
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Zhengzhou Gas Company Limited*, you should at once hand this Composite Document and the accompanying forms of acceptance to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. This Composite Document should be read in conjunction with the forms of acceptance, the contents of which form part of the terms of the Offers contained herein.

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華潤燃氣(中國)投資有限公司
China Resources Gas (China) Investment Limited
(incorporated in Hong Kong with
limited liability)



華潤燃氣控股有限公司
China Resources Gas Group Limited
(incorporated in Bermuda with
limited liability)
(Stock Code: 1193)



Zhengzhou Gas Company Limited*
鄭州燃氣股份有限公司
(a joint stock limited company
incorporated in the People's
Republic of China)
(Stock Code: 3928)

**COMPOSITE DOCUMENT IN RELATION TO THE
MANDATORY CONDITIONAL CASH OFFER BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED
FOR ALL THE DOMESTIC SHARES IN ZHENGZHOU GAS COMPANY LIMITED*
AND
MANDATORY CONDITIONAL CASH OFFER BY
ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED FOR
ALL THE H SHARES IN ZHENGZHOU GAS COMPANY LIMITED*
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

Financial adviser to
China Resources Gas Group Limited



Independent financial adviser to the independent
board committee of
Zhengzhou Gas Company Limited*



A letter from CR Gas Investment containing, among other things, details of the terms of the offer for Domestic Shares is set out on pages 5 to 7 of this Composite Document.

A letter from Anglo Chinese containing, among other things, details of the terms of the offer for H Shares is set out on pages 8 to 17 of this Composite Document.

A letter from the board of directors of Zhengzhou Gas is set out on pages 18 to 23 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation to the independent shareholders of Zhengzhou Gas in relation to the Offers are set out on pages 24 to 25 of this Composite Document. A letter from First Shanghai containing its opinion and advice to the Independent Board Committee is set out on pages 26 to 44 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out in Appendix I to this Composite Document and in the accompanying forms of acceptance. Acceptance of the offer for H Shares must be received by the Registrar no later than 4:00 p.m. on 24 September 2010 or such later time and date as CR Gas Investment may determine and announce with the consent of the Executive, in accordance with the Takeovers Code. Acceptance of the offer for the Domestic Shares must be received by Zhengzhou Gas no later than 4:00 p.m. on 24 September 2010 or such later time and date as CR Gas Investment may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

* For identification purpose only

3 September 2010

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EXPECTED TIMETABLE

Offers open for acceptance	3 September 2010
Latest time and date for acceptance of the Offers on the Closing Date (<i>note 1</i>)	4:00 p.m. on 24 September 2010
Closing Date	24 September 2010
Announcement of the results of the Offers as at the Closing Date to be posted on the Stock Exchange's website (<i>note 1</i>)	no later than 7:00 p.m. on 24 September 2010
Posting of remittances for amounts due under the Offers in respect of valid acceptances received on or before 4:00 p.m. on the Closing Date, if the Offers have become unconditional on the Closing Date (<i>note 2</i>)	4 October 2010
Record Date for ascertaining the entitlements of the Special Dividend	26 October 2010
Latest date by which the Offers can be declared unconditional (<i>note 3</i>)	2 November 2010
Extraordinary general meeting of Zhengzhou Gas to approve the Special Dividend	23 November 2010
Payment of the Special Dividend by Zhengzhou Gas	15 December 2010

Notes:

1. The latest time for receipt of acceptances under the Offers, which is conditional as to acceptances, will be 4:00 p.m. on 24 September 2010 unless CR Gas Investment revises or extends the Offers in accordance with the Takeovers Code. A joint announcement will be issued on the Stock Exchange's website no later than 7:00 p.m. on the Closing Date, stating the results of the Offers and whether the Offers have been revised or extended, have expired or have become or have been declared unconditional. In any announcement of an extension of the Offers, either the next closing date must be stated or, if the Offers are unconditional as to acceptance, a statement may be made that the Offers will remain open until further notice. In any event, where the Offers become or are declared unconditional, the Offers will remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.
2. Remittances in respect of the cash consideration (after deducting seller's ad valorem stamp duty in the case of H Shares) payable for the Zhengzhou Shares tendered under the Offers will be posted to the shareholders of Zhengzhou Gas accepting the Offers by ordinary post at their own risk as soon as possible, but in any event within 10 days of the later of the date of receipt by the Registrar of duly completed forms of acceptance, the date when the Offers become or are declared unconditional, and the date on which all the relevant documents and approvals (in the case of Domestic Shares only) are received by Zhengzhou Gas to render the acceptance of offer for Domestic Shares complete.
3. Under Rule 15.5 of the Takeovers Code, except with the consent of the Executive, an offer (whether revised or not) may not become or be declared unconditional as to acceptance after 7:00 p.m. on the 60th day after the day the initial offer document was posted. Accordingly, unless the Offers have previously become or been declared unconditional as to acceptances, the Offers will lapse at 7:00 p.m. on 2 November 2010 unless the Offers have been extended by CR Gas Investment with the consent of the Executive.

EXPECTED TIMETABLE

4. Acceptance of the Offers shall be irrevocable and not be capable of being withdrawn, except permitted under Rule 17 and Rule 19.2 of the Takeovers Code. Please refer to paragraph headed “Right of Withdrawal” in Appendix I to this Composite Document for further information on the circumstances when the Offers may be granted a right of withdrawal.

All references to date and time contained in this Composite Document refer to Hong Kong date and time. The timetable set out above is indicative only and further announcements will be issued in the event of any changes to the timetable.

DEFINITIONS

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

“%”	per cent
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, the financial adviser to CR Gas Group in relation to the Offers, and a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Announcement”	the joint announcement of Zhengzhou Gas and CR Gas dated 25 November 2009 regarding the potential cooperation, including among other things, the acquisition of the Sale Shares by the Joint Venture and the Offers
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	24 September 2010, being the first closing date of the Offers, which is 21 days after the date when the Offers are open for acceptance
“Completion”	completion of the acquisition by the Joint Venture of the Sale Shares from Zhengzhou SASAC
“Composite Document”	this composite offer and response document dated 3 September 2010 issued by CR Gas Investment, CR Gas and Zhengzhou Gas in relation to the Offers
“CR Gas”	China Resources Gas Group Limited (華潤燃氣控股有限公司), a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock code: 1193)
“CR Gas Group”	CR Gas and its subsidiaries
“CR Gas Investment”	China Resources Gas (China) Investment Limited (華潤燃氣(中國)投資有限公司), the offeror of the Offers and a wholly-owned subsidiary of CR Gas
“CR Holdings”	China Resources (Holdings) Company Limited (華潤(集團)有限公司), the parent company of CR Gas and CRGH. CR Holdings is a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp.* (中國華潤總公司), a company established in the PRC

DEFINITIONS

“CRGH”	China Resources Gas (Holdings) Limited (華潤燃氣(集團)有限公司), an unlisted wholly-owned subsidiary of CR Holdings
“Domestic Share(s)”	ordinary unlisted shares in the share capital of Zhengzhou Gas, with a nominal value of RMB1.00 each, which are subscribed for in RMB
“Executive”	the executive director of the corporate finance division of the SFC or any delegate of the executive director
“First Shanghai”	First Shanghai Capital Limited, a corporation licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to the Independent Board Committee on the terms of the Offers
“H Share(s)”	overseas listed foreign invested shares with a nominal value of RMB1.00 each in the share capital of Zhengzhou Gas, which are traded on the Stock Exchange in HK\$
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the board of directors of Zhengzhou Gas constituted to advise the independent shareholders of Zhengzhou Gas on the terms of the Offers, comprising all the independent non-executive directors of Zhengzhou Gas, namely Mr. Yu Jingsong, Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping and a non-executive director, namely Mr. Liu Jianwen
“Joint Venture”	Zhengzhou China Resources Gas Co., Ltd.* (鄭州華潤燃氣有限公司), a joint venture company established as a limited liability company in the PRC by CR Gas Investment and Zhengzhou SASAC
“Latest Practicable Date”	1 September 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this Composite Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nanyang Zhengran”	Nanyang Zhengran Natural Gas Co., Ltd. (南陽鄭燃燃氣有限公司), a company established in the PRC that was a wholly-owned subsidiary of Zhengzhou GGCL

DEFINITIONS

“Offers”	mandatory conditional cash offers by CR Gas Investment, or its representative, for all the Domestic Shares and H Shares other than those owned or agreed to be acquired by it and parties acting in concert with it
“Offer Period”	has the meaning ascribed to it in the Takeovers Code and commencing from 9 July 2009, being the date of the announcement made by Zhengzhou Gas in connection with the cooperation framework agreement entered into between Zhengzhou SASAC and CRGH on 5 July 2009
“Other Assets”	certain assets and liabilities to be transferred from Zhengzhou SASAC to the Joint Venture, for a total consideration of approximately RMB13.4 million
“PRC”	the People’s Republic of China and for the purpose of this Composite Document, excluding Hong Kong, Macau and Taiwan
“Record Date”	26 October 2010, being the record date for the purpose of ascertaining the entitlements of the shareholders of Zhengzhou Gas in respect of the Special Dividend
“Registrar”	Computershare Hong Kong Investor Services Limited, the H Share registrar and transfer office of Zhengzhou Gas in Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	54,041,510 Domestic Shares which represent approximately 43.18% of the total issued share capital of Zhengzhou Gas as at the Latest Practicable Date
“SASAC”	the State-owned Assets Supervision and Administration Commission
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Special Dividend”	the special dividend of RMB0.492 per Zhengzhou Share as proposed by the Joint Venture and another shareholder of Zhengzhou Gas by way of a written request to the board of directors of Zhengzhou Gas dated 27 August 2010
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
“Zhengzhou Gas”	Zhengzhou Gas Company Limited* (鄭州燃氣股份有限公司), a joint stock limited company incorporated in the PRC whose H Shares are listed on the Stock Exchange (Stock code: 3928)
“Zhengzhou Gas Design”	Zhengzhou City Zhengran Gas Design Development Co., Ltd. (鄭州市鄭燃燃氣設計開發有限公司), a company incorporated in the PRC that was 17.37% owned by Zhengzhou GGCL
“Zhengzhou Gas Group”	Zhengzhou Gas and its subsidiaries
“Zhengzhou GGCL”	Zhengzhou Gas Group Co. Ltd.*, (鄭州燃氣集團有限公司), (formerly Zhengzhou Municipal Gas Company Limited (鄭州市燃氣有限責任公司) which changed to its present name in December 2000), a State-owned company incorporated in the PRC with limited liability
“Zhengzhou SASAC”	the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipal People’s Government (鄭州市人民政府國有資產監督管理委員會)
“Zhengzhou Shares”	Domestic Shares and H Shares

Note: The figures in RMB are converted into HK\$ at the rate of RMB0.88:HK\$1 throughout this Composite Document for illustration purpose only.

* *Name translated for reference purpose only.*

LETTER FROM CR GAS INVESTMENT



華潤燃氣(中國)投資有限公司
China Resources Gas (China) Investment Limited
(Incorporated in Hong Kong with limited liability)

3 September 2010

To the holders of Domestic Shares,

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED
FOR ALL THE DOMESTIC SHARES IN ZHENGZHOU GAS COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

The relevant PRC approvals for the acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC at a total consideration of RMB421,750,560 have been obtained and the registration of the Sale Shares in the name of the Joint Venture at the China Securities Depository and Clearing Corporation Limited was made on 30 June 2010. At that point, Zhengzhou SASAC did not regard that the registration of the Sale Shares under the name of the Joint Venture as Completion because it had the right to finalise the distribution of the profit attributable to it given it was an obligation to be fulfilled by CR Gas Investment pursuant to the cooperation agreements dated 25 November 2009. It was a condition precedent to Completion and details of which are further discussed below.

Pursuant to the Announcement, the Completion shall take place within 10 business days, or such later date as CR Gas Investment and Zhengzhou SASAC may agree in writing, after fulfillment of all the pre-conditions contained in the Announcement. According to the agreements dated 25 November 2009 entered into between CR Gas Investment and Zhengzhou SASAC for their potential cooperation, the attributable profit and loss incurred by Zhengzhou GGCL and its subsidiaries during the period from 1 July 2009 up to the date of incorporation of the Joint Venture which was 25 November 2009, should be borne by Zhengzhou SASAC. CR Gas Investment and Zhengzhou SASAC, by entering into an addendum on 27 August 2010, confirmed and agreed that (i) the audited profits of Zhengzhou Gas, Zhengzhou Gas Design and Nanyang Zhengran, being entities transferred to the Joint Venture by Zhengzhou SASAC, during the period from 1 July 2009 to 30 November 2009 attributable to Zhengzhou SASAC were RMB26,586,900 based on its 43.18% beneficial interest in Zhengzhou Gas, 17.37% beneficial interest in Zhengzhou Gas Design and 100% beneficial interest in Nanyang Zhengran; and CR Gas Investment agreed that Zhengzhou SASAC would be entitled to such profit; (ii) CR Gas Investment and Zhengzhou SASAC agreed through the Joint Venture to procure Zhengzhou Gas to distribute such profit by way of special dividend; and (iii) as a condition precedent to

LETTER FROM CR GAS INVESTMENT

Completion, either the board of directors of Zhengzhou Gas should resolve to propose declaration of a special dividend and to submit the proposal to the shareholders of Zhengzhou Gas for approval, or the parties should procure the Joint Venture to request Zhengzhou Gas to convene an extraordinary general meeting for the shareholders of Zhengzhou Gas to approve the payment of special dividend.

The board of directors of Zhengzhou Gas received a joint request from the Joint Venture and another shareholder of Zhengzhou Gas on 27 August 2010 for convening an extraordinary general meeting of Zhengzhou Gas to approve the payment of Special Dividend. CR Gas Investment and Zhengzhou SASAC announced that the last condition precedent to Completion was therefore fulfilled on 27 August 2010 and Completion took place on the same date. Pursuant to Rule 26.1 of the Takeovers Code, we are required to make the Offers for all the Zhengzhou Shares.

We hereby give notice to all the holders of Domestic Shares that we are making an offer for all the Domestic Shares (other than those already owned or agreed to be acquired by CR Gas Investment or parties acting in concert with it) at a price of RMB 12.96 per Domestic Share. Any holder of Domestic Shares who accepts the offer is required to indicate his or her acceptance to us by completing the attached GREEN form of acceptance and sending it to Zhengzhou Gas no later than 4:00 p.m. on 24 September 2010. The acceptance for the offer of the Domestic Shares by the accepting shareholders of the Domestic Shares shall be deemed to be valid, if the criteria under Rule 30.2 of the Takeovers Code are met, but the payment to these accepting shareholders will not be made unless all the approvals from the relevant PRC authorities in respect of the transfer of the relevant Domestic Shares to CR Gas Investment under the offer for Domestic Shares have been obtained in accordance with the laws and regulations in the PRC. An application has been made to the Executive for a waiver from strict compliance with Rule 20.1 (a) of the Takeovers Code. Holders of Domestic Shares who accept the offer shall cooperate with Zhengzhou Gas by providing it with all relevant legal documents as required by the laws and regulations in the PRC.

In accordance with Rule 26.2 of the Takeovers Code, the Offers will be conditional only upon CR Gas Investment having received acceptances in respect of voting rights acquired or agreed to be acquired before or during the Offers which will result in CR Gas Investment or any person acting in concert with it holding more than 50% of the voting rights attaching to Zhengzhou Shares as at the Closing Date.

Once the attached GREEN form of acceptance is signed, the holder of Domestic Shares is deemed to have agreed all the terms and conditions to the Offers as contained in this Composite Document. The acceptance of the offer for Domestic Shares shall be irrevocable except under Rule 17 and Rule 19.2 of the Takeovers Code. Shareholders who tender their Domestic Shares for acceptance are entitled to the Special Dividend, if it is approved in the extraordinary general meeting of Zhengzhou Gas, and CR Gas Investment undertakes that the accepting shareholders will receive their entitlement and be treated fairly. Further details on the arrangement on the Special Dividend is set out on the paragraph headed "Other arrangement" in the "Letter from Anglo Chinese" in this Composite Document.

Further terms of the offer for Domestic Shares, including the procedures for acceptance and settlement, and the acceptance period, are set out in Appendix I to this Composite Document and in the accompanying GREEN form of acceptance.

LETTER FROM CR GAS INVESTMENT

Your attention is drawn to the “Letter from Anglo Chinese”, the “Letter from the Independent Board Committee” and the “Letter from First Shanghai”, which are contained in this Composite Document, in relation to their respective recommendation regarding the Offers. Your attention is also drawn to the additional information set out in the Appendices, which form part of this Composite Document.

Yours faithfully,

For and on behalf of the board of directors

China Resources Gas (China) Investment Limited

Ong Thiam Kin

Executive Director & Company Secretary

LETTER FROM ANGLO CHINESE

ANGLO CHINESE

CORPORATE FINANCE, LIMITED

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

財務顧問有限公司
英高

3 September 2010

To the independent shareholders of Zhengzhou Gas,

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED FOR
ALL THE H SHARES IN ZHENGZHOU GAS COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Further to the Announcement in relation to the potential cooperation between CR Gas and Zhengzhou SASAC and the announcement dated 11 December 2009 in relation to the revision of offer price under the Offers, Zhengzhou Gas and CR Gas jointly announced on 27 August 2010 that all the approvals in connection with the acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC have been obtained and the registration of the Sale Shares in the name of the Joint Venture at the China Securities Depository and Clearing Corporation Limited was made on 30 June 2010. At that point, Zhengzhou SASAC did not regard that the registration of the Sale Shares under the name of the Joint Venture as Completion because it had the right to finalise the distribution of the profit attributable to it given it was an obligation to be fulfilled by CR Gas Investment pursuant to the cooperation agreements dated 25 November 2009. It was a condition precedent to Completion and details of which are further discussed below.

Pursuant to the Announcement, the Completion shall take place within 10 business days, or such later date as CR Gas Investment and Zhengzhou SASAC may agree in writing, after fulfillment of all the pre-conditions contained in the Announcement. According to the agreements dated 25 November 2009 entered into between CR Gas Investment and Zhengzhou SASAC for their potential cooperation, the attributable profit and loss incurred by Zhengzhou GGCL and its subsidiaries during the period from 1 July 2009 up to the date of incorporation of the Joint Venture which was 25 November 2009, should be borne by Zhengzhou SASAC. CR Gas Investment and Zhengzhou SASAC, by entering into an addendum on 27 August 2010, confirmed and agreed that (i) the audited profits of Zhengzhou Gas, Zhengzhou Gas Design and Nanyang Zhengran, being entities transferred to the Joint Venture by Zhengzhou SASAC, during the period from 1 July 2009 to 30 November 2009 attributable to Zhengzhou SASAC were RMB26,586,900 based on its 43.18% beneficial interest in Zhengzhou Gas, 17.37% beneficial interest in Zhengzhou Gas Design and 100% beneficial interest in Nanyang

LETTER FROM ANGLO CHINESE

Zhengran; and CR Gas Investment agreed that Zhengzhou SASAC would be entitled to such profit; (ii) CR Gas Investment and Zhengzhou SASAC agreed through the Joint Venture to procure Zhengzhou Gas to distribute such profit by way of special dividend; and (iii) as a condition precedent to Completion, either the board of directors of Zhengzhou Gas should resolve to propose declaration of a special dividend and to submit the proposal to the shareholders for approval, or the parties should procure the Joint Venture to request Zhengzhou Gas to convene an extraordinary general meeting for the shareholders of Zhengzhou Gas to approve the payment of special dividend.

The board of directors of Zhengzhou Gas received a joint request from the Joint Venture and another shareholder of Zhengzhou Gas on 27 August 2010 for convening an extraordinary general meeting of Zhengzhou Gas to approve the payment of Special Dividend. CR Gas Investment and Zhengzhou SASAC announced that the last condition precedent to Completion was therefore fulfilled on 27 August 2010. The Completion had therefore duly taken place on 27 August 2010.

On Completion, the Joint Venture was interested in 54,041,510 Domestic Shares which represented approximately 43.18% of the total issued share capital of Zhengzhou Gas. Accordingly, CR Gas Investment and the parties acting in concert with it are required to make the Offers for all the Zhengzhou Shares (other than those already owned or agreed to be acquired by CR Gas Investment and parties acting in concert with it) in compliance with Rules 14 and 26.1 of the Takeovers Code.

This letter sets out, amongst other things, the principal terms of the Offers, together with the information on CR Gas Group and its intention regarding Zhengzhou Gas. Further details of the offer for H Shares are also set out in Appendix I to this Composite Document and the accompanying WHITE form of acceptance.

POTENTIAL COOPERATION BETWEEN CR GAS AND ZHENGZHOU SASAC

CR Gas Investment and Zhengzhou SASAC entered into various agreements on 25 November 2009 under which the parties have primarily agreed the following:

- the establishment by CR Gas Investment and Zhengzhou SASAC of the Joint Venture to which CR Gas Investment will contribute RMB490 million in cash equivalent in foreign currency and Zhengzhou SASAC will contribute RMB190 million through the injection of assets relating to the piped gas business including land use rights, machinery and equity interests in two PRC companies, namely Nanyang Zhengran and Zhengzhou Gas Design;
- the contribution by CR Gas Investment to the Joint Venture of a further RMB270 million in cash equivalent in foreign currency after obtaining the relevant approvals for the increase in the registered capital of the Joint Venture;
- the acquisition by the Joint Venture from Zhengzhou SASAC of the Sale Shares and the agreement by CR Gas Investment to bear the compensation for the staff of Zhengzhou Gas and Zhengzhou GGCL for a total consideration of approximately RMB456.7 million, equivalent to approximately RMB 8.45 per Domestic Share; and

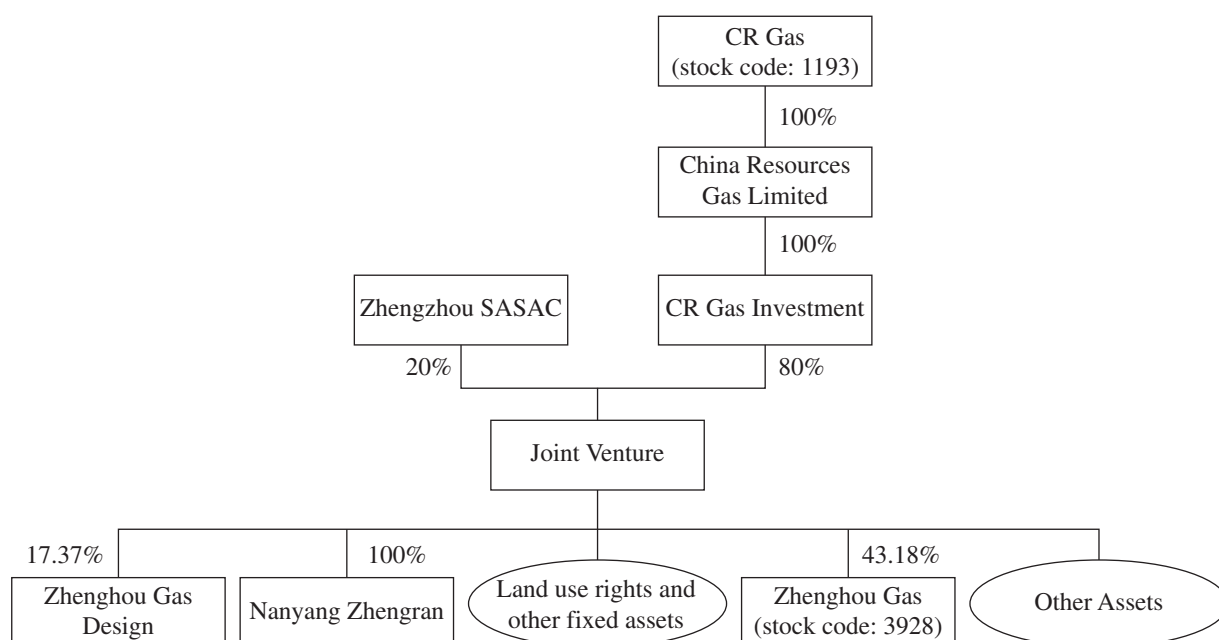
LETTER FROM ANGLO CHINESE

- the acquisition by the Joint Venture of the Other Assets, comprising principally buildings and equipment for its piped gas operation, from Zhengzhou SASAC for a total consideration of approximately RMB13.4 million.

