum Engineers and he is an active member of the Association of International Petroleum Negotiators.

Independent Non-executive Directors

The Company's Independent Non-executive Directors also comprise the Company's Audit Committee.

Mr. Zhao Yuhua, aged 38, was appointed as an independent Non-executive Director in November 2002. Mr. Zhao graduated from Nankai University. Mr. Zhao holds a Master's Degree in Economic from the Institute of International Economics. He joined J&A Securities Company in 1993, and was engaged in corporate finance and advisory services.

Dr. Mao Er Wan, aged 43, was appointed as an independent Non-executive Director in January 2003. Dr. Mao graduated with a degree in Mathematics and System Sciences from the Chinese Academy of Sciences and holds a Doctoral Degree. He was the Chief Economist of Da Cheng Fund Management Co. Ltd. He is currently a professor of School of International Business, Beijing Foreign Studies University and a committee member of China Institute of Finance, Financial Engineering.

Ms. Wong Sin Yue, Cynthia, aged 54, was appointed as an independent Non-executive Director in October 2003. Ms Wong holds a MBA degree and has over 16 years of investment banking experience. She has worked at Deutsche Morgan Grenfell and Societe General Hong Kong and held various senior positions during her services.

Chief Financial Officer

Mr. Eric Leung is responsible for the financial, financing, international business development and investor relations activities of the Company. Mr. Leung joined the Company in early 2005 after a 13-year career in investment banking, during which he helped numerous companies in Greater China raise debt and equity capital, especially for energy and infrastructure projects. Investment banks he has served include Lehman Brothers, Barclays Capital and Prudential Securities. His last position before he joined China Gas was Managing Director and Head of Corporate Finance of UFJ Securities. Mr. Leung is a lawyer by training, and is qualified to practice law in Hong Kong, England & Wales and Australia. Mr. Leung holds bachelor degrees from the University of Hong Kong and University of London, and a master degree from the Chinese University of Hong Kong.

Qualified Accountant

Mr. Kenneth Huang joined the Group in 2001. Mr. Huang is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he worked for an international accountancy firm for several years.

Company Secretary

Ms. Doris Yang, ACS, ACIS, was appointed as Secretary of the Company in November 2002. Ms. Yang has over 10 years of experience in the company secretarial field. Prior to joining the Group, she worked for several red chip listed companies in Hong Kong and a US listed company. She is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

Compensation of Directors

For the year ended March 31, 2005, the aggregate remuneration and benefits in kind paid to the Directors was approximately HK\$6 million.

Share Options

Pursuant to a share option scheme adopted by the Company on February 6, 2003, the holders of the options thereunder are entitled to subscribe for Shares at the following exercise prices and the respective exercise periods:

- (i) at HK\$0.80 per Share during the period from September 1, 2004 to January 8, 2014
- (ii) at an exercise price of HK\$0.71 per Share during the period from (a) January 1, 2005 to October 5, 2014; (b) March 20, 2005 to October 5, 2014; and (c) November 22, 2004 to October 5, 2014 with the condition that the consolidated net asset value of the Group which shall be certified by the auditors appointed by the Company as at the date of exercise of the options being not less than HK\$1 billion
- (iii) at an exercise price of HK\$1.50 per Share during the period from October 20, 2010 to October 19, 2015
- (iv) at an exercise price of HK\$1.52 per Share during the period from January 27, 2011 to January 26, 2016

Interests of management in certain transactions and competing interests

Save as disclosed in this section, none of the directors or management shareholders of the Company has any interest in any business which may compete with the business of the Company.

DESCRIPTION OF THE SHARES

Set out below is a summary of certain provisions of the memorandum of association (the "Memorandum of Association") and bye-laws (the "Bye-laws") of the Company 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 Bye-laws.

The Company was incorporated in Bermuda as an exempted company with limited liability on August 22, 1995 under the Companies Act 1981 of Bermuda (the "Companies Act") and, therefore, operates subject to Bermuda law.

Alteration of Capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may from time to time by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

Special resolution — majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' 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 member 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.

Under the Bye-laws, an ordinary resolution is 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 Bye-laws and includes an ordinary resolution approved in writing by all the member of the Company as aforesaid.