Upon completion of all of the above arrangements, the piped gas business currently conducted or supervised by Zhengzhou SASAC or its subsidiaries and associated companies, including Zhengzhou Gas, Nanyang Zhengran and Zhengzhou Gas Design will be effectively transferred to the Joint Venture. As at the Latest Practicable Date, save for the contribution by CR Gas Investment of RMB270 million as registered capital of the Joint Venture and the acquisition of the Other Assets by the Joint Venture, all of the above arrangements had been completed.

REASONS FOR, AND BENEFITS OF, THE POTENTIAL COOPERATION

On 21 August 2008, CR Gas announced the acquisition of its first city gas distribution business in the PRC with the intention to expand rapidly into this sector in order to benefit from the expected increase in domestic demand for natural gas. This acquisition has provided stable cash flows as well as a platform with growth potential for CR Gas Group. Since then CR Gas Group has been actively seeking investment opportunities to increase the return from its investment portfolio, enhance the market coverage and further explore market opportunities for gas and gas-related products and services in the PRC. Leveraging upon the market coverage of CR Gas and Zhengzhou Gas in the gas industry in the PRC, the directors of CR Gas believe that the potential cooperation through establishment of the Joint Venture with Zhengzhou SASAC is an important step in further expanding its market share in the downstream gas industry and strengthening its customer and earning base into different regions in the PRC, particularly in Henan Province. After the contribution by CR Gas Investment to the Joint Venture of a further RMB270 million as registered capital and the acquisition of the Other Assets, the ownership structure of the Joint Venture and its underlying interests will be as follows:



LETTER FROM ANGLO CHINESE

The board of CR Gas believes that CR Gas Group as one of the leading gas distributors in the PRC, through the potential cooperation with Zhengzhou SASAC, will be able to expand its geographic coverage and products, which will place both CR Gas Group and Zhengzhou Gas Group in a better position to exploit new opportunities and growth potential in the gas industry in the PRC.

PRINCIPAL TERMS OF THE ACQUISITION OF THE SALE SHARES

The Joint Venture acquired the Sale Shares from Zhengzhou SASAC for a consideration of approximately RMB421.7 million and CR Gas Investment was responsible for the compensation of RMB35 million payable to the staff of Zhengzhou GGCL and Zhengzhou Gas upon Completion, for a total consideration of RMB456.7 million, equivalent to approximately RMB8.45 per Domestic Share. Such consideration was determined after arm's length negotiation with reference to, among other things, the net assets value of Zhengzhou Gas, its future prospects and the staff compensation following the change of Zhengzhou Gas from a state-owned enterprise to a foreign-owned enterprise after Completion. Zhengzhou Gas became an associate of CR Gas immediately after the Completion.

MANDATORY CONDITIONAL CASH OFFERS

As a result of the Completion, the Joint Venture is interested in 54,041,510 Domestic Shares which represent approximately 43.18% of the total issued share capital of Zhengzhou Gas as at the Latest Practicable Date. Anglo Chinese on behalf of CR Gas Investment will make the offer for all outstanding H Shares, other than those already owned or agreed to be acquired by CR Gas Investment and parties acting in concert with it, while CR Gas Investment will make the offer for all the outstanding Domestic Shares, other than those already owned or agreed to be acquired by it and parties acting in concert with it.

As stated in the Announcement, the contribution of assets by Zhengzhou SASAC for the formation of the Joint Venture, the acquisition of the Other Assets and the leasing of a parcel of land by the Joint Venture from Zhengzhou SASAC, will confer favourable conditions on Zhengzhou SASAC which will not be extended to all other shareholders of Zhengzhou Gas during the period when the Offers have commenced. In order to extend the same favourable conditions which will be extended to Zhengzhou SASAC in respect of the above transactions to all other shareholders of Zhengzhou Gas, it was announced on 11 December 2009 that the board of directors of CR Gas Investment resolved to increase the offer price under the Offers to take full account of such favourable conditions.

The offer price under the Offers will be RMB12.96 per Domestic Share, or equivalent to HK\$14.73 per H Share using the exchange rate of RMB0.88 to HK\$1.00 as at the date of the Announcement. The offer price in Hong Kong dollars represents:

- (a) a premium of approximately 0.89% over the closing price of HK\$14.60 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 1.17% over the closing price of HK\$14.56 per H Share as quoted on the Stock Exchange on 10 December 2009, being the last trading day prior to the publication of the joint announcement dated 11 December 2009 relating to the revision of the offer price under the Offers;

LETTER FROM ANGLO CHINESE

- (c) a discount of approximately 14.26% to the closing price of HK\$17.18 per H Share as quoted on the Stock Exchange on 23 October 2009, being the last trading day prior to the publication of the Announcement;
- (d) a discount of approximately 12.32% to the average closing price of HK\$16.80 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 23 October 2009;
- (e) a discount of approximately 10.40% to the average closing price of HK\$16.44 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the 23 October 2009;
- (f) a premium of approximately 41.91% over the closing price of HK\$10.38 per H Share as quoted on the Stock Exchange on 6 July 2009, being the last trading day prior to the commencement of the Offer Period;
- (g) a premium of approximately 56.37% over the average closing price of HK\$9.42 per H Share as quoted on the Stock Exchange for the last 10 trading days up to and including 6 July 2009;
- (h) a premium of approximately 54.24% over the average closing price of HK\$9.55 per H Share as quoted on the Stock Exchange for the last 30 trading days up to and including 6 July 2009; and
- (i) a premium of approximately 86.47% over the audited consolidated net assets value of approximately RMB6.95 or equivalent to approximately HK\$7.90 per H Share as at 31 December 2009, being the latest published net assets value of Zhengzhou Gas prior to the Latest Practicable Date.

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the six month period preceding the commencement of the Offer Period and ending on the Latest Practicable Date were HK\$17.52 per H Share on 19 October 2009 and HK\$6.15 per H Share on 23 January 2009.

Value of the Offers and financial resources sufficiency

There are 16,042,490 Domestic Shares and 55,066,000 H Shares subject to the Offers and based on the above offer price, the Offers are valued at approximately HK\$1,047.4 million. CR Gas Investment will finance the Offers by a loan facility provided by Bank of Communications Co., Ltd. The payment of interest on, repayment of or security for any liability of the aforesaid loan facility will not depend to any significant extent on the business of Zhengzhou Gas. Anglo Chinese is satisfied that sufficient financial resources are available to CR Gas Investment to fulfill the obligations under the Offers.

LETTER FROM ANGLO CHINESE

Condition of the Offers

In accordance with Rule 26.2 of the Takeovers Code, the Offers will be conditional only upon CR Gas Investment having received acceptances in respect of voting rights acquired or agreed to be acquired before or during the Offers which will result in CR Gas Investment or any person acting in concert with it holding more than 50% of the voting rights attaching to Zhengzhou Shares as at the Closing Date.

Other arrangements

As disclosed in the announcement issued by CR Gas and Zhengzhou Gas on 27 August 2010, a special dividend of RMB0.492 per Zhengzhou Share will be declared and paid to the shareholders of Zhengzhou Gas, subject to approval of the shareholders of Zhengzhou Gas at the extraordinary general meeting, which is expected to be held on 23 November 2010, or such other date to be announced in due course, at which CR Gas Investment will procure the Joint Venture to vote for the resolution. All shareholders of Zhengzhou Gas whose names appear on the register of members of Zhengzhou Gas on the Record Date will be entitled to the Special Dividend, if it is approved at the extraordinary general meeting. Although the Record Date falls on a date after the Closing Date, if any shareholders of Zhengzhou Gas tender their Zhengzhou Shares for acceptance under the Offers, these shareholders will still be entitled to the Special Dividend. CR Gas Investment as a registered shareholder on the Record Date will receive the Special Dividend on behalf of the shareholders of Zhengzhou Gas who accepted the Offers, other than the holders of the Domestic Shares who will tender their Domestic Shares for acceptance but remain as registered holders on the Record Date as the transfer of Domestic Shares is subject to the applicable regulatory approvals in the PRC, and in such case they will receive the Special Dividend on their own. CR Gas Investment will remit the amount of Special Dividend received from Zhengzhou Gas to the relevant accepting shareholders by posting a cheque within five working days upon receipt of the Special Dividend. It is expected that the Special Dividend, if approved, will be paid by Zhengzhou Gas on 15 December 2010. On the basis that the Joint Venture is interested in 43.18% equity interest in Zhengzhou Gas and upon the receipt of its entitlement to the Special Dividend, being an amount approximately equal to the above-mentioned profits entitled to Zhengzhou SASAC, it will within five working days upon receipt of the Special Dividend repay the same amount to Zhengzhou SASAC. In the event that the Special Dividend is not paid by Zhengzhou Gas, CR Gas Investment and Zhengzhou SASAC will then agree on other means to settle the obligation to repay the said profit, if appropriate, and CR Gas Investment undertakes that all other shareholders of Zhengzhou Gas including those shareholders who will tender their Zhengzhou Shares for acceptance under the Offers will receive the same entitlement and be treated fairly. Under the terms of the Offers, the Special Dividend will be declared and paid to the shareholders of Zhengzhou Gas. As the Special Dividend is expected to be paid by Zhengzhou Gas on 15 December 2010, an application has been made to the Executive for a waiver from strict compliance with Rule 20.1(a) of the Takeovers Code.

Save for the acquisition of the Sale Shares by the Joint Venture, none of CR Gas, CR Gas Investment, their respective directors nor parties acting in concert with any of them has dealt in Zhengzhou Shares, outstanding options, derivatives, warrants or other securities convertible into Zhengzhou Shares in the six-month period prior to the commencement of Offer Period, being 9 July 2009, up to the Latest Practicable Date. CR Gas, CR Gas Investment, their respective directors and parties acting in concert with any of them have not entered into any arrangements or contracts in

LETTER FROM ANGLO CHINESE

relation to the outstanding derivatives in respect of securities in Zhengzhou Gas, nor have any of them borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Zhengzhou Gas during the six month period prior to 9 July 2009 and up to the Latest Practicable Date.

As at the Latest Practicable Date, CR Gas, CR Gas Investment and parties acting in concert with any of them do not hold, own or control any Zhengzhou Shares, outstanding options, derivatives, warrants or other securities convertible into Zhengzhou Shares other than the Sale Shares held by the Joint Venture. In addition, CR Gas, CR Gas Investment and parties acting in concert with any of them have not entered into any agreement, arrangement or understanding with any other persons to transfer, charge or pledge Zhengzhou Shares that are already acquired from Zhengzhou SASAC or will be acquired under the Offers.

As at the Latest Practicable Date, there is no arrangement whether by way of option, indemnity or otherwise in relation to the shares of CR Gas, CR Gas Investment or Zhengzhou Gas which might be material to the Offers. There is no agreement or arrangements to which CR Gas Investment is a party which relate to circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the Offers.

As at the Latest Practicable Date, neither CR Gas Investment nor any party acting in concert with it has received any irrevocable commitment to accept the Offers.

Compulsory acquisition

CR Gas Investment and parties acting in concert with it do not intend to exercise any right which may be available to them to acquire compulsorily any Zhengzhou Shares not tendered for acceptance under the Offers.

INFORMATION ON CR GAS GROUP

CR Gas is a limited liability company incorporated in Bermuda and its shares have been listed on the Stock Exchange since 7 November 1994. CR Gas Group is principally engaged in the sale and distribution of gas fuel and related products and a gas connection operation in the PRC. Its piped natural gas operations are strategically located in areas of the PRC with rich reserves of natural gas and areas which are economically more developed and densely populated. Its operation covers provincial capitals and major cities such as Chengdu, Chongqing, Nanjing, Wuhan, Kunming, Jinan, Wuxi and Suzhou. CR Gas Investment is an investment holding company incorporated in Hong Kong and is a wholly-owned subsidiary of CR Gas.

The board of directors of CR Gas comprises three executive directors, namely, Mr. Ma Guoan, Mr. Wang Chuandong and Mr. Ong Thiam Kin, two non executive directors, namely, Mr. Du Wenmin and Mr. Wei Bin and three independent non executive directors, namely, Mr. Wong Tak Shing, Mr. Luk Chi Cheong and Ms. Yu Jian. The board of directors of CR Gas Investment comprises three directors, namely Mr. Wang Chuandong, Mr. Ong Thiam Kin and Mr. Wang Yan.

LETTER FROM ANGLO CHINESE

As at the Latest Practicable Date, the directors of CR Holdings are Mr. Song Lin, Mr. Qiao Shibo, Mr. Wang Shuaiting, Mr. Wang Yin, Mr. Jiang Wei, Mr. Ma Guoan, Mr. Chen Lang, Mr. Yan Biao, Mr. Zhu Jinkun, Mr. Wang Qun, Mr. Zhou Shengjian, and Mr. Chen Shulin. The director of China Resources National Corp. is Mr. Song Lin.

CR GAS GROUP'S INTENTIONS REGARDING ZHENGZHOU GAS

It is the intention of CR Gas Group that Zhengzhou Gas Group will continue its existing principal activities after the close of the Offers. Upon completion of the Offers, CR Gas will conduct a detailed review of the operation of Zhengzhou Gas Group regarding its long-term development and business prospects. It is the intention of CR Gas and CR Gas Investment to maintain the listing of H Shares on the Stock Exchange after the close of the Offers. The directors of CR Gas Investment and Zhengzhou Gas will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that there will be at least the minimum prescribed percentage of H Shares held by the public as required by the Listing Rules. Zhengzhou SASAC, CR Gas and CR Gas Investment do not intend to, through their interests in the Joint Venture, procure any significant change to the existing composition of the board of directors of Zhengzhou Gas, nor do they have any agreement, arrangement, understanding, negotiation or intention to dispose of, or downsize the existing business of Zhengzhou Gas, redeploy the fixed assets of Zhengzhou Gas, or discontinue the employment of any of Zhengzhou Gas' employees upon Completion. Further announcements will be made by Zhengzhou Gas in compliance with the requirements of the Listing Rules whenever there are changes in the composition of its board of directors.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to Zhengzhou Gas, being 25% of the H Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the H Shares; or (ii) there are insufficient H Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend dealings in the H Shares.

FURTHER TERMS OF THE OFFERS

Further terms of the offer for H Shares, including the procedures for acceptance and settlement, and the acceptance period, are set out in Appendix I to this Composite Document and in the accompanying WHITE form of acceptance. Further terms of the offer for Domestic Shares are set out in the "Letter from CR Gas Investment", Appendix I to this Composite Document and in the accompanying GREEN form of acceptance.

GENERAL

To ensure equality of treatment of all holders of H Shares, those registered shareholders who hold H Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the H Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the offer for H Shares.

LETTER FROM ANGLO CHINESE

All documents and remittances will be sent to holders of H Shares by ordinary post at their own risk. Such documents and remittances will be sent to them at their respective addresses as they appear in the register of members of Zhengzhou Gas or, in the case of joint shareholders, to the shareholder whose name appears first in the register of members of Zhengzhou Gas, as applicable. None of Zhengzhou Gas, CR Gas Investment, CR Gas, Anglo Chinese, nor any of their respective directors or any persons involved in the Offers will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

Acceptance and payment

By accepting the offer for H Shares, the independent shareholders of Zhengzhou Gas will sell their H Shares free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them or subsequently becoming attached to them, including all dividends and distributions declared except the Special Dividend, on or after the Offers are open for acceptance.

CR Gas Investment reserves its right to revise the terms under the Offers or to extend the latest time for acceptance of the Offers.

Payment in cash in respect of the acceptances of the offer for H Shares will be made within ten days of the date on which the relevant documents of title are received by CR Gas Investment to render each such acceptance complete and valid or when the Offers have become or declared unconditional, whichever is the later.

Taxation and stamp duty

Seller's ad valorem stamp duty at a rate of 0.1% of the market value of H Shares or the consideration payable by CR Gas Investment in respect of relevant acceptances of the offer for H Shares, whichever is the higher, will be deducted from the cash amount payable to the relevant shareholders on their acceptance to the offer for H Shares. CR Gas Investment will arrange for payment of the seller's ad valorem stamp duty on behalf of accepting shareholders in connection with the acceptance of the offer for H Shares and the transfer of the H Shares.

Shareholders of Zhengzhou Gas are recommended to consult their own professional advisers if they are in doubt as to the taxation implications of their acceptance of the Offers.

Overseas shareholders

The attention of independent shareholders of Zhengzhou Gas whose registered addresses as recorded on the register of members of Zhengzhou Gas are outside Hong Kong is drawn to the section headed "Overseas Shareholders" in Appendix I to this Composite Document.

LETTER FROM ANGLO CHINESE

ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from CR Gas Investment”, the “Letter from the Independent Board Committee” and the “Letter from Frist Shanghai”, which are contained in this Composite Document, in relation to their respective recommendation regarding the Offers. Your attention is also drawn to the additional information set out in the Appendices, which form part of the Composite Document.

Yours faithfully,

For and on behalf of

Anglo Chinese Corporate Finance, Limited

Stephen Clark

Michael Fok

Managing Director

Director

LETTER FROM THE BOARD OF DIRECTORS OF ZHENGZHOU GAS



ZHENGZHOU GAS COMPANY LIMITED*

鄭州燃氣股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 3928)

Executive Directors

Mr. Yan Guoqi (*Chairman*)
Mr. Li Jinlu
Mr. Li Hongwei

Non-executive Directors

Mr. Song Jinhui
Mr. Zhang Wushan
Mr. Ding Ping
Mr. Liu Jianwen

Independent Non-executive Directors

Mr. Yu Jingsong
Mr. Zhang Jianqing
Ms. Wang Xiuli
Mr. Wong Ping

Registered Office:

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

*Principal Place of Business
in Hong Kong:*

Room 908, 9th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

3 September 2010

To the independent shareholders of Zhengzhou Gas

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED
FOR ALL THE DOMESTIC SHARES IN ZHENGZHOU GAS COMPANY LIMITED
AND
MANDATORY CONDITIONAL CASH OFFER BY
ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED FOR
ALL THE H SHARES IN ZHENGZHOU GAS COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 27 August 2010, Zhengzhou Gas and CR Gas jointly announced that Zhengzhou GGCL has duly transferred 54,041,510 Domestic Shares which represented approximately 43.18% of the total issued share capital of Zhengzhou Gas to Zhengzhou SASAC at nil consideration. The SFC has granted an exemption to Zhengzhou SASAC for making a mandatory offer for all the Zhengzhou Gas Shares pursuant to Rule 26.1 of the Takeovers Code.

LETTER FROM THE BOARD OF DIRECTORS OF ZHENGZHOU GAS

Further to the Announcement in relation to the potential cooperation between CR Gas and Zhengzhou SASAC, CR Gas announced on 27 August 2010 that all the all approvals and registrations in the PRC in connection with the acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC at a total consideration of RMB421,750,560 have been obtained and the registration of the Sale Shares under the name of the Joint Venture at China Securities Depository and Clearing Corporation Limited has been updated on 30 June 2010. At that point, Zhengzhou SASAC did not regard that the registration of the Sale Shares under the name of the Joint Venture as Completion because it had the right to finalise the distribution of the profit attributable to it given it was an obligation to be fulfilled by CR Gas Investment pursuant to the cooperation agreements dated 25 November 2009. It was a condition precedent to Completion and details of which are further discussed below.

Pursuant to the Announcement, the Completion shall take place within 10 business days, or such later date as CR Gas Investment and Zhengzhou SASAC may agree in writing, after fulfillment of all the pre-conditions contained in the Announcement. According to the agreements dated 25 November 2009 entered into between CR Gas Investment and Zhengzhou SASAC for their potential cooperation, the attributable profit and loss incurred by Zhengzhou GGCL and its subsidiaries during the period from 1 July 2009 up to the date of incorporation of the Joint Venture which was 25 November 2009, should be borne by Zhengzhou SASAC. CR Gas Investment and Zhengzhou SASAC, by entering into an addendum on 27 August 2010, have confirmed and agreed that (i) the audited profits of Zhengzhou Gas, Zhengzhou Gas Design and Nanyang Zhengran, being entities transferred to the Joint Venture by Zhengzhou SASAC, during the period from 1 July 2009 to 30 November 2009 attributable to Zhengzhou SASAC were RMB26,586,900 and CR Gas Investment has agreed that Zhengzhou SASAC will be entitled to such profit; (ii) CR Gas Investment and Zhengzhou SASAC have agreed through the Joint Venture to procure Zhengzhou Gas to distribute such profit by way of special dividend; and (iii) as a condition precedent to Completion, either the board of directors of Zhengzhou Gas shall resolve to propose declaration of a special dividend and to submit the proposal to the shareholders for approval, or the parties shall procure the Joint Venture to request Zhengzhou Gas to convene an extraordinary general meeting for the shareholders of Zhengzhou Gas to approve the payment of Special Dividend. The board of directors of Zhengzhou Gas has received a joint request from the Joint Venture and another shareholder of Zhengzhou Gas on 27 August 2010 for convening an extraordinary general meeting of Zhengzhou Gas to approve the payment of Special Dividend. CR Gas announced that the Completion had therefore duly taken place and that all the pre-conditions for the Offers have been fulfilled on 27 August 2010.

On Completion, the Joint Venture was interested in 54,041,510 Domestic Shares which represented approximately 43.18% of the total issued share capital of Zhengzhou Gas. Accordingly, CR Gas Investment and the parties acting in concert with it are required to make the Offers for all the Zhengzhou Shares (other than those already owned or agreed to be acquired by CR Gas Investment and parties acting in concert with it) in compliance with Rules 14 and 26.1 of the Takeovers Code.

The principal terms of the Offers, together with information relating to CR Gas and its intention regarding Zhengzhou Gas are set out in the “Letter from CR Gas Investment” and in the “Letter from Anglo Chinese” as set out on pages 5 to 7 and pages 8 to 17, respectively, of this Composite Document. Further details of the terms of the Offers and the procedures for acceptance of the Offers are set out in Appendix I to this Composite Document and the accompanying forms of acceptance. Further information about the Special Dividend is set out on page 13 under the paragraph headed “Other arrangement” of this Composite Document.

LETTER FROM THE BOARD OF DIRECTORS OF ZHENGZHOU GAS

The purpose of this Composite Document is to provide you with, among other things, information relating to Zhengzhou Gas, CR Gas Group and the Offers, and to set out the “Letter from the Independent Board Committee” containing its advice to the independent shareholders of Zhengzhou Gas and the “Letter from First Shanghai” containing its advice to the Independent Board Committee in respect of the Offers.

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee has been established which comprises all the independent non-executive directors of Zhengzhou Gas, namely Mr. Yu Jingsong, Mr. Zhang Jianqing, Ms. Wang Xiuli, Mr. Wong Ping and a non-executive director, namely Mr. Liu Jianwen, each of whom have no direct or indirect interests in the Offers, to advise and make recommendations to the independent shareholders of Zhengzhou Gas in respect of the Offers. Given that Mr. Zhang Wushan is currently a director and standing deputy general manager of Zhengzhou GGCL, and Mr. Ding Ping is currently a director of Zhengzhou GGCL, the directors of Zhengzhou Gas are of the view that they have direct or indirect interest in the Offers and therefore should not be appointed as a member of the Independent Board Committee. In addition, Mr. Song Jinhui was a director and deputy chairman of Zhengzhou GGCL during the period from December 2000 to May 2009. Having consulted the Executive, the board of Zhengzhou Gas decided that Mr. Song should not be appointed as a member of the Independent Board Committee. The Independent Board Committee has approved the appointment of First Shanghai as the independent financial adviser to advise the Independent Board Committee on the terms of the Offers.

THE OFFERS

As a result of the Completion, CR Gas Investment and parties acting in concert with it are required pursuant to Rule 26.1 of the Takeovers Code to make a mandatory conditional cash offer to acquire all the Zhengzhou Shares, other than those already owned or agreed to be acquired by it and parties acting in concert with it. As Zhengzhou Gas has more than one class of equity share capital, Rule 14 of the Takeovers Code requires a comparable offer to be made for each class of shares and be subject to similar conditions.

CR Gas Investment will make the offer for all the outstanding Domestic Shares, other than those already owned or agreed to be acquired by it and parties acting in concert with it. Anglo Chinese on behalf of CR Gas Investment will make the offer for all the outstanding H Shares, other than those already owned or agreed to be acquired by CR Gas Investment and parties acting in concert with it.

As stated in the Announcement, the contribution of assets by Zhengzhou SASAC for the formation of the Joint Venture, the acquisition of the Other Assets and the leasing of a parcel of land by the Joint Venture from Zhengzhou SASAC will confer favourable conditions on Zhengzhou SASAC which will not be extended to all other shareholders of Zhengzhou Gas during the period when the Offers have commenced. In order to extend the same favourable conditions which will be extended to Zhengzhou SASAC in respect of the above transactions to all other shareholders of Zhengzhou Gas,

LETTER FROM THE BOARD OF DIRECTORS OF ZHENGZHOU GAS

it was announced on 11 December 2009 that the board of CR Gas Investment resolved to increase the offer price under the Offers to take full account of such favourable conditions. The Offers are being made in compliance with the Takeovers Code on the following basis:

For each H Share	HK\$14.73 in cash
For each Domestic Share	RMB12.96 in cash

As at the Latest Practicable Date, Zhengzhou Gas does not have any outstanding warrants or options or derivatives to acquire Zhengzhou Shares or other securities which are convertible into Zhengzhou Shares.

Comparison of value

The offer price of HK\$14.73 per H Share and RMB12.96 per Domestic Share under the Offers represents:

- (a) a premium of approximately 0.89% over the closing price of HK\$14.60 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 1.17% over the closing price of HK\$14.56 per H Share as quoted on the Stock Exchange on 10 December 2009, being the last trading day prior to the publication of the joint announcement dated 11 December 2009 relating to the revision of the offer price under the Offers;
- (c) a discount of approximately 14.26% to the closing price of HK\$17.18 per H Share as quoted on the Stock Exchange on 23 October 2009, being the last trading day prior to the publication of the Announcement;
- (d) a discount of approximately 12.32% to the average closing price of HK\$16.80 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the 23 October 2009;
- (e) a discount of approximately 10.40% to the average closing price of HK\$16.44 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the 23 October 2009;
- (f) a premium of approximately 41.91% over the closing price of HK\$10.38 per H Share as quoted on the Stock Exchange on 6 July 2009, being the last trading day prior to the commencement of Offer Period;
- (g) a premium of approximately 56.37% over the average closing price of HK\$9.42 per H Share as quoted on the Stock Exchange for the last 10 trading days up to and including 6 July 2009;

LETTER FROM THE BOARD OF DIRECTORS OF ZHENGZHOU GAS

- (h) a premium of approximately 54.24% over the average closing price of HK\$9.55 per H Share as quoted on the Stock Exchange for the last 30 trading days up to and including 6 July 2009; and
- (i) a premium of approximately 86.47% over the audited consolidated net assets value of approximately RMB6.95 or equivalent to approximately HK\$7.90 per H Share as at 31 December 2009, being the latest published net assets value of Zhengzhou Gas prior to the Latest Practicable Date.

The highest and lowest prices

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the six month period preceding the commencement of Offer Period and ending on the Latest Practicable Date were HK\$17.52 per H Share on 19 October 2009 and HK\$6.15 per H Share on 23 January 2009 respectively.

INFORMATION OF ZHENGZHOU GAS

Business

Zhengzhou Gas Group is principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation services.

Financial information

Audited financial statements of Zhengzhou Gas for each of the two financial years ended 31 December 2009 and 31 December 2008 and the unaudited financial information for the six months ended 30 June 2010 are set out in Appendix II to the Composite Document.

Further information

Further information in relation to Zhengzhou Gas is set out in Appendix III to the Composite Document.

INFORMATION OF CR GAS GROUP AND ITS INTENTION

Your attention is drawn to the sections headed “Information on CR Gas Group” and “CR Gas Group’s Intentions Regarding Zhengzhou Gas” in the “Letter from Anglo Chinese” as set out on pages 14 to 15 of the Composite Document.

It is the intention of CR Gas Group that Zhengzhou Gas Group will continue its existing principal activities after the close of the Offers. Upon completion of the Offers, CR Gas will conduct a detailed review of the operation of Zhengzhou Gas Group regarding its long-term development and business prospects. It is noted that there will not be any intention to dispose of, or downsize the existing business of Zhengzhou Gas, or redeploy the fixed assets of Zhengzhou Gas, or discontinue the employment of any of Zhengzhou Gas’ employees upon Completion.

LETTER FROM THE BOARD OF DIRECTORS OF ZHENGZHOU GAS

Regarding the intentions of CR Gas Group in respect of Zhengzhou Gas Group including its operation and development, the board of directors of Zhengzhou Gas will render cooperation and support to CR Gas Group in this regard.

RECOMMENDATION

Your attention is drawn to the “Letter from the Independent Board Committee” to the independent shareholders of Zhengzhou Gas which sets out its recommendation to the independent shareholders on pages 24 to 25 of this Composite Document and the “Letter from First Shanghai” on pages 26 to 44 of this Composite Document which sets out its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

In considering what action to take in connection with the Offers, independent shareholders of Zhengzhou Gas should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read the Composite Document together with the accompanying forms of acceptance for details of the Offers as well as the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the Appendices to this Composite Document.

Yours faithfully,
For and on behalf of the board of directors
Zhengzhou Gas Company Limited*
Yan Guoqi
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



ZHENGZHOU GAS COMPANY LIMITED*

鄭州燃氣股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 3928)

3 September 2010

To the independent shareholders of Zhengzhou Gas,

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED
FOR ALL THE DOMESTIC SHARES IN ZHENGZHOU GAS COMPANY LIMITED*
AND
MANDATORY CONDITIONAL CASH OFFER BY
ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED FOR
ALL THE H SHARES IN ZHENGZHOU GAS COMPANY LIMITED*
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

We refer to the Composite Document dated 3 September 2010 issued jointly by CR Gas Investment, CR Gas and Zhengzhou Gas of which this letter forms part. We have been appointed by the board of directors of Zhengzhou Gas to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable. We have declared that we are independent and do not have any conflict of interest in respect of the Offers and are therefore able to consider the terms of the Offers and make recommendations to the independent shareholders of Zhengzhou Gas.

First Shanghai has been appointed as the independent financial adviser to advise us in respect of the terms of the Offers.

We wish to draw your attention to the “Letter from CR Gas Investment” and the “Letter from Anglo Chinese” set out on pages 5 to 7 and pages 8 to 17, respectively, of this Composite Document which contains, inter alia, information about the Offers, and the “Letter from First Shanghai” set out on pages 26 to 44 of this Composite Document which contains the details of its advice and the principal factors taken into consideration in arriving at its recommendation in respect of the Offers.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw your attention to the “Letter from the board of directors of Zhengzhou Gas” as set out on pages 18 to 23 of this Composite Document and the additional information set out in the Composite Document, including the appendices to this Composite Document and the accompanying forms of acceptance in respect of the terms of the Offers, acceptance and settlement procedures for the Zhengzhou Shares.

Having taken into account the advice of First Shanghai, we consider that the terms of the Offers are fair and reasonable so far as the independent shareholders are concerned. Accordingly, we recommend the independent shareholders of Zhengzhou Gas to accept the Offers.

Notwithstanding our recommendations, the independent shareholders of Zhengzhou Gas should consider carefully the terms and conditions of the Offers.

Yours faithfully,

For and on behalf of Independent Board Committee

Mr. Yu Jingsong Mr. Zhang Jianqing Ms. Wang Xiuli Mr. Wong Ping Mr. Liu Jianwen

LETTER FROM FIRST SHANGHAI

The following is the text of a letter of advice to the Independent Board Committee from First Shanghai in respect of the Offers prepared for the purpose of incorporation in the Composite Document.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

3 September 2010

To the Independent Board Committee

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED
FOR ALL THE DOMESTIC SHARES IN ZHENGZHOU GAS COMPANY LIMITED*
AND
MANDATORY CONDITIONAL CASH OFFER BY
ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED FOR
ALL THE H SHARES IN ZHENGZHOU GAS COMPANY LIMITED*
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
CHINA RESOURCES GAS (CHINA) INVESTMENT LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offers. Details of the Offers are set out in the Composite Document jointly issued by CR Gas Investment, CR Gas and Zhengzhou Gas dated 3 September 2010, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

As disclosed in the Announcement, CR Gas Investment and Zhengzhou SASAC entered into various agreements on 25 November 2009 which relate to the formation of the Joint Venture, the increase in its registered capital and the acquisitions by the Joint Venture of the Sale Shares, which represent approximately 43.18% of the total issued share capital of Zhengzhou Gas, and Other Assets from Zhengzhou SASAC. Completion of the acquisition of the Sale Shares by the Joint Venture had

LETTER FROM FIRST SHANGHAI

duly taken place and all the pre-conditions for the Offers have been fulfilled on 27 August 2010. Accordingly, upon Completion, there was a change in controlling shareholder of Zhengzhou Gas whereby CR Gas Investment and the parties acting in concert with it are now required to make the Offers for all the Zhengzhou Shares (other than those already owned or agreed to be acquired by CR Gas Investment and parties acting in concert with it) in compliance with Rules 14 and 26.1 of the Takeovers Code.

The board of directors of Zhengzhou Gas comprises three executive directors, four non-executive directors and four independent non-executive directors. In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee has been established which comprises all of the independent non-executive directors and a non-executive director of Zhengzhou Gas each of whom has no direct or indirect interests in the Offers, namely Mr. Yu Jingsong, Mr. Zhang Jianqing, Ms. Wang Xiuli, Mr. Wong Ping and Mr. Liu Jianwen, to advise and make recommendations to the independent shareholders of Zhengzhou Gas (the “Independent Shareholders”) in respect of the Offers. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee on the terms of the Offers.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive directors and the management of Zhengzhou Gas and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and continue to be true, accurate and complete in all material aspects until the end of the Offer Period. We have also sought and received confirmation from the directors and the management of Zhengzhou Gas that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of CR Gas Investment, CR Gas Group, Zhengzhou Gas Group or associates of any of them, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Independent Shareholders of acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

BACKGROUND OF AND PRINCIPAL TERMS OF THE OFFERS

Zhengzhou GGCL, which is wholly-owned by Zhengzhou Municipal Government, was incorporated in the PRC with limited liability and was the controlling shareholder that held approximately 43.18% of the total issued share capital of Zhengzhou Gas prior to 30 June 2010; whereas Zhengzhou SASAC is a governmental authority responsible for the administration of state assets owned or contributed by authorities, institutions and state-owned enterprises in Zhengzhou.

LETTER FROM FIRST SHANGHAI

CR Holdings is the parent company of CRGH and CR Gas. CR Gas Group is principally engaged in the sale and distribution of gas fuel and related products and a gas connection operation in the PRC. Its piped natural gas operations are strategically located in areas of the PRC with rich reserves of natural gas, economically more developed and densely populated. As at 31 December 2009, the CR Gas Group operated 27 city gas projects in 10 provinces in the PRC.

As set out in the announcement of Zhengzhou Gas dated 9 July 2009 (the “First Announcement”), the board of directors of Zhengzhou Gas was informed by Zhengzhou SASAC that it had entered into a cooperation framework agreement with CRGH on 5 July 2009 in relation to the establishment of the Joint Venture and the potential acquisition of the Sale Shares by the Joint Venture.

On 6 November 2009, CRGH and CR Gas announced that CR Gas Investment, a wholly-owned subsidiary of CR Gas, had taken the place of CRGH in the negotiation of potential cooperation with Zhengzhou SASAC and/or Zhengzhou GGCL. On the same day, Zhengzhou Gas announced that Zhengzhou SASAC and/or Zhengzhou GGCL and CR Gas Investment were in the process of finalising the relevant definitive agreements relating to the potential cooperation.

As disclosed in the Announcement, CR Gas Investment and Zhengzhou SASAC had entered into various agreements on 25 November 2009 under which the parties primarily agreed the followings:-

- (i) the establishment by CR Gas Investment and Zhengzhou SASAC of the Joint Venture to which CR Gas Investment would contribute RMB490 million in cash and Zhengzhou SASAC would contribute RMB190 million through the injection of assets relating to the piped gas business including land use rights, machinery and equity interests in two PRC companies, namely Nanyang Zhengran and Zhengzhou Gas Design (the “Injected Assets”);
- (ii) the contribution by CR Gas Investment to the Joint Venture of a further RMB270 million in cash after obtaining the relevant approvals for the increase in the registered capital of the Joint Venture;
- (iii) the acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC and the agreement by CR Gas Investment to bear the compensation for the staff of Zhengzhou Gas and Zhengzhou GGCL for a total consideration of approximately RMB456.7 million (equivalent to approximately RMB8.45 per Domestic Share); and
- (iv) the acquisition by the Joint Venture of the Other Assets, comprising principally buildings and equipment for its piped gas operation, from Zhengzhou SASAC for a total consideration of approximately RMB13.4 million.

Upon completion of all of the above arrangements, the piped gas business conducted or supervised by Zhengzhou SASAC or its subsidiaries and associated companies, including Zhengzhou Gas, Nanyang Zhengran and Zhengzhou Gas Design will be effectively transferred to the Joint Venture. On 27 August 2010, the Completion had duly taken place and all the pre-conditions for the Offers have been fulfilled. Upon Completion, the Joint Venture was interested in approximately 43.18% of the total issued share capital of Zhengzhou Gas. Accordingly, CR Gas Investment and parties acting in concert with it are required pursuant to Rule 26.1 of the Takeovers Code to make a

LETTER FROM FIRST SHANGHAI

mandatory conditional cash offer to acquire all the Zhengzhou Shares, other than those already owned or agreed to be acquired by it and parties acting in concert with it. As Zhengzhou Gas has more than one class of equity share capital, Rule 14 of the Takeovers Code requires a comparable offer to be made for each class of shares and be subject to similar conditions.

The initial offer price of the Offers of RMB8.45 per Domestic Share, or HK\$9.60 per H Share (the “Initial Offer Price”), was equivalent to the sum of the consideration payable by the Joint Venture to acquire the Sale Shares of approximately RMB421.7 million and the compensation payable by CR Gas Investment to the staff of Zhengzhou Gas and Zhengzhou GGCL of approximately RMB35.0 million upon Completion divided by the total number of Sale Shares of 54,041,510.

The contribution of the Injected Assets by Zhengzhou SASAC for the formation and capitalization of the Joint Venture and the acquisition of the Other Assets and the leasing of a parcel of land (the “Land”) by the Joint Venture from Zhengzhou SASAC have conferred favourable conditions on Zhengzhou SASAC not extended to all other shareholders of Zhengzhou Gas during the period when the Offers have commenced. As set out in the announcement jointly issued by Zhengzhou Gas and CR Gas dated 11 December 2009 (the “Revised Offer Price Announcement”), in order to extend the same favourable conditions to all other shareholders of Zhengzhou Gas, the board of CR Gas Investment had resolved to increase the offer price (the “Offer Price”) as follows:-

For each H Share HK\$14.73 in cash
For each Domestic Share RMB12.96 in cash

Details of the terms of the Offers are contained in the “Letter from Anglo Chinese” and Appendix I to the Composite Document. Independent Shareholders are urged to read the relevant sections in the Composite Document in full.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the Offers, we have taken into consideration the following principal factors and reasons:

1. Information on Zhengzhou Gas Group

Zhengzhou Gas is a joint stock limited company established in the PRC on 18 December 2000. The H Shares were first listed on the Growth Enterprise Market of the Stock Exchange on 29 October 2002 and have migrated to the Main Board of the Stock Exchange since 29 June 2007.

Zhengzhou Gas Group is principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation services.

LETTER FROM FIRST SHANGHAI

(i) *Historical financial performance of Zhengzhou Gas Group*

The following table summarises the consolidated income statements of Zhengzhou Gas for each of the three years ended 31 December 2009, the six months ended 30 June 2009 and the six months ended 30 June 2010, details of which are set out in Appendix II to the Composite Document:-

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Revenue	862,161	1,028,846	1,244,420	615,425	730,780
Gross profit	298,599	311,807	378,355	210,393	223,613
Profit before tax	196,405	203,696	243,728	153,862	159,176
Tax	(66,722)	(51,528)	(63,269)	(37,964)	(41,636)
Profit for the year/period	<u>129,683</u>	<u>152,168</u>	<u>180,459</u>	<u>115,898</u>	<u>117,540</u>

For each of the three years ended 31 December 2009 and the six months ended 30 June 2010, Zhengzhou Gas Group was organized into two business segments: (a) sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipeline renovation work; and (b) gas pipeline connection and construction. The following table shows the performance of the different business segments of Zhengzhou Gas Group for each of the three years ended 31 December 2009 and the six months ended 30 June 2010:-

	For the year ended 31 December						For the six months ended 30 June 2010	
	2007		2008		2009			
	Segment Revenue	Segment result	Segment Revenue	Segment result	Segment Revenue	Segment result	Segment Revenue	Segment result
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of natural gas and other related products	624,360	77,127	766,525	60,709	948,358	81,915	553,797	54,389
Gas pipeline connection and construction	<u>237,801</u>	<u>185,857</u>	<u>262,321</u>	<u>209,640</u>	<u>296,062</u>	<u>246,964</u>	<u>176,983</u>	<u>147,259</u>
Total	<u>862,161</u>	<u>262,984</u>	<u>1,028,846</u>	<u>270,349</u>	<u>1,244,420</u>	<u>328,879</u>	<u>730,780</u>	<u>201,648</u>

LETTER FROM FIRST SHANGHAI

(a) *Year ended 31 December 2007*

Revenue for the year ended 31 December 2007 was approximately RMB862.2 million, representing an increase of approximately 17.8% over the previous year. As stated in the annual report of Zhengzhou Gas for the year ended 31 December 2007, the increase in revenue was mainly attributable to the increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction, and the upward price adjustment of commercial and industrial gas. Although the gross profit margin for the year ended 31 December 2007 increased to approximately 34.6% from approximately 33.0% over the previous year, net profit increased by only 3.2% to approximately RMB129.7 million for the year ended 31 December 2007. This was mainly attributable to the net effect of increase in gross profit and the significant increase in the income tax expense, which increased from approximately RMB9.5 million for the year ended 31 December 2006 to approximately RMB66.7 million for the year ended 31 December 2007.

(b) *Year ended 31 December 2008*

Revenue for the year ended 31 December 2008 was approximately RMB1,028.8 million, representing an increase of approximately 19.3% over the previous year. As stated in the annual report of Zhengzhou Gas for the year ended 31 December 2008, the increase in revenue was mainly attributable to the increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction. Gross profit margin for the year ended 31 December 2008 decreased to approximately 30.3% from approximately 34.6% for the previous year, which was mainly attributable to the decrease in gross profit margin of the sales of natural gas as a result of higher costs for gas purchases and the decrease in the proportion of income from pipeline construction, which has the highest gross profit margin among all business segments. As a result of the decrease in gross profit margin, increase in selling and distribution cost and administrative expenses and the reduction in the PRC's enterprise income tax rate, the net profit margin for the year ended 31 December 2008 only slightly decreased to approximately 14.8% from approximately 15.0% for the previous year.

(c) *Year ended 31 December 2009*

Revenue for the year ended 31 December 2009 was approximately RMB1,244.4 million, representing an increase of approximately 21.0% over the same period in the previous year. As stated in the annual report of Zhengzhou Gas for the year ended 31 December 2009 (the "2009 Annual Report"), the increase in revenue was mainly attributable to the increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction. Gross profit margin slightly increased from approximately 30.3% for the year ended 31 December 2008 to approximately 30.4% for the year ended 31 December 2009, which was mainly attributable to the rise in prices of natural gas for residential and commercial use since March 2009. Net profit increased by approximately 18.6% from approximately RMB152.2 million for the year ended 31 December 2008 to approximately RMB180.5 million for the year ended 31 December 2009, yet the net profit margin slightly decreased from approximately 14.8% to 14.5% due to the costs resulting from the termination of a natural gas pipeline construction project and impairment losses of other assets.

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(d) *Six months ended 30 June 2010*

Revenue for the six months ended 30 June 2010 was approximately RMB730.8 million, representing an increase of approximately 18.7% over the same period in the previous year. As stated in the interim results of Zhengzhou Gas for the six months ended 30 June 2010 (the “2010 Interim Results”), the increase in revenue was mainly attributable to the increase in both income from sales of natural gas and income from gas pipeline connection and construction. Gross profit margin decreased from approximately 34.2% for the six months ended 30 June 2009 to approximately 30.6% for the six months ended 30 June 2010, which was mainly attributable to the continuous rise in purchase cost of natural gas. Net profit slightly increased by approximately 1.4% from approximately RMB115.9 million for the six months ended 30 June 2009 to approximately RMB117.5 million for the six months ended 30 June 2010, yet the net profit margin decreased from approximately 18.8% to 16.1% due to the decreased gross profit margin of sales of natural gas and gas pipeline connection and construction service and the reduction of share of profit from an associate.

Based on the 2010 Interim Results, we noted that the growth of net profit of Zhengzhou Gas has slowed down for the six months ended 30 June 2010.

On 22 May 2009, the share consolidation of every ten then Zhengzhou Shares of RMB0.10 each into one existing Zhengzhou Share of RMB1.00 each (the “Share Consolidation”) had come into effect. Accordingly, when comparing and analyzing the historical financial information of Zhengzhou Gas, we have made relevant adjustments to data prior to the date which the Share Consolidation came into effect for comparison purposes, if necessary.

Having taken into account the effect of the Share Consolidation, Zhengzhou Gas had distributed final dividend of RMB0.242, RMB0.104 and RMB0.1626 per Zhengzhou Share respectively for each of the three years ended 31 December 2009 and a special dividend of RMB0.80 per Zhengzhou Share for the year ended 31 December 2008.

As set out in the joint announcement of CR Gas and Zhengzhou Gas dated 27 August 2010, at the request of the Joint Venture and another shareholder of Zhengzhou Gas, the board of directors of Zhengzhou Gas proposed a Special Dividend of RMB0.492 per Zhengzhou Share, which is subject to the approval of shareholders of Zhengzhou Gas on the extraordinary general meeting to be held on 23 November 2010 (the “Special Dividend EGM”). Shareholders of Zhengzhou Gas should note that as set out in the “Letter from Anglo Chinese” to the Composite Document, all shareholders of Zhengzhou Gas whose names appear on the register of members of Zhengzhou Gas on the Record Date will be entitled to the Special Dividend and any shareholders of Zhengzhou Gas who tender their Zhengzhou Shares for acceptance under the Offers will also be entitled to the Special Dividend, if it is approved at the Special Dividend EGM at which CR Gas Investment will procure the Joint Venture to vote for the resolution.

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(ii) *Financial position of Zhengzhou Gas Group*

The following table summarises the consolidated balance statements of Zhengzhou Gas as at 31 December 2009 and 30 June 2010, which are set out in full in Appendix II to the Composite Document:-

	As at 31 December 2009	As at 30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(unaudited)</i>
Non-current assets	996,300	1,036,740
Current assets	<u>593,009</u>	<u>685,610</u>
 Total assets	 1,589,309	 1,722,350
 Current liabilities	 719,955	 755,805
Non-current liabilities	<u>—</u>	<u>—</u>
 Total liabilities	 719,955	 755,805
 Net assets	 <u>869,354</u>	 <u>966,545</u>

As at 30 June 2010, total assets amounted to approximately RMB1,722.4 million, representing an increase of approximately 8.4% when compared with the same as at 31 December 2009. Non-current assets amounted to approximately RMB1,036.7 million as at 30 June 2010, representing approximately 60.2% of the total assets, among which, property, plant and equipment amounted to approximately RMB884.7 million, representing approximately 51.4% of the total assets, as at 30 June 2010. Current assets mainly comprised cash and cash equivalents and trade and notes receivables. As at 30 June 2010, cash and cash equivalents and trade and notes receivables amounted to approximately RMB453.1 million and RMB106.0 million, representing approximately 26.3% and 6.2% of the total assets, respectively.

As at 30 June 2010, total liabilities amounted to approximately RMB755.8 million, all of which were current liabilities, representing an increase of approximately 5.0% when compared with the same as at 31 December 2009. Current liabilities mainly comprised advance payments received (being deferred revenue, not an amount payable as a liability in nature) and other payables and accruals. As at 30 June 2010, advance payments received and other payables and accruals amounted to approximately RMB412.9 million and RMB174.6 million, representing approximately 54.6% and 23.1% of the total liabilities, respectively.

LETTER FROM FIRST SHANGHAI

As at 30 June 2010, Zhengzhou Gas Group recorded net current liabilities of approximately RMB70.2 million, which was mainly attributable to the advance payments received as mentioned above. As set out in the 2010 Interim Results, after deducting such advanced payment received which is not an amount payable as a liability in nature, Zhengzhou Gas Group had net current assets of approximately RMB342.8 million.