An annual general meeting and any special general meeting at which the passing of a special resolution is to be considered must be called by not less than twenty-one (21) clear days' notice. All other special general meetings may be called by not less than fourteen (14) days' notice but a general meeting may be called by shorter notice if it is so agreed, in the case of an annual general meeting, by all the members entitled to attend and vote thereat and, in the case of any other meeting, by a majority in number of the members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right.

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

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands 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 demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any 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 deemed to have been duly authorised without further evidence of the

facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any member of the Company is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws which term includes The Stock Exchange of Hong Kong Limited), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

Annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange) and place as may be determined by the board.

Transfer of Shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange may 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, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any means and in such manner as may be accepted by the Designated Stock Exchange, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

Power of the Company to purchase its own Shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit, however, the exercise of such power is subject to the Companies Act, the rules of the Designated Stock Exchange and/or any competent regulatory authority.

Power of any subsidiary of the Company to own Shares

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

Dividends and other methods of distributions

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, 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 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 board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$10, at the place where the branch register of members of the Company is kept, unless the register is closed in accordance with the Companies Act.

The register of members may be closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any means and in such manner as may be accepted by the Designated Stock Exchange, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy (whatever the number of shares held by them) shall be a quorum.

Procedure on Liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

Pre-emption Rights

The Bye-laws 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 members. 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 special general meeting of the Company's members on November 22, 2004 and can be utilised at any time until the Company's next annual general meeting.

DIVIDENDS

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 general meeting save that the board of the Company may pay such interim dividends as appear to the board to be justified by the profits of the Company. The directors of the Company do not currently plan to declare dividends and there can be no assurance that the Company will pay dividends on its Shares. No outstanding shares are entitled to dividends.

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.

Bermuda

The following is a summary of the material Bermuda tax consequences relevant to the purchase, ownership and disposition of the Bonds.

Under current law in Bermuda there is no income, capital gains or withholding tax, corporation or profits tax, capital transfer tax, estate duty or inheritance tax payable by the Company or the holders of the Bonds or Shares, other than holders ordinarily resident in Bermuda.

No stamp duty will be imposed in Bermuda on the issuance of the Bonds or the Shares upon conversion of the Bonds. No stamp duty is payable in Bermuda on any transfer of the Bonds or shares of the Company or on any agreement for the transfer of the Bonds or Shares.

The Company has obtained from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not until March 28, 2016 be applicable to the Company or to any of its operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda.

As an exempted company, the Company is liable to pay in Bermuda a registration fee upon our authorized share capital and the premium on its issued shares at a rate not exceeding US\$27,825 per annum.

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.

EU Directive on the Taxation of Savings Income

On June 3, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income. Under the Directive Member States will (if equivalent measures have been introduced by certain non-EU countries) be required, from July 1, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

SUBSCRIPTION AND SALE

The Company entered into a subscription agreement with CQS Convertible and Quantitative Strategies Master Fund Limited and Courtenay Enterprises Limited (the "Investors"), dated June 23, 2005 (the "Subscription Agreement"), pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Company has agreed to sell to the Investors, and the Investors have agreed to subscribe for, the aggregate principal amount of the Bonds.

The Investors initially subscribed for the Bonds at a purchase price equal to the offer price indicated on the cover page.

The Subscription Agreement provided that the obligations of the Investors were subject to certain conditions precedent, and entitled the Investors to terminate it in certain circumstances prior to payment being made to the Company.

General

The Bonds do not have an 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

Each investor has represented that it has not offered or sold, and will not offer or sell, any Bonds within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of either of the Subscribers or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Bonds or any Shares.

United Kingdom

Each investor has represented that it has (a) not offered or sold and, prior to the expiry of a period of six months from Completion, will not offer or sell any Bonds 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 or following implementation in the United Kingdom of the EU Prospectus Directive 2003/71/EC, the FSMA; (b) only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of FSMA does not apply to the Company; and (c) complied and it will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Bermuda

The Investors have represented that it has not offered or sold or made any invitation to subscribe for, and will not offer or sell or make any invitation to subscribe for, any Bonds to any persons, firm or company regarded as a resident of Bermuda and agreed with the Company that it has not offered or sold, and will not offer or sell (1) in Bermuda, by means of any document, any Bonds or Shares to be issued upon conversion of the Bonds and (2) any Bonds or Shares to be issued upon conversion of the Bonds to any person, firm or company regarded as a resident of Bermuda for exchange control purposes and that it will procure that any purchaser from them of any of the Bonds undertakes to comply with the restrictions herein.