2. Background of CR Gas Investment and its intention regarding the future of Zhengzhou Gas Group

(i) Background of CR Gas Investment

CR Gas Investment is an investment holding company incorporated in Hong Kong and is a wholly-owned subsidiary of CR Gas. CR Gas is a limited liability company incorporated in Bermuda and its shares have been listed on the Main Board of the Stock Exchange since 7 November 1994. CR Gas Group is principally engaged in the sale and distribution of gas fuel and related products and a gas connection operation in the PRC. Its piped natural gas operations are strategically located in areas of the PRC with rich reserves of natural gas and areas which are economically more developed and densely populated. Its operation covers provincial capitals and major cities such as Chengdu, Chongqing, Nanjing, Wuhan, Kunming, Jinan, Wuxi and Suzhou.

(ii) Intentions regarding Zhengzhou Gas Group

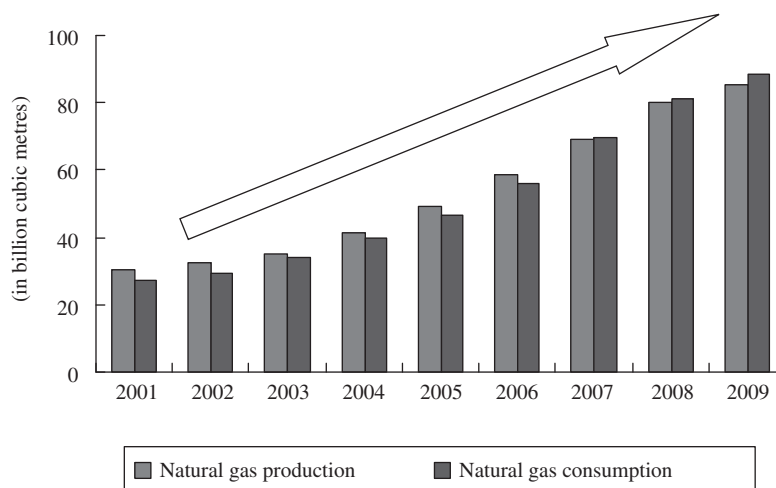
As set out in the “Letter from Anglo Chinese” to the Composite Document, it is the intention of CR Gas Group that Zhengzhou Gas Group will continue its existing principal activities after the close of the Offers. Upon completion of the Offers, CR Gas will conduct a detailed review of the operation of Zhengzhou Gas Group regarding its long-term development and business prospects. It is the intention of CR Gas and CR Gas Investment to maintain the listing of H Shares on the Stock Exchange after the close of the Offers and appropriate steps will be taken to ensure that there will be at least the minimum prescribed percentage of H Shares held by the public as required by the Listing Rules. Zhengzhou SASAC, CR Gas and CR Gas Investment do not intend to, through their interests in the Joint Venture, procure any significant change to the existing composition of the board of directors of Zhengzhou Gas, nor do they have any agreement, arrangement, understanding, negotiation or intention to dispose of, or downsize the existing business of Zhengzhou Gas, redeploy the fixed assets of Zhengzhou Gas, or discontinue the employment of any of Zhengzhou Gas’ employees upon Completion. Further announcements will be made by Zhengzhou Gas in compliance with the requirements of the Listing Rules whenever there are changes in the composition of its board of directors.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to Zhengzhou Gas, being 25% of the H Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the H Shares; or (ii) there are insufficient H Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend dealings in the H Shares. It is the intention of CR Gas Investment that Zhengzhou Gas remains listed on the Stock Exchange. The directors of CR Gas Investment and Zhengzhou Gas will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in Zhengzhou Shares.

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3. Future prospects of Zhengzhou Gas Group

According to data from BP Statistical Review of World Energy June 2010 (the “2010 BP Report”) published by BP p.l.c., one of the world’s largest oil and gas companies, the amount of natural gas production and consumption in the PRC from 2001 to 2009 is set out as follows, which we noted compound annual growth rates of approximately 13.8% and 15.8% respectively, and we also noted that the amount of annual natural gas consumption has surpassed production since 2007:-



Source: 2010 BP Report

As mentioned in the annual report of CR Gas for the year ended 31 December 2009, the continued economic growth and the rapid industrialization and urbanisation in China has spiked the demand for energy in China. In order to reduce reliance on polluting energy sources such as coal and crude oil, the PRC government has, in recent years, taken many steps to promote the development and utilisation of less polluting energy sources. Natural gas is considered a cleaner and superior substitute for conventional energy sources such as coal and crude oil. The PRC government has promulgated various policies and guidelines to encourage and rationalise the usage of natural gas.

Despite the development of natural gas related business in the PRC has been positive in general, recent performances have showed signs of deceleration in growth. Based on latest China Statistical Yearbook published by the National Bureau of Statistics of China, the annual growth of natural gas consumption in the PRC slowed down from approximately 25% in 2007 to approximately 16% in 2008. Furthermore, based on preliminary data from the website of the National Bureau of Statistics of China, the annual growth of natural gas consumption in the PRC was approximately 9% in 2009. In addition, according to the 2010 BP Report, global gas consumption experienced the largest decline on record in 2009 which decreased by approximately 2.1% and the annual growth of natural gas consumption in the PRC narrowed from approximately 17% in 2008 to approximately 9% in 2009, indicating that the growth rate of the natural gas industry in the PRC may or may not be sustainable.

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As set out in the 2009 Annual Report, Zhengzhou City is speeding up its city construction in order to implement the policy of “The Rise of Central China”. The Zhengzhou new districts under development shall make Zhengzhou one of the regional hubs in the PRC with massive population flow, logistics activities and capital flow. However, as set out in the 2010 Interim Results, since the development of industrial areas, industrial parks and aerial port areas in Zhengzhou City are at their infancy and the gas consumption by industrial and commercial users will not reach a significant scale in the short run, it is expected that the gas consumption by industrial and commercial users may only attain a stable growth in the second half of 2010, but, in the long run, the development of various areas will bring about new momentums for the growth of gas consumption by industrial and commercial users.

Moreover, on 31 May 2010, the National Development and Reform Commission of the People’s Republic of China issued a “Notice on Increasing the Manufacture Base Price of the State-produced Mainland Natural Gas” <關於提高國產陸上天然氣出廠基準價格的通知> in relation to the reform of manufacture bases price of natural gas. The upstream prices of natural gas are expected to increase under the reform. As disclosed in the announcement of Zhengzhou Gas dated 2 July 2010, Zhengzhou Gas will adjust upward its selling prices of natural gas to commercial, industrial and vehicular users whereas the selling price to residential users will remain unchanged pursuant to the Notice on Adjustments of Natural Gas Selling Prices in Zhengzhou issued by the Zhengzhou City Commodity Pricing Bureau on 30 June 2010. As advised by Zhengzhou Gas, natural gas selling price to residential users, who represents approximately 33.2% of the total volume of natural gas provided by Zhengzhou Gas Group for the year ended 31 December 2009, may be adjusted subject to approval of the relevant government authority with reference to a hearing of which residential representatives in Zhengzhou City shall attend. Accordingly, with the increases in the upstream prices and selling prices of natural gas, the demand of natural gas would be affected and the profit margin of Zhengzhou Gas Group would also be affected if it fails to transfer the increasing costs to the residential users.

In addition, based on our analysis on the historical financial performance of Zhengzhou Gas Group under the section headed “Information on Zhengzhou Gas Group” above, we noted that the increases in revenue of Zhengzhou Gas Group for the three years ended 31 December 2009 were mainly attributable to increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction over the years, which also resulted in the increases in the profit of Zhengzhou Gas Group for the three years ended 31 December 2009. Zhengzhou Gas also advised us that the natural gas penetration rate of residential users within the Zhengzhou City has already reached above 90% in 2009.

Accordingly, given the historical growth of Zhengzhou Gas Group was mainly relied on its organic growth and the growth rate of the natural gas industry in the PRC has slowed down in 2009, we consider that it is uncertain as to the sustainability of the growth rate of Zhengzhou Gas Group in the long term if Zhengzhou Gas fails to expand its natural gas business and transfer the increasing costs to its end users.

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4. Evaluation of the Offer Price

As at the Latest Practicable Date, Zhengzhou Gas has 55,066,000 H Shares and 70,084,000 Domestic Shares in issue. The Offer Price of HK\$14.73 per H Share and RMB12.96 per Domestic Share under the Offers represents:-

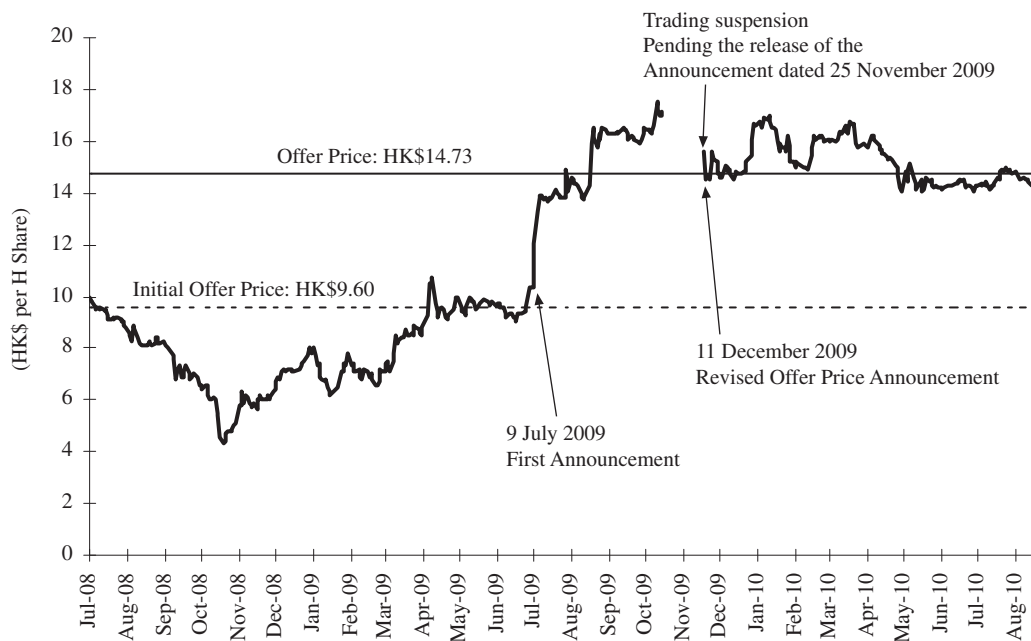
- (a) a premium of approximately 0.89% over the closing price of HK\$14.60 per H Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a premium of approximately 1.17% over the closing price of HK\$14.56 per H Share as quoted on the Stock Exchange on 10 December 2009, being the last trading day prior to the date of the Revised Offer Price Announcement;
- (c) a discount of approximately 14.26% to the closing price of HK\$17.18 per H Share as quoted on the Stock Exchange on 23 October 2009, being the last trading day prior to the publication of the Announcement (the “Last Trading Day”);
- (d) a discount of approximately 12.32% to the average of the closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of HK\$16.80 per H Share;
- (e) a discount of approximately 10.40% to the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of HK\$16.44 per H Share;
- (f) a premium of approximately 41.91% over the closing price of HK\$10.38 per H Share as quoted on the Stock Exchange on 6 July 2009, being the last trading day prior to the date of the First Announcement;
- (g) a premium of approximately 56.37% over the average of the closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 6 July 2009 of HK\$9.42 per H Share;
- (h) a premium of approximately 54.24% over the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including 6 July 2009 of HK\$9.55 per H Share; and
- (i) a premium of approximately 71.88% over the unaudited consolidated net assets value of approximately RMB7.54 per Zhengzhou Share or equivalent to approximately HK\$8.57 per Zhengzhou Share as at 30 June 2010, being the latest published unaudited net assets value of Zhengzhou Gas prior to the Latest Practicable Date (as calculated by the net assets attributable to the equity owners of Zhengzhou Gas of approximately RMB943.3 million and the number of Zhengzhou Shares of 125,150,000 in issue, as at 30 June 2010).

LETTER FROM FIRST SHANGHAI

(i) Historical price performance of the Zhengzhou Shares

Domestic Shares are unlisted and save for some private transfers, we are advised that there was no transaction for the Domestic Share in the public market before.

The chart below depicts the adjusted closing prices of the H Shares which have taken into account the effect of the Share Consolidation (the “Adjusted Closing Prices”) from 10 July 2008 (approximately 12 months prior to the publication of the First Announcement) up to and including the Latest Practicable Date (the “Review Period”):-



Source: Bloomberg

The Adjusted Closing Prices of the H Shares were below the Initial Offer Price of HK\$9.60 and the Offer Price of HK\$14.73 within most of the period from 10 July 2008 to 9 July 2009, being the publication date of the First Announcement (both dates inclusive) (the “Pre-Announcement Period”). The highest and lowest Adjusted Closing Prices during the Pre-Announcement Period were HK\$10.70 on 17 April 2009 and HK\$4.30 on 28 October 2008. After the publication of the First Announcement, the Adjusted Closing Price of the H Shares increased from HK\$10.38 to HK\$12.02 on 10 July 2009.

During the period from 10 July 2009, being the first trading day of the H Shares after the publication of the First Announcement, to 23 October 2009, being the last trading day prior to the publication of the Announcement (both dates inclusive), the Adjusted Closing Prices were traded above the Initial Offer Price and even above the Offer Price since 26 August 2009. The highest and lowest Adjusted Closing Prices during this period were HK\$17.52 on 19 October 2009 and HK\$12.02 on 10 July 2009, respectively.

LETTER FROM FIRST SHANGHAI

During the period from 26 November 2009, being the first trading day of the H Shares after the publication of the Announcement, to 10 December 2009, being the last trading day prior to the publication of the Revised Offer Price Announcement, the Adjusted Closing Prices were traded above the Initial Offer Price. During the period from 14 December 2009, the date of resumption of trading after the publication of the Revised Offer Price Announcement, to 14 May 2010, the Adjusted Closing Prices were mostly traded above the Offer Price, and reached the highest of HK\$17.0 on 19 January 2010. However, since 17 May 2010, the closing prices have been mostly lower than the Offer Price up to the Latest Practicable Date with the highest and the lowest closing prices of HK\$14.96 and HK\$14.02 recorded on 2 August 2010 and 6 July 2010, respectively.

In view of the pattern of the H Share prices as set out above, the historical closing prices of the H Shares are below the Offer Price during most of the Review Period, we believe that the surges in H Share price were mainly results of market reaction to the First Announcement and the Revised Offer Price Announcement.

(ii) Liquidity of the H Shares

The following table sets out the total number and the average daily number of H Shares traded per month and the percentage of average daily trading volume to average total number of H Shares during the Review Period:-

	Total monthly trading volume of the H Shares (million H Shares)	Average daily trading volume of the H Shares during the month (million H Shares)	% of average daily trading volume of the H Shares to average total number of H Shares
2008			
July (<i>since 10 July 2008</i>)	11.255	0.7034	0.1277%
August	12.320	0.6484	0.1178%
September	15.586	0.7422	0.1348%
October	22.865	1.0888	0.1977%
November	14.060	0.7030	0.1277%
December	9.940	0.4733	0.0860%
2009			
January	5.380	0.2989	0.0543%
February	5.950	0.2975	0.0540%
March	33.155	1.5070	0.2737%
April	61.620	3.0810	0.5595%
May	56.546	3.1414	0.6537%
June	3.570	0.1623	0.2947%
July	6.603	0.3475	0.6311%

LETTER FROM FIRST SHANGHAI

	Total monthly trading volume of the H Shares (million H Shares)	Average daily trading volume of the H Shares during the month (million H Shares)	% of average daily trading volume of the H Shares to average total number of H Shares
August	5.690	0.2709	0.4920%
September	2.734	0.1243	0.2257%
October	2.939	0.1837	0.3336%
November	5.960	1.9867	3.6078%
December	7.073	0.3368	0.6116%
2010			
January	4.575	0.2288	0.4154%
February	2.268	0.1260	0.2289%
March	3.510	0.1526	0.2771%
April	5.374	0.2828	0.5136%
May	3.109	0.1555	0.2823%
June	1.306	0.0622	0.1129%
July	1.719	0.0818	0.1486%
August	1.979	0.0899	0.1633%
September (<i>up to the Latest Practicable Date</i>)	0.101	0.1010	0.1834%

Source: Bloomberg

As illustrated in the above table, save for November 2009 where the Announcement was published after a trading suspension of about one month, the average daily trading volumes of the H Shares to the average total number of H Shares during the Review Period were below 1.0% and a majority of which were below 0.5%. Hence, we consider that the overall liquidity of the H Shares was extremely low and holders of the H Shares may find it difficult to dispose of a large number of H Shares in the open market without exerting a downward pressure on the price of the H Shares.

Accordingly, we consider that the Offers provide an alternative exit to holders of the Zhengzhou Shares to realize their investments in Zhengzhou Gas.

(iii) Comparison with market comparables

Zhengzhou Gas Group is principally engaged in the sale of natural gas, pressure control equipments and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation services in Zhengzhou, Henan Province.

LETTER FROM FIRST SHANGHAI

For the purpose of assessing the Offer Price, we have exhaustively identified two companies (the “Comparables”) which (i) are listed on the Stock Exchange; (ii) with market capitalisation of less than HK\$10 billion; (iii) having revenue of not less than 60% generated from sales of piped gas and related businesses for the latest published full financial year; and (iv) with geographical coverage similar to Zhengzhou Gas, and we compared the earnings per share (“EPS”), the net asset value per share (“NAV per share”), the price to earnings ratio (the “P/E Ratio”), price to book ratio (the “P/B Ratio”), and the total dividend yield of the Comparables to those of Zhengzhou Gas under the Offers. The list of the Comparables which is exhaustive and their respective information as at the Latest Practicable Date are set out as below:-

Company (Stock code)	Operating province	Closing price <i>HK\$</i>	Market capitalisation <i>HK\$ million</i> <i>(note 1)</i>	EPS <i>HK\$</i> <i>(note 2)</i>	NAV per share <i>HK\$</i> <i>(note 3)</i>	P/E Ratio <i>times</i>	P/B Ratio <i>times</i>	Total dividend yield <i>%</i> <i>(note 4)</i>
Zhongyu Gas Holdings Limited (8070) (“Zhongyu”)	Henan and Shandong Province	0.67	1,322.59	0.01	0.36	67.00	1.86	nil
Tianjin Tianlian Public Utilities Company Limited (8290) (“Tianlian”)	Tianjin City and Inner Mongolia	1.47	1,689.91	0.07	0.66	21.00	2.23	nil
Zhengzhou Gas (based on Offer Price)	Henan Province	14.73	1,843.46	1.62	8.57	9.09	1.72	1.25

Source: the website of the Stock Exchange

Notes:

1. Being the closing price as at the Latest Practicable Date multiplied by the number of issued shares as disclosed in the latest published monthly return.
2. Being earnings per share calculated based on data disclosed in the latest published annual financial statement and monthly return.
3. Being the net asset value per share calculated based on data disclosed in the latest published balance sheet and monthly return.
4. Being the dividend per share calculated based on data disclosed in the latest published annual financial statement and monthly return divided by the closing price as at the Latest Practicable Date.

We noted from the above table that the P/E Ratio of Zhongyu is relatively high which was mainly due to its minimal EPS recorded for the year ended 31 December 2009 after including various non-cash items comprising (a) loss on disposal of property, plant and equipment of approximately HK\$5.9 million; (b) an one-off recognition of equity-settled share based payments for issuance of share options of approximately HK\$5.2 million; and (c) non-cash gain arising on change in fair value of derivative financial instruments of approximately HK\$17.7 million.

LETTER FROM FIRST SHANGHAI

In addition, Zhongyu was recently the subject of a securities exchange offer (the “Zhongyu Offer”) made by China Gas Holdings Limited (“China Gas”). The consideration per Zhongyu share under the Zhongyu Offer was HK\$0.1743 in cash and 0.1512 new shares of China Gas, which values each Zhongyu share at HK\$0.9046 (based on the closing price of each China Gas share of HK\$4.83 on the last trading date prior to the offer announcement multiplied by 0.1512 new China Gas share, plus the cash amount of HK\$0.1743) implied a P/B Ratio of approximately 2.51 times, calculated on the basis of Zhongyu’s net assets value of approximately HK\$0.36 per share as at 30 June 2010, and a P/E Ratio of approximately 90.46 times based on the basic earnings per share of approximately HK\$0.01 for the year ended 31 December 2009. As mentioned in the paragraph above, the high P/E Ratio of Zhongyu was mainly due to the minimal EPS of Zhongyu for the year ended 31 December 2009 which included various non-cash provisions. Accordingly, we consider that the high P/E Ratio implied by the offer price under the Zhongyu Offer may not provide a reasonable analysis.

Nevertheless, the Zhongyu Offer was a securities exchange offer and a substantial portion of the consideration under the Zhongyu Offer was in the shares of China Gas where (i) shareholders of Zhongyu can choose to hold the shares of China Gas so as to directly interested in China Gas and continue to hold indirect interests in Zhongyu following acceptance of the offer; or (ii) to disposal of the shares of China Gas in the open market where the marketability and the proceed of which are subject to the liquidity of the shares of China Gas and the overall performance of the financial market which is not guaranteed, while the Offers, on the other hand, were totally in cash where the Independent Shareholders will not hold any interest in Zhengzhou Gas following acceptance of the Offers and will realize their investment in Zhengzhou Gas at the Offer Price which is higher than most of the historical closing price of the Zhengzhou Shares during the Review Period given the extremely thin trading volume of the Zhengzhou Shares. Having considered that the nature of the consideration under the Zhongyu Offer and the Offers are different (i.e. cash plus securities exchange offer versus cash offer) and the realizable cash value of the Zhongyu Offer is not guaranteed while the Offers are totally in cash, we consider that the Zhongyu Offer is not directly comparable to the Offers.

As shown in the table above, as a result of the lower EPS and NAV per share of Tianlian for the year ended 31 December 2009 and as at 30 June 2010 respectively, the P/E and P/B Ratios of Tianlian as at the Latest Practicable Date were 21.00 times and 2.23 times, both of which are higher than the same represented by the Offer Price of approximately 9.09 times and 1.72 times, respectively.

We also noted that Tianlian had not declared any dividend for the year ended 31 December 2009, whereas the Offer Price represents a total dividend yield of Zhengzhou Gas of approximately 1.25%. However, Independent Shareholders should note that given that CR Gas Investment had made no representation on the dividend policy of Zhengzhou Gas, there is no certainty as to whether Zhengzhou Gas will continue to declare dividend or maintain dividend payout at a similar level after the change of the controlling shareholder.

Given there is only one comparable company being used in the above analysis, we consider that comparison between the P/E and P/B Ratios of Tianlian and Zhengzhou Gas represented by the Offer Price may not be conclusive and it is more appropriate to taken into account various factors in analyzing the terms of Offers, details of which are set out in the section headed “Discussion and Advice” below.

LETTER FROM FIRST SHANGHAI

DISCUSSION AND ADVICE

Having taken into account the principal factors set out above, in particular, the following:

- Zhengzhou Gas Group has become part of the CR Gas Group, which is expected to have a positive impact to the prospect of Zhengzhou Gas Group given that the two groups will be in a better position to ride on the growth of the PRC gas industry by leveraging on their combined geographical coverage. Development of natural gas related business in the PRC has been positive in general. However, the annual growth rate of natural gas consumption in the PRC has narrowed down in 2009. Accordingly, the growth rate of the natural gas industry in the PRC may or may not be sustainable;
- Zhengzhou Gas Group has recorded stable growth in revenue and earnings for the three years ended 31 December 2009 through its organic growth. However, the growth may not be sustainable in the long term if Zhengzhou Gas Group fails to expand its natural gas business and transfer the increasing costs to its residential users. We also noted from the 2010 Interim Results that the growth of net profit of Zhengzhou Gas had slowed down for the six months ended 30 June 2010;
- Zhengzhou Gas Group distributed dividends for each of the three years ended 31 December 2009. However, there is no certainty as to whether Zhengzhou Gas will continue to declare dividends or maintain dividends at a similar level after the change of the controlling shareholder;
- P/E and P/B Ratios of Zhengzhou Gas implied by the Offer Price are below those of Tianlian. However, given there is only one comparable company being used in the analysis, we consider that comparison with Tianlian may not be conclusive;
- despite the Offer Price represents a discount of approximately 14.26% to the closing price of the H Shares on the Last Trading Day, it represents premium of approximately 71.88% over the unaudited consolidated net assets value per Zhengzhou Share as at 30 June 2010 and is above the historical trading price of the H Shares during most of the Review Period, in particular, since 17 May 2010 up to the Latest Practicable Date; and
- the extremely thin historical trading volume of the H Shares and the lack of a public market for the transfer of the Domestic Shares, the Offers provide an opportunity for the holders of the H Shares and the Domestic Shares to realize their investments in Zhengzhou Gas,

we consider, on balance, the terms of the Offers for the H Shares and the Domestic Shares are fair and reasonable so far as the Independent Shareholders (both holders of the H Shares and the Domestic Shares) are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offers.

1. PROCEDURES FOR ACCEPTANCE**Offer for the H Shares**

- (a) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the offer for the H Shares, you must send the duly completed WHITE form of acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar.
- (b) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the offer for the H Shares in respect of your H Shares, you must either:
- (i) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the offer for the H Shares on your behalf and requesting it to deliver the duly completed WHITE form of acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the H Shares to be registered in your name by Zhengzhou Gas through the Registrar, and send the duly completed WHITE form of acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your H Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the offer for the H Shares on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your H Shares have been lodged with your Investor Participant's Account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

- (c) If the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the Offers in respect of your H Shares, the WHITE form of acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s), and you wish to accept the Offers in respect of your H Shares, you should nevertheless complete the WHITE form of acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to CR Gas Investment and/or Anglo Chinese or their respective agent(s) to collect from the Registrar on your behalf the relevant H Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the WHITE form of acceptance.
- (e) Acceptance of the offer for the H Shares will be treated as valid only if the completed WHITE form of acceptance is received by the Registrar no later than 4:00 p.m. on 24 September 2010 or such later time and/or date as CR Gas Investment may determine and announce with the consent of the Executive, and is:
- (i) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those H Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant H Shares; or
 - (ii) from a registered shareholder of Zhengzhou Gas or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to H Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the WHITE form of acceptance is executed by a person other than the registered shareholder of Zhengzhou Gas, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any WHITE form of acceptance, H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) If the offer for the H Shares is withdrawn or lapses, CR Gas Investment shall, as soon as possible but in any event within 10 days thereof, return by ordinary post, at the risk of the accepting shareholders of Zhengzhou Gas, the share certificate(s) of the H Share lodged with the WHITE form of acceptance to the relevant accepting shareholders.
- (h) The address of the Registrar is at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Offer for the Domestic Shares

- (a) If you wish to accept the offer for the Domestic Shares, you need to send the duly completed GREEN form of acceptance to Zhengzhou Gas.
- (b) Acceptance of the offer for the Domestic Shares will be accepted only if the completed GREEN form of acceptance is received by Zhengzhou Gas no later than 4:00 p.m. on 24 September 2010 or such later time and/or date as CR Gas Investment may determine and announce with the consent of the Executive, and will be treated as accepted and counted towards fulfilling the acceptance conditions if the criteria under Rule 30.2 of the Takeovers Code are met.
- (c) If the GREEN form of acceptance is executed by a person other than the registered shareholder of Zhengzhou Gas, appropriate documentary evidence of authority to the satisfaction of Zhengzhou Gas must be produced.
- (d) No acknowledgement of receipt of any GREEN form of acceptance, approvals of relevant authorities (in respect of all holders of the Domestic Shares) will be given.
- (e) Zhengzhou Gas and CR Gas Investment will be entitled to reject any acceptance which does not comply with the provisions and instructions contained in this Composite Document and in the GREEN form of acceptance, or, which is otherwise incomplete, incorrect or invalid in any respect. If you wish to accept the offer for the Domestic Shares, it is your responsibility to ensure that the GREEN form of acceptance is properly completed in all respects and all required documents are provided. Any decision to reject any acceptance on the grounds that it has been invalidly, incorrectly or incompletely signed, completed or submitted will be final and binding and neither Zhengzhou Gas nor CR Gas Investment accepts any responsibility or liability for the consequences of such a decision.
- (f) If the offer for the Domestic Shares is withdrawn or lapses, CR Gas Investment shall, as soon as possible but in any event within 10 days thereof, return by ordinary post, at the risk of the accepting shareholders of Zhengzhou Gas, the share certificate(s) of the Domestic Share lodged with the GREEN form of acceptance to the relevant accepting shareholders.
- (g) The address of Zhengzhou Gas is at 352 Longhai Road West, Zhengzhou City, Henan Province, PRC 450006.

2. SETTLEMENT OF THE OFFERS**Offer for the H Shares**

Provided that the WHITE form of acceptance and transfer of the H Shares and H Shares certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance, a cheque for the amount due to each of the shareholders of Zhengzhou Gas less seller's ad valorem stamp duty in respect of the H Shares tendered by them under the Offers will be despatched to each of them as soon as practicable but in any event within 10 days of the later of the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid, or the date when the Offers become or are declared unconditional.

The settlement of the consideration to which any shareholder(s) is/are entitled under the offer for the H Shares will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which CR Gas Investment may otherwise be, or claim to be, entitled against such shareholder(s).

Offer for the Domestic Shares

The GREEN form of acceptance which is subject to approvals from the relevant PRC authorities, will be treated as valid acceptance when received and be counted towards fulfilling an acceptance condition if the criteria under Rule 30.2 of the Takeovers Code are met. Provided that the GREEN form of acceptance, the approvals from relevant authorities (in respect of all holders of the Domestic Shares) are in complete and good order and have been received by Zhengzhou Gas, a cheque for the amount due to each of the shareholders in respect of the Domestic Shares tendered by them under the Offers will be despatched to each of them as soon as practicable but in any event within 10 days of the date on which all the relevant documents and approvals are received by Zhengzhou Gas to render such acceptance complete.

The settlement of the consideration to which any shareholder(s) is/are entitled under the offer for the Domestic Shares will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which CR Gas Investment may otherwise be, or claim to be, entitled against such shareholder(s).

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) Unless the Offers have previously been revised or extended or have previously become or are declared unconditional, all acceptances of the Offers must be received by the Registrar (in respect of H Shares) or Zhengzhou Gas (in respect of Domestic Shares) by no later than 4:00 p.m. on 24 September 2010, being the Closing Date. In accordance with Rule 15.3 of the Takeovers Code, where the Offers become or are declared unconditional, it should remain open for acceptance for not less than 14 days thereafter. If the next closing date is not stated in the announcement announcing that the Offers have become unconditional, at least 14 days' notice in writing must be given before the Offers are closed to those shareholders of Zhengzhou Gas who have not accepted the Offers. CR Gas Investment will make an announcement as and when the Offers become or are declared unconditional.

- (b) If the Offers are extended or revised, the announcement of such extension or revision will state the next closing date and the Offers will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to the shareholders of Zhengzhou Gas and, unless previously extended or revised, shall be closed on the subsequent closing date. If CR Gas Investment revises the terms of the Offers, all shareholders of Zhengzhou Gas, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms. The benefit of any revision of the Offers will be available to any shareholder of Zhengzhou Gas who has/have previously accepted the Offers. The execution by or on behalf of any shareholder of Zhengzhou Gas who has previously accepted the Offers of any forms of acceptance shall be deemed to constitute acceptance of the revised Offers unless such holder becomes entitled to withdraw his acceptance and duly does so.
- (c) CR Gas Investment may introduce new conditions to be attached to any revision to the terms of the Offers, or any subsequent revision thereof but only to the extent necessary to implement the revised Offers and subject to the consent of the Executive.
- (d) In order to be valid, acceptances must be received by the Registrar (in respect of H Shares) or Zhengzhou Gas (in respect of Domestic Shares) in accordance with the instructions printed on the relevant forms of acceptance by no later than 4:00 p.m. on the Closing Date, unless the Offers are extended or revised.
- (e) If the closing date of the Offers is extended, any reference in this Composite Document and in the forms of acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers as so extended.

4. ANNOUNCEMENTS

- (a) By 6:00 p.m. on 24 September 2010, which is the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), CR Gas Investment must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension, expiry or unconditionality of the Offers. CR Gas Investment shall publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended, has expired or has become or been declared unconditional. The announcement must state the following:
 - (i) the total number of Zhengzhou Shares and rights over Zhengzhou Shares for which acceptances of the Offers have been received;
 - (ii) the total number of Zhengzhou Shares and rights over Zhengzhou Shares held, controlled or directed by CR Gas Investment or parties acting in concert with it before the Offer Period; and

- (iii) the total number of Zhengzhou Shares and rights over Zhengzhou Shares acquired or agreed to be acquired during the Offer Period by CR Gas Investment or parties acting in concert with it.

The announcement must include details of any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in Zhengzhou Gas which CR Gas Investment or any person acting in concert with it has borrowed or lent, save for any borrowed Zhengzhou Shares which have been either on-lent or sold. The announcement must specify the percentages of the issued share capital of Zhengzhou Gas and the percentages of voting rights represented by these numbers of Zhengzhou Shares.

- (b) As required under the Takeovers Code, any announcement in relation to the Offers, in respect of which the Executive has confirmed that it has no further comments thereon, will be made in accordance with the requirements of the Listing Rules.

5. RIGHT OF WITHDRAWAL

Acceptances of the Offers tendered by the shareholders of Zhengzhou Gas shall be irrevocable and cannot be withdrawn except (i) in circumstances set out in Rule 19.2 of the Takeovers Code, which provides that if CR Gas Investment is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that the shareholders of Zhengzhou Gas be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met; and (ii) in compliance with Rule 17 of the Takeovers Code which provides that an accepting shareholder of Zhengzhou Gas shall be entitled to withdraw his acceptance after 21 days from the Closing Date, if the Offers have not by then become unconditional as to acceptances.

6. OVERSEAS SHAREHOLDERS

The making of the Offers to persons resident in any jurisdiction outside Hong Kong in respect of offer for H Shares may be prohibited or affected by the laws of the relevant jurisdictions. Shareholders of Zhengzhou Gas who are so resident should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person who is a citizen, resident or national of a jurisdiction outside Hong Kong in respect of offer for H Shares and who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent, exchange control and any registration or filing which may be required in compliance with all necessary formalities, taxation, regulatory and/or legal requirements. Any such persons shall be fully responsible for the payment of any transfer or other taxes and duties imposed by whomsoever payable in respect of that jurisdiction. Acceptance of the Offers by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to accept the Offers, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

7. STAMP DUTY

No Hong Kong stamp duty will arise on acceptance of the offer for the Domestic Shares. Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable by CR Gas Investment in respect of the relevant acceptances of the Offers, whichever is higher, will be deducted from the amount payable to the relevant shareholder upon the Offers becoming unconditional. CR Gas Investment will pay the buyer's ad valorem duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting shareholders in respect of the H Shares accepted under the Offers.

8. TAXATION

Shareholders of Zhengzhou Gas are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of their accepting the Offers. None of Zhengzhou Gas, CR Gas Investment, CR Gas, Anglo Chinese, the Registrar, nor any of their respective directors nor any person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offers.

9. GENERAL

- (a) All communications, notices, forms of acceptance, certificate(s) of Zhengzhou Shares, transfer receipt(s), other documents of title or indemnity and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the shareholders of Zhengzhou Gas will be delivered by or sent to or from them, or their designated agents, at their own risk. None of the Zhengzhou Gas, CR Gas Investment, CR Gas, Anglo Chinese, the Registrar, nor any of their respective directors or other parties involved in the Offers or any of this respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the forms of acceptance form part of the terms of the Offers.
- (c) The accidental omission to despatch this Composite Document and, or, forms of acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The offer for H Shares and the offer for Domestic Shares, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong and the laws of the PRC respectively.
- (e) Due execution of the forms of acceptance will constitute an authority to CR Gas Investment or such person or persons as CR Gas Investment may direct to complete and execute any document on behalf of the person accepting the Offers and to do any other act that may be necessary or expedient for the purpose of vesting in CR Gas Investment, or such person or persons as it may direct, the Zhengzhou Shares in respect of which such person has accepted the Offers.

- (f) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to CR Gas Investment and Zhengzhou Gas that the Zhengzhou Shares acquired under the Offers are sold by any such person or persons free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto as at the time when the Offers open for acceptance, including, without limitation, in the case of the Zhengzhou Shares, the rights to receive all future dividends or other distributions declared, paid or made but except the Special Dividend, if any, on or after the Offers are open for acceptance.
- (g) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to CR Gas Investment that the number of Zhengzhou Shares in respect of which it is indicated in the forms of acceptance is the aggregate number of Zhengzhou Shares held by such nominee for such beneficial owners who are accepting the Offers.
- (h) References to the Offers in this Composite Document and in the forms of acceptance shall include any extension and/or revision thereof.
- (i) The English texts of this Composite Document and the forms of acceptance shall prevail over the Chinese texts for the purpose of interpretation, in case of any inconsistency.

1. SUMMARY OF FINANCIAL INFORMATION

The following summary of the financial information (the “Financial Information”) has been extracted from the audited consolidated financial statements of Zhengzhou Gas for each of the three years ended 31 December, 2007, 2008 and 2009 in the respective annual reports of Zhengzhou Gas together with the unaudited consolidated financial statements for the six months ended 30 June 2010 as extracted from its interim report of 2010. The auditors of Zhengzhou Gas expressed unqualified opinions on those financial statements in their reports for each of the three years ended 31 December, 2007, 2008 and 2009 respectively. There were no extraordinary or exceptional items for the three years ended 31 December, 2007, 2008 and 2009 respectively.

Consolidated Income Statement

	For the six months ended 30 June 2010 RMB'000	For the year ended 31 December 2009 RMB'000	For the year ended 31 December 2008 RMB'000	For the year ended 31 December 2007 RMB'000
REVENUE	730,780	1,244,420	1,028,846	862,161
Cost of sales	<u>(507,167)</u>	<u>(866,065)</u>	<u>(717,039)</u>	<u>(563,562)</u>
Gross profit	223,613	378,355	311,807	298,599
Other income and gains	2,592	6,446	6,187	4,199
Selling and distribution costs	(25,178)	(48,779)	(41,082)	(35,338)
Administrative expenses	(40,943)	(78,799)	(67,502)	(60,963)
Other expenses	(1,222)	(16,597)	(5,714)	(10,092)
Finance costs	—	(1,662)	—	—
Share of profits of an associate	<u>314</u>	<u>4,764</u>	<u>—</u>	<u>—</u>
PROFIT BEFORE TAX	159,176	243,728	203,696	196,405
Tax	<u>(41,636)</u>	<u>(63,269)</u>	<u>(51,528)</u>	<u>(66,722)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>117,540</u>	<u>180,459</u>	<u>152,168</u>	<u>129,683</u>
Attributable to:				
Equity holders of the Company	117,361	178,451	151,216	128,462
Minority interests	<u>179</u>	<u>2,008</u>	<u>952</u>	<u>1,221</u>
	<u>117,540</u>	<u>180,459</u>	<u>152,168</u>	<u>129,683</u>
DIVIDENDS				
Proposed final	—	20,349	13,016	30,286
Proposed conditional special dividend	<u>—</u>	<u>—</u>	<u>100,120</u>	<u>—</u>
Dividend per share (RMB Yuan)	<u>—</u>	<u>0.1626</u>	<u>0.9040</u>	<u>0.2420</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
Basic				
— For profit for the period (RMB Yuan)	<u>0.938</u>	<u>1.426</u>	<u>1.208</u>	<u>1.030</u>

Consolidated Balance Statement

	As at 30 June 2010 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2009 <i>RMB'000</i>	As at 31 December 2008 <i>RMB'000</i>	As at 31 December 2007 <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	884,682	841,526	666,115	632,477
Prepaid land lease payments	111,267	112,584	113,949	66,697
Interests in an associate	30,052	32,863	32,025	—
Deferred tax assets	<u>10,739</u>	<u>9,327</u>	<u>7,398</u>	<u>5,842</u>
Total non-current assets	<u><u>1,036,740</u></u>	<u><u>996,300</u></u>	<u><u>819,487</u></u>	<u><u>705,016</u></u>
CURRENT ASSETS				
Inventories	18,543	18,367	15,460	6,186
Construction contract work in progress	922	933	954	1,515
Trade and notes receivables	105,981	161,379	104,926	116,993
Prepayments, deposits and other receivables	70,155	63,734	40,536	37,364
Restricted cash deposits	26,450	26,450	25,250	19,200
Fixed deposits held at banks with maturity over three months	10,000	30,000	—	—
Cash and cash equivalents	453,145	291,732	368,169	219,091
Due from the holding company	—	—	—	21
Due from fellow subsidiaries	<u>414</u>	<u>414</u>	<u>143</u>	<u>96</u>
Total current assets	<u><u>685,610</u></u>	<u><u>593,009</u></u>	<u><u>555,438</u></u>	<u><u>400,466</u></u>

APPENDIX II

FINANCIAL INFORMATION OF ZHENGZHOU GAS

	As at 30 June 2010 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2009 <i>RMB'000</i>	As at 31 December 2008 <i>RMB'000</i>	As at 31 December 2007 <i>RMB'000</i>
CURRENT LIABILITIES				
Trade payables	147,088	83,517	56,174	64,491
Other payables and accruals	174,612	163,357	123,594	94,947
Advance payments received	412,949	447,502	356,468	255,710
Interest-bearing bank borrowings	—	—	40,000	—
Tax payable	16,135	25,135	13,826	20,480
Due to fellow subsidiaries	—	—	—	5,746
Due to a related company	<u>5,021</u>	<u>444</u>	<u>—</u>	<u>—</u>
Total current liabilities	<u>755,805</u>	<u>719,955</u>	<u>590,062</u>	<u>441,374</u>
NET CURRENT LIABILITIES	<u>(70,195)</u>	<u>(126,946)</u>	<u>(34,624)</u>	<u>(40,908)</u>
NET ASSETS	<u>966,545</u>	<u>869,354</u>	<u>784,863</u>	<u>664,108</u>
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	125,150	125,150	125,150	125,150
Reserves	<u>818,127</u>	<u>721,115</u>	<u>655,800</u>	<u>534,870</u>
	943,277	846,265	780,950	660,020
Minority interests	<u>23,268</u>	<u>23,089</u>	<u>3,913</u>	<u>4,088</u>
Total equity	<u>966,545</u>	<u>869,354</u>	<u>784,863</u>	<u>664,108</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ZHENGZHOU GAS FOR THE YEAR ENDED 31 DECEMBER 2009

The following is a summary of the audited financial statements of Zhengzhou Gas for the year ended 31 December 2009 as extracted from the published 2009 annual report of Zhengzhou Gas Company Limited.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
REVENUE	5	1,244,420	1,028,846
Cost of sales		<u>(866,065)</u>	<u>(717,039)</u>
Gross profit		378,355	311,807
Other income and gains	5	6,446	6,187
Selling and distribution costs		(48,779)	(41,082)
Administrative expenses		(78,799)	(67,502)
Other expenses		(16,597)	(5,714)
Finance costs		(1,662)	—
Share of profit of an associate		<u>4,764</u>	<u>—</u>
PROFIT BEFORE TAX	6	243,728	203,696
Income tax expense	9	<u>(63,269)</u>	<u>(51,528)</u>
PROFIT FOR THE YEAR		<u>180,459</u>	<u>152,168</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>180,459</u>	<u>152,168</u>
Attributable to:			
Owners of the Company		178,451	151,216
Minority interests		<u>2,008</u>	<u>952</u>
		<u>180,459</u>	<u>152,168</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
— For profit for the year (RMB Yuan)		<u>1.426</u>	<u>1.208</u>

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Financial Position

31 December 2009

	<i>Notes</i>	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	841,526	666,115
Prepaid land lease payments	15	112,584	113,949
Interests in an associate	17	32,863	32,025
Deferred tax assets	18	9,327	7,398
Total non-current assets		<u>996,300</u>	<u>819,487</u>
CURRENT ASSETS			
Inventories	19	18,367	15,460
Construction work in progress	20	933	954
Trade and notes receivables	21	161,379	104,926
Prepayments, deposits and other receivables	22	63,734	40,536
Restricted cash deposits	23	26,450	25,250
Fixed deposits held at banks with maturity over three months	23	30,000	—
Cash and cash equivalents	23	291,732	368,169
Due from fellow subsidiaries	28	414	143
Total current assets		<u>593,009</u>	<u>555,438</u>
CURRENT LIABILITIES			
Trade payables	24	83,517	56,174
Other payables and accruals	25	163,357	123,594
Advance payments received	20	447,502	356,468
Interest-bearing bank borrowings	26	—	40,000
Tax payable		25,135	13,826
Due to a related company	28	444	—
Total current liabilities		<u>719,955</u>	<u>590,062</u>
NET CURRENT LIABILITIES		<u>(126,946)</u>	<u>(34,624)</u>
NET ASSETS		<u>869,354</u>	<u>784,863</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	125,150	125,150
Reserves	30	721,115	655,800
Minority interests		<u>846,265</u> <u>23,089</u>	<u>780,950</u> <u>3,913</u>
Total equity		<u>869,354</u>	<u>784,863</u>

Yan Guoqi
Chairman

Li Jinlu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners of the Company								
	Issued capital	Share premium account	Statutory surplus reserve	General surplus reserve	Retained profits	Reserve arising from acquisition of a minority interest	Total	Minority interests	Total equity
	RMB'000 (note 29)	RMB'000	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	125,150	101,026	121,284	41,456	242,954	28,150	660,020	4,088	664,108
Profit for the year	—	—	—	—	151,216	—	151,216	952	152,168
Final 2007 dividend	—	—	—	—	(30,286)	—	(30,286)	—	(30,286)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(1,127)	(1,127)
Transfer from retained profits	—	—	13,009	10,126	(23,135)	—	—	—	—
At 31 December 2008	<u>125,150</u>	<u>101,026*</u>	<u>134,293*</u>	<u>51,582*</u>	<u>340,749*</u>	<u>28,150*</u>	<u>780,950</u>	<u>3,913</u>	<u>784,863</u>

	Note	Attributable to owners of the Company								
		Issued capital	Share premium account	Statutory surplus reserve	General surplus reserve	Retained profits	Reserve arising from acquisition of a minority interest	Total	Minority interests	Total equity
		RMB'000 (note 29)	RMB'000	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009		125,150	101,026	134,293	51,582	340,749	28,150	780,950	3,913	784,863
Profit for the year		—	—	—	—	178,451	—	178,451	2,008	180,459
Cash received from a minority shareholder for establishment of a subsidiary		—	—	—	—	—	—	—	18,000	18,000
Final 2008 dividend	11	—	—	—	—	(13,016)	—	(13,016)	—	(13,016)
Special dividend	11	—	—	—	—	(100,120)	—	(100,120)	—	(100,120)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(832)	(832)
Transfer from retained profits		—	—	20,433	13,009	(33,442)	—	—	—	—
At 31 December 2009		<u>125,150</u>	<u>101,026*</u>	<u>154,726*</u>	<u>64,591*</u>	<u>372,622*</u>	<u>28,150*</u>	<u>846,265</u>	<u>23,089</u>	<u>869,354</u>

* These reserve accounts comprise the consolidated reserves of RMB721,115,000 (2008: RMB655,800,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows*Year ended 31 December 2009*

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		243,728	203,696
Adjustments for:			
Share of profit of an associate		(4,764)	—
Bank interest income	5, 6	(4,013)	(4,498)
Finance costs		1,662	—
Loss on disposal of items of property, plant and equipment	6	—	57
Impairment of property, plant and equipment	6	9,908	—
Depreciation	6	43,322	38,013
Amortisation of prepaid land lease payments	6	2,288	1,675
(Reversal)/impairment of trade receivables	6	(45)	542
Write-down of inventories to net realisable value	6	925	438
		<u>293,011</u>	<u>239,923</u>
Increase in inventories		(3,832)	(9,712)
Decrease in construction work in progress	21	561	
(Increase)/decrease in trade and notes receivables		(56,408)	11,525
Increase in prepayments		(23,055)	(1,917)
Increase in deposits and other receivables		2,833	4,879
Increase in restricted cash deposits		(1,200)	(6,050)
Decrease in an amount due from the holding company		—	21
Increase in amounts due from fellow subsidiaries		(271)	(47)
Increase/(decrease) in trade payables		27,307	(10,852)
Increase in advanced payments received		91,034	100,758
Increase in other payables		40,048	35,931
(Decrease)/increase in accruals		(415)	120
Increase/(decrease) in amounts due to a fellow subsidiary		444	(5,746)
Increase in fixed deposits held at banks with maturity over three months		<u>(30,000)</u>	<u>—</u>
Cash generated from operations		339,517	359,394
Tax paid		<u>(53,889)</u>	<u>(59,738)</u>
Net cash flows from operating activities		<u><u>285,628</u></u>	<u><u>299,656</u></u>

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,587	4,498
Dividend from an associate		3,926	—
Purchases of items of property, plant and equipment and prepaid land lease payments		(230,598)	(125,676)
Acquisition of an associate		—	(32,025)
Proceeds from disposal of items of property, plant and equipment		<u>—</u>	<u>3</u>
Net cash flows used in investing activities		<u>(223,085)</u>	<u>(153,200)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from a minority shareholder for establishment of a subsidiary		18,000	—
New bank loans		—	40,000
Repayment of bank loans		(40,000)	—
Interest paid		(1,662)	—
Dividends paid		(113,136)	(30,286)
Dividends paid to minority shareholders		(832)	(1,127)
Amount paid for other financing activities		<u>(1,350)</u>	<u>(5,965)</u>
Net cash flows (used in)/from financing activities		<u>(138,980)</u>	<u>2,622</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<u>368,169</u>	<u>219,091</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>291,732</u>	<u>368,169</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		348,182	393,419
Less: Restricted cash deposits		(26,450)	(25,250)
Fixed deposits held at banks with maturity over three months		<u>(30,000)</u>	<u>—</u>
Cash and cash equivalents	23	<u>291,732</u>	<u>368,169</u>

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

Statement of Financial Position

31 December 2009

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	14	828,385	660,715
Prepaid land lease payments	15	108,183	109,351
Investments in subsidiaries	16	84,350	52,350
Interests in an associate	17	32,025	32,025
Deferred tax assets	18	<u>6,664</u>	<u>5,107</u>
Total non-current assets		<u>1,059,607</u>	<u>859,548</u>
CURRENT ASSETS			
Inventories	19	6,685	7,961
Trade and notes receivables	21	160,576	103,576
Prepayments, deposits and other receivables	22	46,392	32,901
Restricted cash deposits	23	26,450	25,250
Cash and cash equivalents	23	161,236	230,985
Due from a subsidiary	27	38	—
Due from a fellow subsidiary	28	<u>—</u>	<u>7</u>
Total current assets		<u>401,377</u>	<u>400,680</u>
CURRENT LIABILITIES			
Trade payables	24	57,175	31,405
Other payables and accruals	25	154,063	116,564
Advance payments received	20	269,377	217,274
Interest-bearing bank borrowings	26	—	40,000
Tax payable		18,656	3,191
Due to subsidiaries	27	<u>191,749</u>	<u>172,185</u>
Total current liabilities		<u>691,020</u>	<u>580,619</u>
NET CURRENT LIABILITIES		<u>(289,643)</u>	<u>(179,939)</u>
NET ASSETS		<u>769,964</u>	<u>679,609</u>
EQUITY			
Issued capital	29	125,150	125,150
Reserves	30	<u>644,814</u>	<u>554,459</u>
Total equity		<u>769,964</u>	<u>679,609</u>

Yan Guoqi
Chairman

Li Jinlu
Director

Notes to Financial Statements*31 December 2009***1. CORPORATE INFORMATION**

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM" of the "Stock Exchange") on 29 October 2002 and migrated to the Main Board of the Stock Exchange (the "Main Board") on 29 June 2007.