Hong Kong

Each investor has represented that it has (a) not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong; and (b) not issued or had in its possession, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document, which is directed at, or the contents of which are likely to be accessed or read by the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong), other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each investor has represented that has it not offered or sold or made any invitation to subscribe for, and will not offer or sell or make any invitation to subscribe for, any Bonds and has not caused, and will not cause, any documents or material in connection with the offer or sale, or invitation for subscription or purchase, of Bonds, to be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”); (b) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

GENERAL INFORMATION

- 1. Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 022348671, and the International Securities Identification Number for the Bonds is XS0223486712.
- 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 June 1, 2006.
- 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 a resolution of the Board of Directors of the Company passed on June 23, 2005. Listing of the Bonds on the Hong Kong Stock Exchange is conditional upon satisfaction of the requirements of that exchange. The signing of a listing agreement between the Company and the Hong Kong Stock Exchange, Form C2 and this Offering Circular by any one director of the Company was authorised by a resolution of the Board of Directors of the Company passed on May 12, 2006.
- 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 March 31, 2005 and no material adverse change in the financial position or prospects of the Group since March 31, 2005.
- 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 16th Floor, AXA Centre, 151 Gloucester Road, 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 September 30.
- 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 March 31, 2003, 2004 and 2005 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 September 30, 2004 and 2005 have not been audited or reviewed by Deloitte Touche Tohmatsu.

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 March 31, 2003, 2004 and 2005, and with references to Deloitte Touche Tohmatsu in the form and context in which they appear.

10. **Principal Subsidiaries/Associate:** Notes 17 and 18 to the Company's audited consolidated financial statements for the year ended March 31, 2005 set out the subsidiaries and associate of the Company as at March 31, 2005 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 for the 3 years ended March 31, 2004 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, which were effective before January 1, 2005, 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, which were effective before January 1, 2005, 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 September 30, 1995 are not required to make regular revaluations provided that these enterprises do not revalue their property subsequent to September 30, 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 January 1, 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 January 1, 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

“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
“Sichuan-East Pipeline”	the Sichuan-East Pipeline project as described in detail in the section “The PRC Downstream Gas Market – The Company’s Competitive Position and Strategy – Growth potential of the PRC downstream gas market” of this Offering Circular
“West-East Pipeline”	the West-East Pipeline project as described in detail in the section “The PRC Downstream Gas Market – The Company’s Competitive Position and Strategy – Growth potential of the PRC downstream gas market” of this Offering Circular

COMPANY

China Gas Holdings Limited

*Head Office and Principal Place of
Business in Hong Kong*
16th Floor
AXA Centre
151 Gloucester Road
Hong Kong

Registered Office
Clarendon House
Church Street
Hamilton
HM11 Bermuda

AUDITORS OF THE COMPANY

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

TRUSTEE

The Bank of New York, London Branch
One Canada Square
48th Floor
London
E14 5AL
United Kingdom

REGISTRAR

The Bank of New York
101 Barclay Street
21st Floor West
New York
NY 10286
USA

PRINCIPAL PAYING, CONVERSION AND TRANSFER AGENT

The Bank of New York, London Branch
One Canada Square
48th Floor
London
E14 5AL
United Kingdom

LEGAL ADVISERS

*To the Company
as to Hong Kong and English law*

Freshfields Bruckhaus Deringer
11th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

TABLE OF CONTENTS

	<u>Page</u>
Incorporation of Financial Information	iii
Summary	1
Summary Financial Information	5
The Offering	8
Risk Factors	11
Terms and Conditions of the Bonds ..	26
The Global Certificate	59
Use of Proceeds	62
Capitalisation and Indebtedness	63
The Group	65
The PRC Downstream Gas Market — The Company's Competitive Position and Strategy	70
The Business	81
Substantial Shareholders' and Directors' Interests	95
Recent Developments and Prospects ..	99
Directors and Management	105
Description of the Shares	108
Dividends	114
Taxation	115
Subscription and Sale	117
General Information	119
Summary of Certain Differences between HKFRS and IFRS	121
Glossary of Terms	126

OFFERING CIRCULAR DATED MAY 30, 2006



CHINA GAS HOLDINGS LIMITED

(incorporated with limited liability in Bermuda)

US\$40,000,000

1 per cent.

Convertible Bonds due 2010

Offering Circular

May 30, 2006