The Company and its subsidiaries are principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors, the holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is established in the PRC, the ultimate holding company of the Group is Zhengzhou Municipal People's Government.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised to IFRSs for the first time for the current year's financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs</i> and IAS 27 <i>Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment - Vesting Conditions and Cancellations</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: - Improving Disclosures about Financial Instruments</i>
IFRS 8	<i>Operating Segments</i>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 18 Amendment*	Amendment to Appendix to IAS 18 <i>Revenue - Determining whether an entity is acting as a principal or as an agent</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 <i>Reassessment of Embedded Derivatives</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement - Embedded Derivatives</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
IFRIC 18	<i>Transfers of Assets from Customers (adopted from 1 July 2009)</i>
Improvements to IFRSs (May 2008)**	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

** The Group has adopted all amendments included in the Improvements to IFRSs issued in May 2008 except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of IAS 1 (Revised) and IFRS 8, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements, and there have been no significant changes to the accounting policies applied in these financial statements.

(a) **IAS 1 (Revised) Presentation of Financial Statements**

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(b) **IFRS 8 Operating Segments**

IFRS 8, which replaces IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	<i>First-time Adoption of International Financial Reporting Standards</i> ¹
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IFRS 1 Amendments	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters</i> ²
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IFRS 1 Amendments	Amendments to IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ⁴
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment - Group Cash-settled Share-based Payment Transactions</i> ²
IFRS 3 (Revised)	<i>Business Combinations</i> ¹
IFRS 9	<i>Financial Instruments</i> ⁶
IAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation - Classification of Rights Issues</i> ³
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement - Eligible Hedged Items</i> ¹
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations - Plan to Sell the Controlling Interest in a Subsidiary</i> ¹

Apart from the above, the IASB has issued Improvements to IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in profit or loss.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction work in progress, deferred tax assets, employee benefits assets, financial assets, investment properties, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.40%-3.84%
Machinery and equipment	3.43%-8.00%
Gas pipelines	4.00%
Office equipment	9.60%-32.00%
Motor vehicles	8.00%-32.00%
Computer software	20.00%
Leasehold improvement	Over the shorter of the lease terms and 20.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas station structures, machinery, gas pipelines and other property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets*Initial recognition and measurement*

Financial assets in the scope of IAS 39 are classified as loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, trade and notes receivables, an amount due from fellow subsidiary, and prepayments, deposits and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of comprehensive income. The loss arising from impairment is recognised in profit or loss in other operating expenses.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement;

and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities include trade and other payables and amounts due to subsidiaries and fellow subsidiaries and interest-bearing bank borrowings. After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other expenses in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories, including construction materials, consumables, spare parts and natural gas are stated at the lower of cost and net realisable value. Costs which comprise all costs of purchase

and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present locations and conditions are calculated using the weighted average method. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Construction work in progress

Short term construction work in progress represents the construction of gas pipeline work in progress, which is stated at cost less progress payments received and receivable.

Where construction costs incurred to date plus recognised profits exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress payments received and receivable on construction exceed the costs incurred to date, the surplus is shown in the statement of financial position as advance payments received.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sale of natural gas, pressure control equipment and gas appliances

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

- (i) Natural gas - based on gas consumption derived from metre readings;
- (ii) Pressure control equipment and gas appliances - upon completion of installation work or when the relevant equipment, materials and parts are delivered to customers and titles have passed.

Connection and construction of gas pipelines

Revenue in respect of the connection and construction of gas pipelines is recognised upon the completion of construction of pipelines for users and connection of such pipelines to the Company's existing gas pipeline network, which, is concurrent with the "fire ignition ceremony." The "fire ignition ceremony" is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users. The average time required for the Company to complete a gas pipeline construction project is approximately one month to six months.

Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income is accounted for on a time proportion basis over the lease terms.

Dividend income

Revenue is recognised when the Group's right to receive payment has been established.

Other employee benefits*Retirement benefits*

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to profit or loss as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to profit or loss as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using

their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) *Revenue recognition*

The Group recognised revenue in respect of the connection and construction of gas pipelines upon the completion of construction of pipelines for users and connection of such pipelines to the Company's existing gas pipeline network, which, is concurrent with the "fire ignition ceremony".

Estimation uncertainty

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

(a) *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2009 was RMB9,327,000 (2008: RMB7,398,000). Further details are given in note 18 to the financial statements.

(b) *Impairment of trade receivables*

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and bad and doubtful debt expenses/write-back in the period in which the estimate has been changed.

(c) *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

(d) *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

Sales of natural gas and other related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipeline renovation work
Gas pipeline connection and construction	Connection and construction of gas pipelines

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets arising from unrealised intergroup profit as these assets are managed on a group basis.

As the chief operating decision maker of the Group considers that the Group's consolidated revenue and results are all attributable to the market in the PRC, the Group's consolidated assets are all located inside the PRC, no geographical information is presented.

	Sales of natural gas and other related products <i>RMB'000</i>	Gas pipeline connection and construction <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2009			
Segment revenue:			
Sales to external customers	948,358	296,062	1,244,420
Intersegment sales	<u>18,464</u>	<u>29,458</u>	<u>47,922</u>
	966,822	325,520	1,292,342
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(47,922)</u>
Revenue			<u>1,244,420</u>
Segment results	81,915	246,964	328,879
<i>Reconciliation:</i>			
Elimination of intersegment results			(4,347)
Bank interest income			4,013
Unallocated gains			1,100
Unallocated corporate expenses			(84,255)
Finance costs			<u>(1,662)</u>
Profit before tax			<u>243,728</u>
Segment assets	1,412,529	371,586	1,784,115
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(96,730)
Elimination of an intersegment entrusted loan			(100,133)
Corporate and other unallocated assets			<u>2,057</u>
Total assets			<u>1,589,309</u>
Segment liabilities	430,245	486,573	916,818
<i>Reconciliation:</i>			
Elimination of intersegment payables			(96,730)
Elimination of an intersegment entrusted loan			<u>(100,133)</u>
Total liabilities			<u>719,955</u>

	Sales of natural gas and other related products <i>RMB'000</i>	Gas pipeline connection and construction <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2009				
Other segment information:				
Share of profit of an associate	4,764	—	—	4,764
Impairment losses recognised/ (reversed) in profit or loss	10,957	(169)	—	10,788
Depreciation and amortisation	44,801	2,310	(1,501)	45,610
Interests in an associate	<u>32,863</u>	<u>—</u>	<u>—</u>	<u>32,863</u>
Capital expenditure	<u>234,547</u>	<u>2,066</u>	<u>(5,848)</u>	<u>230,765</u>

	Sales of natural gas and other related products <i>RMB'000</i>	Gas pipeline connection and construction <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2008			
Segment revenue:			
Sales to external customers	766,525	262,321	1,028,846
Intersegment sales	<u>7,635</u>	<u>23,738</u>	<u>31,373</u>
	774,160	286,059	1,060,219
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(31,373)</u>
Revenue			<u>1,028,846</u>
Segment results	60,709	209,640	270,349
<i>Reconciliation:</i>			
Elimination of intersegment results			(491)
Bank interest income			4,498
Unallocated gains			1,576
Unallocated corporate expenses			(72,236)
Finance costs			<u>—</u>
Profit before tax			<u>203,696</u>
Segment assets	1,200,501	346,554	1,547,055
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(73,660)
Elimination of an intersegment entrusted loan			(100,208)
Corporate and other unallocated assets			<u>1,738</u>
Total assets			<u>1,374,925</u>
Segment liabilities	373,653	390,276	763,929
<i>Reconciliation:</i>			
Elimination of intersegment payables			(73,660)
Elimination of an intersegment entrusted loan			<u>(100,207)</u>
Total liabilities			<u>590,062</u>

	Sales of natural gas and other related products <i>RMB'000</i>	Gas pipeline connection and construction <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2008				
Other segment information:				
Impairment losses recognised in profit or loss	520	460	—	980
Depreciation and amortisation	38,732	2,305	(1,349)	39,688
Interests in an associate	32,025	—	—	32,025
Capital expenditure	<u>122,773</u>	<u>415</u>	<u>(2,381)</u>	<u>120,807</u>

5. REVENUE AND OTHER INCOME AND GAINS

	<i>Note</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Revenue			
Natural gas		930,359	747,413
Gas appliances		13,685	11,348
Pressure control equipments		259	1,530
Gas pipelines:			
Connection and construction		302,012	271,339
Provision of renovation work		8,949	7,008
Others		<u>194</u>	<u>86</u>
		1,255,458	1,038,724
Less: Business tax and government surcharges		<u>(11,038)</u>	<u>(9,878)</u>
		<u>1,244,420</u>	<u>1,028,846</u>
Other income and gains			
Bank interest income		4,013	4,498
Rental income		580	487
Government grants	(a)	606	600
Sales of construction materials		404	—
Others		<u>843</u>	<u>602</u>
		<u>6,446</u>	<u>6,187</u>
		<u>1,250,866</u>	<u>1,035,033</u>

Note:

- (a) The Company received government grants in respect of its contribution and development in Zhengzhou City. There are no unfulfilled conditions or contingencies attaching to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Note</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Cost of inventories sold		754,245	626,094
Depreciation	14	43,322	38,013
Amortisation of prepaid land lease payments	15	2,288	1,675
Minimum lease payments under operating leases:			
Land and buildings		9,941	9,955
Equipment		2,901	5,272
Trademarks		<u>195</u>	<u>780</u>
		<u>13,037</u>	<u>16,007</u>
Auditors' remuneration		2,468	4,853
Employee benefits expense (including directors' and supervisors' remuneration (note 7)):			
Wages and salaries		100,397	79,697
Pension scheme contributions (defined contribution scheme)		11,451	8,925
Accommodation benefits (defined contribution scheme)		<u>6,552</u>	<u>5,477</u>
		<u>118,400</u>	<u>94,099</u>
Foreign exchange differences, net		118	(272)
Reverse/impairment of trade receivables	21	(45)	542
Write-down of inventories to net realisable value	19	925	438
Impairment of items of property, plant and equipment		3,725	—
Write-down of an item of construction in progress		6,183	—
Bank interest income	5	(4,013)	(4,498)
Interest expense		1,662	—
Loss on disposal of items of property, plant and equipment		<u>—</u>	<u>57</u>

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	<u>231</u>	<u>220</u>
Other emoluments:		
Salaries, allowances and benefits in kind	614	664
Performance related bonuses	540	400
Pension scheme contributions	<u>15</u>	<u>12</u>
	<u>1,169</u>	<u>1,076</u>
	<u><u>1,400</u></u>	<u><u>1,296</u></u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Zhang Yichun	13	50
Mr. Liu Jianwen	—	50
Mr. Yu Jingsong	45	—
Mr. Zhang Jianqing	45	—
Ms. Yu Shulian	13	50
Ms. Wang Xiuli	45	—
Mr. Wong Ping	<u>70</u>	<u>70</u>
	<u><u>231</u></u>	<u><u>220</u></u>

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors and non-executive directors

	Salaries, allowances and Performance benefits		related bonuses	Pension scheme contributions	Total remuneration
	Fees	in kind			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009					
Executive directors:					
Mr. Yan Guoqi	—	179	255	6	440
Mr. Li Jinlu	—	198	146	5	349
Mr. Li Hongwei	—	179	139	4	322
	—	556	540	15	1,111
Non-executive directors:					
Mr. Song Jinhui	—	—	—	—	—
Mr. Zhang Wushan	—	—	—	—	—
Mr. Hao Ganjun	—	—	—	—	—
Mr. Ding Ping	—	—	—	—	—
Mr. Liu Jianwen	—	58	—	—	58
	—	58	—	—	58
	—	614	540	15	1,169
2008					
Executive directors:					
Mr. Yan Guoqi	—	294	187	6	487
Mr. Li Jinlu	—	196	106	5	307
Mr. Li Hongwei	—	174	107	1	282
	—	664	400	12	1,076
Non-executive directors:					
Mr. Song Jinhui	—	—	—	—	—
Mr. Zhang Wushan	—	—	—	—	—
Mr. Hao Ganjun	—	—	—	—	—
Mr. Ding Ping	—	—	—	—	—
	—	—	—	—	—
	—	664	400	12	1,076

(c) Supervisors and independent supervisors

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2009					
Supervisors:					
Ms. Bao Hongwei	—	185	143	5	333
Mr. Zhao Ruibao	—	126	99	5	230
Ms. Wang Xiaohua	—	78	69	5	152
Ms. Niu Minghua	—	—	—	—	—
Mr. Chen Kun	—	—	—	—	—
	—	389	311	15	715
Independent supervisors:					
Mr. Cai Yuming	43	—	—	—	43
Mr. Yang Guirong	43	—	—	—	43
Mr. Xie Songwang	15	—	—	—	15
Mr. Zhang Lixing	15	—	—	—	15
	116	—	—	—	116
	116	389	311	15	831
2008					
Supervisors:					
Ms. Bao Hongwei	—	177	105	5	287
Mr. Zhao Ruibao	—	126	73	5	204
Ms. Wang Xiaohua	—	70	54	5	129
Ms. Niu Minghua	—	—	—	—	—
Mr. Chen Kun	—	—	—	—	—
	—	373	232	15	620
Independent supervisors:					
Mr. Cai Yuming	50	—	—	—	50
Mr. Yang Guirong	50	—	—	—	50
	100	—	—	—	100
	100	373	232	15	720

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

The remuneration package of each director or supervisor of the Company is determined with reference to his duties and responsibilities in the Company. As at the date of this report, the Company has not adopted any share option scheme as an incentive plan.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: three) directors and supervisors. They were Yan Guoqi, Li Jinlu, Li Hongwei and Bao Hongwei details of whose remuneration are set out in note 7 above. Details of the remunerations of the remaining one (2008: two) non-director, highest paid employee for the year are as follows:

	Group	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and other benefits	573	746
Bonuses paid and payable	84	175
Retirement benefits	<u>12</u>	<u>17</u>
	<u>669</u>	<u>938</u>

The non-director, highest paid employee's remuneration fell within the range of nil to HK\$1 million.

During the year ended 31 December 2009, no emoluments were paid by the Group to the directors or the non-director, highest paid employee as an inducement to join or upon joining the Group, or as a compensation for loss of office.

9. INCOME TAX

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group since 1 January 2008.

Major components of the Group's income tax expense for the year ended 31 December 2009 are as follows:

	Group	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Charge for the year	64,958	52,988
Underprovision in prior years	240	96
Deferred (note 18)	<u>(1,929)</u>	<u>(1,556)</u>
Total tax charge for the year	<u>63,269</u>	<u>51,528</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>243,728</u>	<u>203,696</u>
Tax at the applicable tax rate of 25% (2008: 25%)	60,932	50,924
Tax effect of:		
Adjustments in respect of current tax of previous periods	240	96
Profit attributable to an associate	(1,191)	—
Expenses not deductible for tax	2,216	361
Tax losses utilised from previous years	305	—
Unrealised profits	<u>767</u>	<u>147</u>
Tax charge at the Group's effective tax rate	<u>63,269</u>	<u>51,528</u>

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of RMB203,491,000 (2008: RMB130,087,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

(a) Final

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final - RMB0.1626 per ordinary share (2008: RMB0.104, after Share Consolidation, as defined in Note 29 below)	<u>20,349</u>	<u>13,016</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM"). Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2009.

(b) Special dividend

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed special dividend - per ordinary share nil (2008: RMB0.8, after Share Consolidation)	<u>—</u>	<u>100,120</u>

Pursuant to the AGM and class meeting of holders of H shares and domestic shares held on 21 May 2009, the board of directors declared the special dividend from the audited accumulated undistributed profits of the Company as at 31 December 2007 to all shareholders prior to the Company for allotment, issue and dealing with the A Shares ("A Share Issue"). The special dividend was RMB0.8 per share (after Share Consolidation) of the Company, amounting to RMB100.12 million in aggregate. The Company's accumulated undistributed profits, after the distribution of the special dividend and the proposed final dividend for the year ended 31 December 2008, from 1 January 2009 to the day prior to completion of the A Share Issue shall be shared by all new and existing shareholders of the Company after the A Share Issue.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the Company	<u>178,451</u>	<u>151,216</u>
	Number of shares	
	2009	2008
	<i>'000</i>	<i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year*	<u>125,150</u>	<u>125,150</u>

* Represents the number of shares after the Share Consolidation which sets out in note 29 below.

13. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

As stipulated by PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount according to the geographical area of their last employment on their retirement date. As the Company and its subsidiaries are operating in Zhengzhou, they are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 21% (2008: 21%) of the previous year's average basic salaries of the employees that are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries are required to make contributions which are at 12% (2008: 12%) of the previous year's basic salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for these contributions to the accommodation fund.

14. PROPERTY, PLANT AND EQUIPMENT**Group**

31 December 2009	Machinery and equipment								Total
	Buildings	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost									
At 1 January 2009:	51,116	260,924	428,953	17,385	36,813	7,349	982	72,779	876,301
Additions	345	3,699	113,657	1,520	7,621	193	436	101,170	228,641
Transferred from construction in progress	830	13,671	43,784	147	—	68	1,500	(60,000)	—
Write-off	(358)	(5,125)	—	(1,010)	—	—	—	(6,183)	(12,676)
At 31 December 2009	<u>51,933</u>	<u>273,169</u>	<u>586,394</u>	<u>18,042</u>	<u>44,434</u>	<u>7,610</u>	<u>2,918</u>	<u>107,766</u>	<u>1,092,266</u>
Accumulated depreciation and provision for impairment losses									
At 1 January 2009:	5,742	70,218	106,287	7,255	16,177	4,290	217	—	210,186
Depreciation charge for the year	1,990	12,780	20,796	1,874	4,225	1,125	532	—	43,322
Impairment losses provided for the year	—	3,591	—	134	—	—	—	—	3,725
Write-off	(358)	(5,125)	—	(1,010)	—	—	—	—	(6,493)
At 31 December 2009	<u>7,374</u>	<u>81,464</u>	<u>127,083</u>	<u>8,253</u>	<u>20,402</u>	<u>5,415</u>	<u>749</u>	<u>—</u>	<u>250,740</u>
Net carrying amount:									
At 31 December 2009	<u>44,559</u>	<u>191,705</u>	<u>459,311</u>	<u>9,789</u>	<u>24,032</u>	<u>2,195</u>	<u>2,169</u>	<u>107,766</u>	<u>841,526</u>
At 31 December 2008	<u>45,374</u>	<u>190,706</u>	<u>322,666</u>	<u>10,130</u>	<u>20,636</u>	<u>3,059</u>	<u>765</u>	<u>72,779</u>	<u>666,115</u>

APPENDIX II
FINANCIAL INFORMATION OF ZHENGZHOU GAS

31 December 2008	Machinery and equipment								Total
	Buildings	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost									
At 1 January 2008:	48,912	253,201	403,195	16,083	33,931	6,440	532	42,659	804,953
Additions	1,480	1,170	479	1,061	3,245	140	450	63,686	71,711
Transferred from construction in progress	724	6,553	25,279	241	—	769	—	(33,566)	—
Disposals	—	—	—	—	(363)	—	—	—	(363)
At 31 December 2008	<u>51,116</u>	<u>260,924</u>	<u>428,953</u>	<u>17,385</u>	<u>36,813</u>	<u>7,349</u>	<u>982</u>	<u>72,779</u>	<u>876,301</u>
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,786	57,694	89,431	5,408	12,929	3,169	59	—	172,476
Depreciation charge for the year	1,956	12,524	16,856	1,847	3,551	1,121	158	—	38,013
Disposals	—	—	—	—	(303)	—	—	—	(303)
At 31 December 2008	<u>5,742</u>	<u>70,218</u>	<u>106,287</u>	<u>7,255</u>	<u>16,177</u>	<u>4,290</u>	<u>217</u>	<u>—</u>	<u>210,186</u>
Net carrying amount:									
At 31 December 2008	<u>45,374</u>	<u>190,706</u>	<u>322,666</u>	<u>10,130</u>	<u>20,636</u>	<u>3,059</u>	<u>765</u>	<u>72,779</u>	<u>666,115</u>
At 31 December 2007	<u>45,126</u>	<u>195,507</u>	<u>313,764</u>	<u>10,675</u>	<u>21,002</u>	<u>3,271</u>	<u>473</u>	<u>42,659</u>	<u>632,477</u>

Company

31 December 2009	Machinery and equipment								Total
	Buildings	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost									
At 1 January 2009:	45,628	240,559	448,727	16,065	29,521	7,321	982	73,694	862,497
Additions	289	1,786	113,658	1,309	6,833	194	436	94,749	219,254
Transferred from construction in progress	830	13,630	47,911	147	—	68	1,500	(64,086)	—
Write-off	(358)	(4,739)	—	(916)	—	—	—	(6,183)	(12,196)
At 31 December 2009	<u>46,389</u>	<u>251,236</u>	<u>610,296</u>	<u>16,605</u>	<u>36,354</u>	<u>7,583</u>	<u>2,918</u>	<u>98,174</u>	<u>1,069,555</u>
Accumulated depreciation and provision for impairment losses									
At 1 January 2009:	5,311	64,482	109,512	6,603	11,393	4,264	217	—	201,782
Depreciation charge for the year	1,775	11,574	21,720	1,715	3,460	1,124	532	—	41,900
Impairment losses provided for the year	—	3,378	—	123	—	—	—	—	3,501
Write-off	(358)	(4,739)	—	(916)	—	—	—	—	(6,013)
At 31 December 2009	<u>6,728</u>	<u>74,695</u>	<u>131,232</u>	<u>7,525</u>	<u>14,853</u>	<u>5,388</u>	<u>749</u>	<u>—</u>	<u>241,170</u>
Net carrying amount:									
At 31 December 2009	<u>39,661</u>	<u>176,541</u>	<u>479,064</u>	<u>9,080</u>	<u>21,501</u>	<u>2,195</u>	<u>2,169</u>	<u>98,174</u>	<u>828,385</u>
At 31 December 2008	<u>40,317</u>	<u>176,077</u>	<u>339,215</u>	<u>9,462</u>	<u>18,128</u>	<u>3,057</u>	<u>765</u>	<u>73,694</u>	<u>660,715</u>

APPENDIX II
FINANCIAL INFORMATION OF ZHENGZHOU GAS

31 December 2008	Machinery and equipment								Total
	Buildings	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost									
At 1 January 2008:	43,671	233,008	422,472	14,925	26,639	6,412	532	43,771	791,430
Additions	1,233	998	—	899	3,245	140	450	64,465	71,430
Transferred from construction in progress	724	6,553	26,255	241	—	769	—	(34,542)	—
Disposals	—	—	—	—	(363)	—	—	—	(363)
At 31 December 2008	<u>45,628</u>	<u>240,559</u>	<u>448,727</u>	<u>16,065</u>	<u>29,521</u>	<u>7,321</u>	<u>982</u>	<u>73,694</u>	<u>862,497</u>
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,559	53,176	91,834	4,894	8,900	3,144	59	—	165,566
Depreciation charge for the year	1,752	11,306	17,678	1,709	2,791	1,120	158	—	36,514
Disposals	—	—	—	—	(298)	—	—	—	(298)
At 31 December 2008	<u>5,311</u>	<u>64,482</u>	<u>109,512</u>	<u>6,603</u>	<u>11,393</u>	<u>4,264</u>	<u>217</u>	<u>—</u>	<u>201,782</u>
Net carrying amount:									
At 31 December 2008	<u>40,317</u>	<u>176,077</u>	<u>339,215</u>	<u>9,462</u>	<u>18,128</u>	<u>3,057</u>	<u>765</u>	<u>73,694</u>	<u>660,715</u>
At 31 December 2007	<u>40,112</u>	<u>179,832</u>	<u>330,638</u>	<u>10,031</u>	<u>17,739</u>	<u>3,268</u>	<u>473</u>	<u>43,771</u>	<u>625,864</u>

15. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	115,698	68,277	111,002	63,483
Additions	2,124	49,096	2,124	49,096
Amortised during the year	<u>(2,288)</u>	<u>(1,675)</u>	<u>(2,190)</u>	<u>(1,577)</u>
Carrying amount at 31 December	115,534	115,698	110,936	111,002
Current portion included in prepayments, deposits and other receivables	<u>(2,950)</u>	<u>(1,749)</u>	<u>(2,753)</u>	<u>(1,651)</u>
Non-current portion	<u>112,584</u>	<u>113,949</u>	<u>108,183</u>	<u>109,351</u>

The prepaid land lease payments represent payments for medium term leases of land situated in Mainland China.

As at 31 December 2009, the Group was in process of applying for the land certificates with a net book values of RMB2,778,000 (2008: RMB44,981,000).

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	<u>84,350</u>	<u>52,350</u>

Particulars of the Company's subsidiaries are as follows:

Name	Place of registration and operations/ date of registration	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (a))	PRC/Mainland China 19 June 2002	RMB40,000,000	100	—	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (b))	PRC/Mainland China 14 November 2003	RMB5,000,000	51	—	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. (note (c))	PRC/Mainland China 17 February 2004	RMB30,000,000	22	78	Sale of natural gas and gas appliances and construction of gas pipelines
Zhengzhou Airport District Gas Co., Ltd. (note (d))	PRC/Mainland China 24 March 2009	RMB10,000,000	100	—	Sale of natural gas and gas appliances and construction of gas pipelines
Henan Zhengran Jinxiang Vehicular Energy Co., Ltd. (note (e))	PRC/Mainland China 28 October 2009	RMB40,000,000	55	—	Development and application of vehicular energy, and the conversion and repair of gas powered cars

Notes:

- (a) Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and the Zhengzhou Gas Group Labour Union Committee in Zhengzhou, Henan Province, the PRC, on 19 June 2002. The Zhengzhou Gas Group Labour Union Committee is a social organisation legal person established under the General Principles of the Civil Law and the Labour Union of the PRC. It is accountable to the Labour Union Member Meeting and represents the interests of all the staff members of Zhengzhou Gas Group Co., Ltd., a holding company of the Company.

On 1 July 2006, the Zhengzhou Gas Group Labour Union Committee disposed of all its shareholding in Zhengzhou Gas Engineering and Construction Co., Ltd. to the Company.

- (b) Zhengzhou Zhengran Pressure Control Technology Co., Ltd. was established by the Company and 19 individual shareholders in Zhengzhou, Henan Province, the PRC, on 14 November 2003. These individual shareholders are either employees of the Company or employees of the Company's holding company.
- (c) Dengfeng Zhengran Gas Co., Ltd. was established by the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. on 17 February 2004.
- (d) Zhengzhou Airport District Gas Co., Ltd. was established by the Company on 24 March 2009.

- (e) Henan Zhengran Jinxiang Vehicular Energy Co., Ltd. was established by the Company and Zhengzhou Traffic and Transportation (Group) Co., Ltd. on 28 October 2009. Zhengzhou Traffic and Transportation (Group) Co., Ltd. and its ultimate shareholders are independent third parties and are not connected persons (as defined in the Listing Rules) of the Company.

17. INTERESTS IN AN ASSOCIATE

	Group	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	29,900	29,062
Goodwill on acquisition	<u>2,963</u>	<u>2,963</u>
	<u>32,863</u>	<u>32,025</u>
	Company	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	<u>32,025</u>	<u>32,025</u>

Particulars of the associate are as follows:

Name	Particulars of registered capital owner	Place of registration	Percentage of ownership interest attributable to the Group	Principal activities
Pingdingshan Gas Co., Ltd.	RMB95,590,600	PRC	27%	Sale of natural gas, LPG and gas appliances, construction of gas pipelines and the provision of renovation services of gas pipelines.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Assets	457,948	446,562
Liabilities	336,528	339,348
Revenue	206,995	203,207
Profit	<u>17,643</u>	<u>10,905</u>

On 6 March 2008, the Company entered into an equity transfer agreement with Pingdingshan State Assets Supervision and Administrative Commission to acquire a 27% equity interest in Pingdingshan Gas Co., Ltd. at an aggregate cash consideration of approximately RMB32,025,000 (inclusive of RMB1,525,000 transaction cost).

18. DEFERRED TAX ASSETS

Group

	<u>Temporary differences arising from</u>				Total <i>RMB'000</i>
	Provision for impairment losses <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Unrealised intergroup profit <i>RMB'000</i>	Advances from customers aged more than one year and others <i>RMB'000</i>	
At 1 January 2009	1,125	4,040	1,737	496	7,398
Deferred tax credited/(charged) to profit or loss during the year (note 9)	<u>(310)</u>	<u>1,655</u>	<u>320</u>	<u>264</u>	<u>1,929</u>
At 31 December 2009	<u>815</u>	<u>5,695</u>	<u>2,057</u>	<u>760</u>	<u>9,327</u>

	Temporary differences arising from				Total RMB'000
	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Unrealised intergroup profit RMB'000	Advances from customers aged more than one year and others RMB'000	
At 1 January 2008	1,001	3,025	1,624	192	5,842
Deferred tax credited to profit or loss during the year (note 9)	<u>124</u>	<u>1,015</u>	<u>113</u>	<u>304</u>	<u>1,556</u>
At 31 December 2008	<u>1,125</u>	<u>4,040</u>	<u>1,737</u>	<u>496</u>	<u>7,398</u>

The Group has tax losses arising in Mainland China of RMB1,220,000 (2008: RMB nil) that will expire in five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that just established during 2009 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Company

	Temporary differences arising from				Total RMB'000
	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Unrealised intergroup profit RMB'000	Advances from customers aged more than one year and others RMB'000	
At 1 January 2009	1,010	3,601	496	496	5,107
Deferred tax credited/(charged) to profit or loss during the year	<u>(212)</u>	<u>1,506</u>	<u>263</u>	<u>263</u>	<u>1,557</u>
At 31 December 2009	<u>798</u>	<u>5,107</u>	<u>759</u>	<u>759</u>	<u>6,664</u>

	Temporary differences arising from			Total <i>RMB'000</i>
	Provision for impairment losses <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Advances from customers aged more than one year and others <i>RMB'000</i>	
At 1 January 2008	1,001	3,025	192	4,218
Deferred tax credited to profit or loss during the year	<u>9</u>	<u>576</u>	<u>304</u>	<u>889</u>
At 31 December 2008	<u>1,010</u>	<u>3,601</u>	<u>496</u>	<u>5,107</u>

19. INVENTORIES

	Group		Company	
	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Natural gas	3,198	4,947	3,198	4,947
Construction materials and pressure control equipment	<u>15,169</u>	<u>10,513</u>	<u>3,487</u>	<u>3,014</u>
	<u>18,367</u>	<u>15,460</u>	<u>6,685</u>	<u>7,961</u>

The amounts of the write-down of inventories recognised as expenses for the Group and the Company are RMB925,000 (2008: RMB438,000) and RMB925,000 (2008: RMB438,000), respectively.

20. CONSTRUCTION WORK IN PROGRESS/ADVANCE PAYMENTS RECEIVED

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Construction work in progress				
Construction costs incurred to date	<u>933</u>	<u>954</u>	<u>—</u>	<u>—</u>
Advance payments received				
Progress payments received	519,512	402,206	269,377	217,274
Less: Construction costs incurred to date	<u>(72,010)</u>	<u>(45,738)</u>	<u>—</u>	<u>—</u>
	<u>447,502</u>	<u>356,468</u>	<u>269,377</u>	<u>217,274</u>

As at 31 December 2009, retention held by customers for construction work included in trade receivables amounted to approximately RMB322,000 (2008: RMB262,000).

21. TRADE AND NOTES RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	142,374	105,035	141,504	103,225
Notes receivables	20,773	2,200	20,773	2,200
Impairment	<u>(1,768)</u>	<u>(2,309)</u>	<u>(1,701)</u>	<u>(1,849)</u>
	<u>161,379</u>	<u>104,926</u>	<u>160,576</u>	<u>103,576</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and notes receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and notes receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	138,974	98,704	138,502	98,014
1 to 3 months	10,624	2,813	10,615	2,803
3 to 6 months	11,121	2,398	11,054	2,361
6 to 12 months	387	478	387	182
Over 12 months	<u>273</u>	<u>533</u>	<u>18</u>	<u>216</u>
	<u>161,379</u>	<u>104,926</u>	<u>160,576</u>	<u>103,576</u>

The movements in the provision for impairment of trade receivables are as follows:

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	2,309	1,767	1,849	1,767
Impairment losses recognised (note 6)	(45)	542	348	82
Amount written off as uncollectible	<u>(496)</u>	<u>—</u>	<u>(496)</u>	<u>—</u>
At 31 December	<u>1,768</u>	<u>2,309</u>	<u>1,701</u>	<u>1,849</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,045,000 (2008: RMB1,296,000) with a carrying amount of RMB1,045,000 (2008: RMB1,296,000). The individually impaired trade receivables relate to customers that are in financial difficulties and the receivables is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and notes receivables is as follows:

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	157,376	101,972	156,828	101,100
Less than 1 month past due	2,763	1,800	2,763	1,759
1 to 3 months past due	694	217	669	217
3 to 6 months past due	139	207	139	145
6 to 12 months past due	370	260	171	228
Over 12 months past due	<u>37</u>	<u>470</u>	<u>6</u>	<u>127</u>
	<u>161,379</u>	<u>104,926</u>	<u>160,576</u>	<u>103,576</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	59,888	36,833	44,288	30,292
Deposits and other receivables	<u>3,846</u>	<u>3,703</u>	<u>2,104</u>	<u>2,609</u>
	<u>63,734</u>	<u>40,536</u>	<u>46,392</u>	<u>32,901</u>

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. CASH AND CASH EQUIVALENTS, RESTRICTED CASH DEPOSITS AND FIXED DEPOSITS HELD AT BANKS WITH MATURITY OVER THREE MONTHS

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	318,182	393,419	187,686	256,235
Time deposits	<u>30,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	348,182	393,419	187,686	256,235
Less: Fixed deposits held at banks with maturity over three months	(30,000)	—	—	—
Restricted cash deposits	<u>(26,450)</u>	<u>(25,250)</u>	<u>(26,450)</u>	<u>(25,250)</u>
Cash and cash equivalents	<u>291,732</u>	<u>368,169</u>	<u>161,236</u>	<u>230,985</u>

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted cash deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	61,767	36,732	43,373	21,797
1 to 3 months	12,198	12,034	6,782	5,067
3 to 6 months	4,380	2,498	3,153	1,234
6 to 12 months	2,175	1,795	1,802	1,319
Over 12 months	<u>2,997</u>	<u>3,115</u>	<u>2,065</u>	<u>1,988</u>
	<u>83,517</u>	<u>56,174</u>	<u>57,175</u>	<u>31,405</u>

The above balances are unsecured, non-interest-bearing and are normally settled on terms of 7 to 365 days.

27. DUE FROM/TO SUBSIDIARIES

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Due from a subsidiary:			
Zhengzhou Airport district Gas Co., Ltd.		<u>38</u>	<u>—</u>
Due to subsidiaries:			
Zhengzhou Gas Engineering and Construction Co., Ltd.			
- Entrusted loans	(a)	100,000	100,000
- Accrued interest on entrusted loans		133	208
- Construction fee payables	(b)	<u>91,396</u>	<u>71,805</u>
		191,529	172,013
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		<u>220</u>	<u>172</u>
		<u>191,749</u>	<u>172,185</u>

Notes:

- (a) Entrusted loans represent borrowings from Zhengzhou Gas Engineering and Construction Co., Ltd. via a financial institution. The unsecured entrusted loans bear interest at a rate of 4.374% (2008: 6.804%) per annum and are repayable on 8 June 2010.
- (b) The balances arise from the provision of construction services by the subsidiary to the Company. These balances are unsecured, interest-free and have no fixed terms of repayment.

28. DUE FROM FELLOW SUBSIDIARIES/DUE TO A RELATED COMPANY

The amounts due from fellow subsidiaries/due to a relate company are unsecured, interest-free and have no fixed terms of repayment.

30. RESERVES**(a) Group***(i) Statutory Surplus Reserve (the “SSR”)*

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries is required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SSR until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(ii) General Surplus Reserve (the “GSR”)

In addition to the statutory surplus reserve which is required by the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the owners of the Company resolved on 17 March 2009 to transfer approximately RMB13,009,000 from the Company’s retained earnings as at 31 December 2008 to the GSR.

(iii) Retained profits

As set out in note 11 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company’s profits determined under PRC GAAP and those under IFRSs. Since 2007, profits under IFRS are the same as those under PRC GAAP.

In accordance with the Company Law of the PRC, profits after tax can be distributed as dividends after the transfers to the SSR as set out above.

As at 31 December 2009, the Company’s reserves available for distribution were approximately RMB367,356,000 (2008: RMB310,443,000), of which approximately RMB20,349,000 has been proposed as a final dividend and for the year and approximately RMB20,433,000 has been proposed to be transferred to the GSR.

(b) Company

		Share premium account	Statutory surplus reserve	General surplus reserve	Retained profits	Total
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2008		101,026	79,444	40,411	233,777	454,658
Profit for the year		—	—	—	130,087	130,087
Final 2007 dividend		—	—	—	(30,286)	(30,286)
Transfer from retained profits		<u>—</u>	<u>13,009</u>	<u>10,126</u>	<u>(23,135)</u>	<u>—</u>
At 31 December 2008		101,026	92,453	50,537	310,443	554,459
Profit for the year		—	—	—	203,491	203,491
Final 2008 dividend	11	—	—	—	(13,016)	(13,016)
Special dividends	11	—	—	—	(100,120)	(100,120)
Transfer from retained profits		<u>—</u>	<u>20,433</u>	<u>13,009</u>	<u>(33,442)</u>	<u>—</u>
As 31 December 2009		<u>101,026</u>	<u>112,886</u>	<u>63,546</u>	<u>367,356</u>	<u>644,814</u>

31. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of land, buildings and pipeline equipment falling due as follows:

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	9,371	12,940	8,813	12,403
In the second to fifth years, inclusive	5,460	12,934	5,460	12,595
Over five years	<u>6,776</u>	<u>8,132</u>	<u>6,776</u>	<u>8,132</u>
	<u>21,607</u>	<u>34,006</u>	<u>21,049</u>	<u>33,130</u>

The Group has entered into commercial leases on certain of land, buildings and pipeline equipment under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years, and those for pipeline equipment are for terms of about five years. There are no purchase options and escalation clauses included in the contracts. The Group is given priority in renewing the leases of land, buildings and pipeline equipment upon the expiry of the lease terms once every year on the terms and conditions agreed by both parties. There are no restrictions placed upon the Group when entering into these leases.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		Company	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital commitments				
In respect of items of property, plant and equipment:				
Contracted, but not provided for	10,675	123,916	9,320	123,916
Authorised, but not contracted for	<u>123,141</u>	<u>522,930</u>	<u>122,091</u>	<u>522,726</u>
	<u>133,816</u>	<u>646,846</u>	<u>131,411</u>	<u>646,642</u>

33. CONTINGENCIES

At the end of the reporting period, neither the Group nor the Company had any significant contingencies.

34. RELATED PARTY TRANSACTIONS

(i) Transactions with the Group's and Company's fellow subsidiaries/subsidiaries and the holding company

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	2009 RMB'000	2008 RMB'000
Group			
<i>Recurring transactions</i>			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease payments of equipment, land and buildings to the related company (note (c))	10,274	10,196
	Trademark fees (note (d))	195	780
Zhengzhou Jixiang Property Management Co., Ltd. (note (b))	Provision of property management services by the related company (note (g))	238	—
<i>Non-recurring transactions</i>			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchase of land and buildings (note (e))	—	7,354
NanYang Zhengran Natural Gas Co., Ltd. (note (b))	Sale of goods to the related company (note (g))	278	136
Zhengzhou Zhengran Gas Design and Development Co., Ltd. (note (b))	Provision of design, planning and feasibility study services by the related company (note (f))	3,476	—

Name of related parties	Nature of transactions	2009	2008
		RMB'000	RMB'000
Company			
<i>Recurring transactions</i>			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease payments of equipment, land and buildings to the related company (note (c))	9,736	9,659
	Trademark fees (note (d))	195	780
Zhengzhou Jixiang Property Management Co., Ltd. (note (b))	Provision of property management services by the related company (note (g))	199	—
<i>Non-recurring transactions</i>			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchase of land and buildings (note (e))	—	7,354
Zhengzhou Zhengran Gas Design and Development Co., Ltd. (note (b))	Provision of design, planning and feasibility study services by the related company (note (f))	3,032	—

Notes:

- (a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.
- (b) Zhengzhou Jixiang Property Management Co., Ltd. and NanYang Zhengran Natural Gas Co., Ltd. are fellow subsidiaries of the Company. Whereas, Zhengzhou Zhengran Gas Design and Development Co., Ltd. is related to the Company by way of common key management personnel in holding company of the Company and Zhengzhou Zhengran Gas Design and Development Co., Ltd.
- (c) In accordance with the property lease agreements, the land lease agreements and the equipment lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain vehicle, land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were determined by agreement of parties based on the valuation of an independent appraiser.
- (d) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "Trademark Licence Agreement"). Pursuant to the Trademark Licence Agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use these trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

These transactions were carried out in accordance with the terms of the underlying agreements.

On 28 April 2009, the Company and Zhengzhou Gas Group Co., Ltd. entered into a transfer agreement in connection with the trademark licence. Pursuant to the transfer agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Company the trademark licence without consideration from 1 April 2009. The trademark licences are to be expired in July 2010 and March 2012, respectively.

- (e) On 30 November 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd. to acquire a parcel of land situated at the junction of Juyuan Road East and Hongtu Road South, at an aggregate consideration of RMB6,690,000 and certain buildings erected there at a consideration of RMB664,000.

As at 31 December 2008, the acquisition of the parcel of land had been completed. In the opinion of the directors, these transactions were carried out based on normal commercial terms and the transacted prices were based on the valuation of independent appraiser.

- (f) In July 2009, the Company and Zhengzhou Airport District Gas Co., Ltd. entered into four designing service agreements with Zhengzhou Zhengran Gas Design and Development Co., Ltd. According to these agreements, Zhengzhou Zhengran Gas Design and Development Co., Ltd. provided design, planning and feasibility study services in relation to the construction of main pipelines and a new gas station in Zhengzhou city.

The transactions were conducted by both parties based on negotiation by reference to market price.

- (g) The transactions were conducted by both parties based on negotiation by reference to market price.

(ii) Compensation of key management personnel of the Group

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Short term employee benefits	5,349	4,570
Retirement benefits	<u>99</u>	<u>90</u>
Total compensation paid to key management personnel	<u><u>5,448</u></u>	<u><u>4,660</u></u>

Further details of the directors' remuneration are included in note 7 to the financial statements.

(iii) Transactions with other State-Owned Enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-Owned Enterprises"). During 2009 and 2008, the Group had transactions with State-Owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

The directors consider that the transactions with other State-Owned Enterprises are conducted in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-Owned enterprises. The directors have confirmed that these transactions are carried out on terms similar to those that would be entered into with non-state-owned Enterprises and have been reflected in the financial statements. The directors are of the opinion that the transactions with other State-Owned Enterprises are fair and reasonable.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Group

Financial assets

		2009	2008
		Loans and	Loans and
		receivables	receivables
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	23	291,732	368,169
Fixed deposits held at banks with maturity over three months	23	30,000	—
Trade and notes receivables	21	161,379	104,926
Due from fellow subsidiaries	28	414	143
Financial assets included in prepayments, deposits and other receivables	22	<u>3,846</u>	<u>3,703</u>
		<u>487,371</u>	<u>476,941</u>

Financial liabilities

		2009	2008
		Financial liabilities at amortised cost	Financial liabilities at amortised cost
	Notes	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank borrowings	26	—	40,000
Trade payables	24	83,517	56,174
Due to a related company	28	444	—
Financial liabilities included in other payables and accruals	25	<u>86,815</u>	<u>45,601</u>
		<u>170,776</u>	<u>141,775</u>

Company*Financial assets*

		2009	2008
		Loans and receivables	Loans and receivables
	Notes	<i>RMB'000</i>	<i>RMB'000</i>
Trade and notes receivables	21	160,576	103,576
Cash and cash equivalents	23	161,236	230,985
Due from a subsidiary	27	38	—
Due from a fellow subsidiary		—	7
Financial assets included in prepayments, deposits and other receivables	22	<u>2,104</u>	<u>2,609</u>
		<u>323,954</u>	<u>337,177</u>

Financial liabilities

		2009	2008
		Financial liabilities at amortised cost	Financial liabilities at amortised cost
	Notes	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank borrowings	26	—	40,000
Trade payables	24	57,175	31,405
Due to subsidiaries	27	191,749	172,185
Financial liabilities included in other payables and accruals	25	<u>80,337</u>	<u>40,704</u>
		<u>329,261</u>	<u>284,294</u>

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities are trade payables, interest-bearing bank borrowings, amount due to related company and financial liabilities included in other payables and accruals. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and notes receivables and cash, which arise directly from its operations.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The Group is not exposed to material interest rate risks as the interest-bearing bank borrowings of the Group are short term with fixed interest rates.

Foreign currency risk

The Group operates in Mainland China and its principal activities are conducted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an amount due from fellow subsidiaries and other receivables.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables, other receivables and cash and cash equivalents are disclosed in note 21, 22 and 23, respectively, to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2009					Total RMB'000
	On demand RMB'000	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	
Trade payables	53,877	10,715	1,769	17,156	—	83,517
Due to a related company	—	—	—	444	—	444
Other payables	<u>3,378</u>	<u>11,740</u>	<u>794</u>	<u>70,129</u>	<u>774</u>	<u>86,815</u>
	<u>57,255</u>	<u>22,455</u>	<u>2,563</u>	<u>87,729</u>	<u>774</u>	<u>170,776</u>

	2008					Total RMB'000
	On demand	Less than 90 days	91 to 180 days	181 to 365 days	Over 365 days	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank borrowings	—	—	—	40,000	—	40,000
Trade payables	36,539	11,719	1,096	6,820	—	56,174
Other payables	3,755	13,245	4,084	23,760	757	45,601
	<u>40,294</u>	<u>24,964</u>	<u>5,180</u>	<u>70,580</u>	<u>757</u>	<u>141,775</u>

Company

	2009					Total RMB'000
	On demand	Less than 90 days	91 to 180 days	181 to 365 days	Over 365 days	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Trade payables	40,570	198	1,569	14,838	—	57,175
Other payables	2,151	8,300	603	68,809	474	80,337
Due to subsidiaries	—	—	—	100,536	91,213	191,749
	<u>42,721</u>	<u>8,498</u>	<u>2,172</u>	<u>184,183</u>	<u>91,687</u>	<u>329,261</u>

	2008					Total RMB'000
	On demand	Less than 90 days	91 to 180 days	181 to 365 days	Over 365 days	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank borrowings	—	—	—	40,000	—	40,000
Trade payables	23,374	115	1,096	6,820	—	31,405
Other payables	1,780	10,662	4,045	23,760	457	40,704
Due to subsidiaries	—	100,000	—	595	71,590	172,185
	<u>25,154</u>	<u>110,777</u>	<u>5,141</u>	<u>71,175</u>	<u>72,047</u>	<u>284,294</u>

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The capital structure of the Group comprised share capital and reserves. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008. As at 31 December 2009 and 2008, the details of the capital structure of the Group are as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Issued capital	125,150	125,150
Reserves	<u>721,115</u>	<u>655,800</u>
Total capital	<u>846,265</u>	<u>780,950</u>

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio at around or below 30%. Net debt includes interest-bearing bank borrowings, trade and other payables, accruals, advance payments received, an amount due to a related company, less cash and cash equivalents and fixed deposits held at banks with maturity over three months. Capital includes issued capital and reserves. The gearing ratios as at the ends of reporting periods were as follows:

	Group	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank borrowings	—	40,000
Trade payables	83,517	56,174
Other payables and accruals	163,357	123,594
Advance payments received	447,502	356,468
Due to a related company	444	—
Less: Cash and cash equivalents	(291,732)	(368,169)
Fixed deposits held at banks with maturity over three months	<u>(30,000)</u>	<u>—</u>
Net debt	<u>373,088</u>	<u>208,067</u>
Issued capital	125,150	125,150
Reserves	<u>721,115</u>	<u>655,800</u>
Capital	<u>846,265</u>	<u>780,950</u>
Capital and net debt	<u>1,219,353</u>	<u>989,017</u>
Gearing ratio	<u>31%</u>	<u>21%</u>

37. OTHER SIGNIFICANT EVENTS

- (a) Pursuant to the annual general meeting and class meeting of holders of H shares and Domestic shares held on 21 May 2009, the Company proposed the A Share Issue with a maximum of 42,000,000 A Shares of RMB1.00 each on the Shenzhen Stock Exchange. The final number of A shares to be issued and the structure of the issue are subject to the approval by CSRC and other relevant authorities.

Pursuant to a resolution on 19 March 2010, the board of directors resolved to withdraw the proposed A share issue and listing application from CSRC.

- (b) Pursuant to the cooperation agreement (the “Cooperation Agreement”) signed between the State-owned Assets Supervision and Administration Commission (“SASAC”) of Zhengzhou Municipality, who is on behalf of Zhengzhou Municipal People’s Government, and China Resources Gas (China) Investment Limited (“CRGI”, an independent third party), on 25 November 2009, CRGI and SASAC of Zhengzhou Municipality agreed to establish a joint venture (the “JV”) which shall own 72.06% and 27.94% of the equity interests of the JV respectively. SASAC of Zhengzhou Municipality will contribute in the assets held by Zhengzhou Gas Group Co., Ltd., mainly consisting of prepaid land lease payment, buildings, plants and machineries, equity interests in Nanyang Zhengran Natural Gas Co., Ltd. and Zhengzhou Zhengran Gas Design and Development Co.,Ltd., which were valued at RMB190 million, while CRGI will contribute a foreign currency amount equivalent to RMB490 million and the total registered capital of the JV after the contributions above shall be RMB680 million. JV will acquire the other uncontributed assets held by Zhengzhou Gas Group (the “Proposed Acquisition”), which include 43.18% equity interest of the Company, buildings and electronic machineries and equipments and other assets, for a total consideration of approximately RMB430 million from SASAC of Zhengzhou Municipality. The board of directors of the Company was of the view that if the Cooperation Agreement is fully implemented, the JV may own a 43.18% equity interest of the Company and CRGI may indirectly own a 34.5% equity interest of the Company.

CRGI also agreed to contribute additional RMB270 million in cash as additional share capital in the JV. After the additional contribution, the total registered capital of the JV will be at RMB950 million. CRGI and SASAC of Zhengzhou Municipality will hold 80% and 20%, respectively, in the equity interest of the JV. JV may own a 43.18% equity interest of the Company and CRGI may indirectly own a 34.5% equity interest of the Company.

As at 31 December 2009, the Cooperation Agreement has become effective and the JV has been established. The relevant filing, registration and assets delivery of the JV are still ongoing. The Proposed Acquisition has yet to be approved by SASAC of State Council and the additional capital contribution of RMB270 million has yet to be implemented.

38. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2009:

- (a) Pursuant to a resolution on 19 March 2010, the board of directors resolved to withdraw the proposed A Share Issue and listing application from CSRC.
- (b) Subsequent to 31 December 2009, the board of directors proposed a final dividend of RMB0.1626 per ordinary share, totalling approximately RMB20,349,000 pertaining to 2009 for payment in 2010. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming AGM. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2009.
- (c) Subsequent to 31 December 2009, the board of directors proposed to transfer 10%, totalling approximately RMB20,433,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2009 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2009.

39. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2010.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ZHENGZHOU GAS FOR THE SIX MONTHS ENDED 30 JUNE 2010

Set out below is the unaudited financial statements together with the notes as extracted from the interim report of Zhengzhou Gas for the six months ended 30 June 2010.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	<i>Notes</i>	For the six months ended 30 June	
		2010 <i>RMB'000</i> <i>(Unaudited)</i>	2009 <i>RMB'000</i> <i>(Unaudited)</i>
Revenue	4	730,780	615,425
Cost of sales		<u>(507,167)</u>	<u>(405,032)</u>
Gross profit		223,613	210,393
Other income and gains	4	2,592	2,366
Selling and distribution costs		(25,178)	(20,345)
Administrative expenses		(40,943)	(35,070)
Other expenses		(1,222)	(7,284)
Finance costs		—	(993)
Share of profits of an associate		<u>314</u>	<u>4,795</u>
Profit before tax	5	159,176	153,862
Income tax expense	6	<u>(41,636)</u>	<u>(37,964)</u>
Profit and total comprehensive income for the period		<u><u>117,540</u></u>	<u><u>115,898</u></u>
Attributable to:			
Owners of the Company		117,361	115,394
Non-controlling interests		<u>179</u>	<u>504</u>
		<u><u>117,540</u></u>	<u><u>115,898</u></u>
Dividends:			
Proposed interim	7	<u>—</u>	<u>—</u>
Earnings per share attributable to ordinary equity holders of the Company			
Basic			
- For profit for the period (RMB Yuan)	8	<u><u>0.938</u></u>	<u><u>0.922</u></u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	<i>Notes</i>	30 June 2010 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2009 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS			
Property, plant and equipment	9	884,682	841,526
Prepaid land lease prepayments		111,267	112,584
Interests in an associate		30,052	32,863
Deferred tax assets		<u>10,739</u>	<u>9,327</u>
Total non-current assets		<u>1,036,740</u>	<u>996,300</u>
CURRENT ASSETS			
Inventories		18,543	18,367
Construction work in progress	10	922	933
Trade and notes receivables	11	105,981	161,379
Prepayments, deposits and other receivables		70,155	63,734
Restricted cash deposits		26,450	26,450
Fixed deposits held at banks with maturity over three months		10,000	30,000
Cash and cash equivalents		453,145	291,732
Due from a fellow subsidiary		<u>414</u>	<u>414</u>
Total current assets		<u>685,610</u>	<u>593,009</u>
TOTAL ASSETS		<u><u>1,722,350</u></u>	<u><u>1,589,309</u></u>
CURRENT LIABILITIES			
Trade payables	12	147,088	83,517
Other payables and accruals	13	174,612	163,357
Advance payments received	10	412,949	447,502
Tax payable		16,135	25,135
Due to a related company		<u>5,021</u>	<u>444</u>
Total current liabilities		<u>755,805</u>	<u>719,955</u>
NET CURRENT LIABILITIES		<u>(70,195)</u>	<u>(126,946)</u>
NET ASSETS		<u><u>966,545</u></u>	<u><u>869,354</u></u>

	<i>Notes</i>	30 June 2010 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2009 <i>RMB'000</i> <i>(Audited)</i>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	125,150	125,150
Reserves		<u>818,127</u>	<u>721,115</u>
		943,277	846,265
Non-controlling interests		<u>23,268</u>	<u>23,089</u>
Total equity		<u>966,545</u>	<u>869,354</u>
Yan Guoqi <i>Chairman</i>			Li Jinliu <i>Director</i>

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company								
	Issued capital	Share premium account	Statutory surplus reserve	General surplus reserve	Retained profits	Reserve arising from acquisition of a non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	125,150	101,026	154,726	64,591	372,622	28,150	846,265	23,089	869,354
Total comprehensive income for the period	—	—	—	—	117,361	—	117,361	179	117,540
2009 final dividend	—	—	—	—	(20,349)	—	(20,349)	—	(20,349)
Appropriation to surplus reserves	—	—	—	20,433	(20,433)	—	—	—	—
At 30 June 2010 (Unaudited)	<u>125,150</u>	<u>101,026</u>	<u>154,726</u>	<u>85,024</u>	<u>449,201</u>	<u>28,150</u>	<u>943,277</u>	<u>23,268</u>	<u>966,545</u>
At 1 January 2009	125,150	101,026	134,293	51,582	340,749	28,150	780,950	3,913	784,863
Total comprehensive income for the period	—	—	—	—	115,394	—	115,394	504	115,898
2008 final dividend	—	—	—	—	(13,016)	—	(13,016)	—	(13,016)
Special dividend	—	—	—	—	(100,120)	—	(100,120)	—	(100,120)
Appropriation to surplus reserves	—	—	—	13,009	(13,009)	—	—	—	—
At 30 June 2009 (Unaudited)	<u>125,150</u>	<u>101,026</u>	<u>134,293</u>	<u>64,591</u>	<u>329,998</u>	<u>28,150</u>	<u>783,208</u>	<u>4,417</u>	<u>787,625</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
NET CASH INFLOWS FROM OPERATING ACTIVITIES	257,039	182,700
NET CASH OUTFLOWS USED IN INVESTING ACTIVITIES	(75,277)	(20,311)
NET CASH OUTFLOWS USED IN FINANCING ACTIVITIES	<u>(20,349)</u>	<u>(114,574)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	161,413	47,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>291,732</u>	<u>368,169</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>453,145</u>	<u>415,984</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	489,595	441,234
Less: Restricted cash deposits	(26,450)	(25,250)
Fixed deposit held at banks with maturity over three months	<u>(10,000)</u>	<u>—</u>
Cash and cash equivalents	<u>453,145</u>	<u>415,984</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the six months ended 30 June 2010****1. Corporate information**

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a jointstock limited company under the Company Law of the PRC. The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 October 2002. On 29 June 2007, the Company's H shares were migrated to the Main Board of the Stock Exchange.

The Group is principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation services. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors of the Company, the holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is established in the PRC. Subsequent to 30 June 2010, the holding company has changed to Zhengzhou China Resources Gas Co., Ltd. (refer to Note 19 for details).

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

2.2 Summary of significant accounting policies

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of certain new and revised International Financial Reporting Standards ("IFRSs", which also include IASs and Interpretations), as set out in note 2.3.

2.3 Adoption of new and revised IFRSs

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new and revised standards and interpretations as of 1 January 2010 as noted below: Changes in accounting policy and disclosures The Company has adopted the following new and revised IFRSs for the first time in these unaudited interim condensed consolidated financial statements.

IFRS 1 (Revised)	<i>First-time Adoption of IFRSs</i>
IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRS - Additional Exemptions for First-time Adopters</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment - Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
IFRIC17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i>
Improvements to IFRSs (issued in April 2009)*	Amendments to a number of IFRSs

* Improvements to IFRSs 2009 contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

The adoption of these new and revised IFRSs has had no significant financial impact on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

3. Segmental information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

Sales of natural gas and other related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipeline renovation work
Gas pipeline connection and construction	Connection and construction of gas pipelines

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets arising from unrealised intergroup profit as these assets are managed on a group basis.

As the chief operating decision maker of the Group considers that the Group's consolidated revenue and results are all attributable to the market in the PRC, the Group's consolidated assets are all located within the PRC, therefore no geographical information is presented.

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and 2009:

Period ended 30 June 2010 (Unaudited)	Sales of natural gas and related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	553,797	176,983	730,780
Intersegment sales	<u>7,702</u>	<u>41,714</u>	<u>49,416</u>
	561,499	218,697	780,196
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(49,416)</u>
Revenue			<u>730,780</u>
Segment results	54,389	147,259	201,648
<i>Reconciliation:</i>			
Elimination of intersegment results			(3,174)
Bank interest income			1,686
Unallocated gains			518
Unallocated corporate expenses			<u>(41,502)</u>
Profit before tax			<u>159,176</u>
As at 30 June 2010 (Unaudited)			
Segment assets	1,444,136	417,436	1,861,572
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(141,275)
Corporate and other unallocated assets			<u>2,053</u>
Total assets			<u>1,722,350</u>
Segment liabilities	439,145	457,935	897,080
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(141,275)</u>
Total liabilities			<u>755,805</u>

APPENDIX II

FINANCIAL INFORMATION OF ZHENGZHOU GAS

Period ended 30 June 2009 (Unaudited)	Sales of natural gas and related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	462,950	152,475	615,425
Intersegment sales	<u>5,168</u>	<u>11,286</u>	<u>16,454</u>
	468,118	163,761	631,879
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(16,454)</u>
Revenue			<u><u>615,425</u></u>
Segment results	63,413	127,720	191,133
<i>Reconciliation:</i>			
Elimination of intersegment results			(730)
Bank interest income			1,614
Unallocated gains			752
Unallocated corporate expenses			(37,914)
Finance costs			<u>(993)</u>
Profit before tax			<u><u>153,862</u></u>
As at 31 December 2009 (Audited)			
Segment assets	1,412,529	371,586	1,784,115
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(96,730)
Elimination of an intersegment entrusted loan			(100,133)
Corporate and other unallocated assets			<u>2,057</u>
Total assets			<u><u>1,589,309</u></u>
Segment liabilities	430,245	486,573	916,818
<i>Reconciliation:</i>			
Elimination of intersegment payables			(96,730)
Elimination of an intersegment entrusted loan			<u>(100,133)</u>
Total liabilities			<u><u>719,955</u></u>

4. Revenue and other income and gains

An analysis of revenue and other income and gains is as follows:

	For the six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue		
Natural gas	548,531	458,924
Gas appliances	7,008	5,507
Pressure control equipments	362	259
Gas pipelines:		
Connection and construction	180,894	155,538
Provision of renovation work	1,013	537
Others	<u>127</u>	<u>38</u>
	737,935	620,803
Less: Business tax and government surcharges	<u>(7,155)</u>	<u>(5,378)</u>
	<u>730,780</u>	<u>615,425</u>
Other income and gains		
Bank interest income	1,686	1,614
Government grant	500	—
Rental income	198	221
Others	<u>208</u>	<u>531</u>
	<u>2,592</u>	<u>2,366</u>
Total revenue and other income and gains	<u><u>733,372</u></u>	<u><u>617,791</u></u>

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of inventories sold	421,462	356,004
Depreciation	24,631	20,049
Amortisation of prepaid land lease prepayments	1,416	914
Minimum lease payments under operating leases:		
Land and buildings	4,963	4,926
Equipment	486	2,701
Trademarks	—	195
	<u>5,449</u>	<u>7,822</u>
Employee benefits expense (including directors', supervisors' remuneration):		
Wages and salaries	58,290	45,725
Pension scheme contributions (defined contribution scheme)	6,093	5,113
Accommodation benefits (defined contribution scheme)	3,537	3,058
	<u>67,920</u>	<u>53,896</u>
Impairment of trade receivables	116	816
Write-down/(reversal of write-down) of inventories	544	(101)
Impairment of property, plant and equipment	—	3,725
Loss on disposal of items of property, plant and equipment	243	—
	<u>243</u>	<u>—</u>

6. Income tax expense

In accordance with the PRC Corporate Income Tax Law (the “New CIT Law”) which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group for the six months ended 30 June 2010.

Major components of the Group’s income tax expense for the periods are as follows:

	For the six months ended 30 June	
	2010 RMB’000 (Unaudited)	2009 RMB’000 (Unaudited)
Current:		
Charge for the period	43,048	39,799
Deferred	<u>(1,412)</u>	<u>(1,835)</u>
Total tax charge for the period	<u>41,636</u>	<u>37,964</u>

7. Dividends**(a) Dividends attributable to the interim period**

The board of directors does not recommend the payment of interim dividend for the six months ended 30 June 2010.

- (b) Dividends attributable to the previous financial year, declared and paid during the interim period

	For the six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Dividend in respect of the financial year ended 31 December 2009 of RMB0.163 per share (2008: RMB0.904 per share, including special dividend):		
Declared during the period:		
Final dividend	20,349	13,016
Special dividend	<u>—</u>	<u>100,120</u>
	<u>20,349</u>	<u>113,136</u>
 Paid during the period	 <u>20,349</u>	 <u>113,136</u>

8. Earnings per share attributable to ordinary equity holders of the Company

The basic earnings per share amount for the six months ended 30 June 2010 is computed by dividing the profit attributable to owners of the Company of approximately RMB117,361,000 (six months ended 30 June 2009: approximately RMB115,394,000) by the weighted average of 125,150,000 ordinary shares (six months ended 30 June 2009: 125,150,000 ordinary shares) in issue during the period ended 30 June 2010.

Diluted earnings per share amounts for the periods ended 30 June 2010 and 2009 have not been calculated as no diluting events existed during those periods.

9. Property, plant and equipment

During the six months ended 30 June 2010, the Group acquired property, plant and equipment with a cost of RMB68,161,000 (six months ended 30 June 2009: RMB23,197,000). No property, plant and equipment were acquired through a business combination.

Net book value of property, plant and equipment disposed of by the Group during the six months ended 30 June 2010 were RMB374,000 (six months ended 30 June 2009: Nil).

10. Construction work in progress/advance payments received

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Construction work in progress		
Construction costs incurred to date	<u>922</u>	<u>933</u>
Advance payments received		
Progress payments received	497,926	519,512
Less: Construction costs incurred to date	<u>(84,977)</u>	<u>(72,010)</u>
	<u>412,949</u>	<u>447,502</u>

11. Trade and notes receivables

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables	82,319	142,374
Notes receivable	25,546	20,773
Impairment	<u>(1,884)</u>	<u>(1,768)</u>
	<u>105,981</u>	<u>161,379</u>

Trade and notes receivables of a nominal value of RMB1,188,000 as at 30 June 2010 (31 December 2009: RMB1,045,000) were impaired and fully provided for. The movement in the provision for impairment of receivables during the period is as follows:

	<i>RMB'000</i>
At 1 January 2010	1,768
Impairment losses recognised	<u>116</u>
At 30 June 2010	<u>1,884</u>

An aged analysis of the trade and notes receivables as at the statement of financial position date, based on the due date and net of provision, is as follows:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Neither past due nor impaired	101,153	157,376
Less than 1 month past due	2,720	2,763
1 to 3 months past due	1,150	694
3 to 6 months past due	687	139
6 to 12 months past due	227	370
Over 12 months past due	<u>44</u>	<u>37</u>
	<u>105,981</u>	<u>161,379</u>

The above balances are unsecured, interest-free and are generally on 30 to 60 days' terms. The Group's trade receivables relate to a large number of diversified customers. Therefore, there is no significant concentration of credit risk.

12. Trade payables

An aged analysis of the trade payables as at the statement of financial position date, based on the invoice date, is as follows:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within 30 days	73,538	61,767
Between 31 days and 90 days	26,166	12,198
Between 91 days and 180 days	40,057	4,380
Between 181 days and 365 days	4,530	2,175
Over 365 days	<u>2,797</u>	<u>2,997</u>
	<u>147,088</u>	<u>83,517</u>

The above balances are unsecured, interest-free and are generally on 7 to 365 days' terms.

13. Other payables and accruals

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Advances from customers	30,510	48,190
Other payables	112,387	86,815
Accruals	857	1,055
Payroll payables	<u>30,858</u>	<u>27,297</u>
	<u>174,612</u>	<u>163,357</u>

Other payables and accruals are unsecured, non-interest-bearing and have no fixed terms of repayment.

14. Issued capital

	30 June 2010		31 December 2009	
	(Unaudited)		(Audited)	
	Number of shares	Nominal value	Number of shares	Nominal value
	<i>'000</i>	<i>RMB'000</i>	<i>'000</i>	<i>RMB'000</i>
Registered	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>
Issued and fully paid:				
Domestic shares of RMB1.00 each (2009: RMB1.00 each)	70,084	70,084	70,084	70,084
H shares of RMB1.00 each (2009: RMB1.00 each)	<u>55,066</u>	<u>55,066</u>	<u>55,066</u>	<u>55,066</u>
	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>

15. Operating lease arrangements

As lessee

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within one year	6,596	9,371
In the second to fifth years, inclusive	5,420	5,460
Over five years	<u>6,099</u>	<u>6,776</u>
	<u>18,115</u>	<u>21,607</u>

The Group has entered into commercial leases on certain of land and buildings operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years. There were no purchase options and escalation clauses included in the contracts. The Group was given priority in renewing the lease of land and buildings upon expiry of the lease term subject to the terms and conditions agreed by both parties.

16. Commitments

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Capital commitments		
In respect of property, plant and equipment:		
Contracted, but not provided for	77,796	10,675
Authorised, but not contracted for	<u>146,373</u>	<u>123,141</u>
	<u>224,169</u>	<u>133,816</u>

17. Contingencies

At the end of reporting period, the Group had no significant contingencies.

18. Related party transactions

(i) *Transactions with the Group's fellow subsidiaries and the holding company*

In addition to the transactions and balances detailed elsewhere in these financial statements, according to IFRS, the Group had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	For the six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (unaudited)
<i>Recurring transactions</i>			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease of vehicles and land and buildings from the related company (note (c))	—	5,148
	Trademark fees (note (d))	—	195
Zhengzhou China Resources Group Gas Co., Ltd. (note (b))	Operating lease of vehicles and land and buildings from the related company (note (c))	5,075	—
Zhengzhou Jixiang Property Management Co., Ltd. (note (b))	Provision of property management services by the related company (note (e))	476	—
<i>Non-recurring transactions</i>			
Nanyang Zhengran Natural Gas Co., Ltd. (note (b))	Sales of goods to the related company (note (e))	—	278

Notes:

- (a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.
- (b) Zhengzhou Jixiang Property Management Co., Ltd. and Nanyang Zhengran Natural Gas Co., Ltd. are fellow subsidiaries of the Company. Zhengzhou China Resources Co., Ltd. is related to the Company Because of common directors.

- (c) In accordance with the property lease agreements, the land use rights lease agreements, and the vehicles lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain vehicles and land and buildings to the Company for its office and operational uses. In the opinion of the directors of company, these transactions were carried out based on normal commercial terms and determined by agreement of parties with reference to valuation of an independent appraiser. These lease agreements were assigned to Zhengzhou China Gas resources Co., Ltd..
- (d) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement. Pursuant to the trademark licence agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use certain trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

These transactions were carried out in accordance with the terms of the underlying agreements.

On 28 April 2009, the Company and Zhengzhou Gas Group Co., Ltd. entered into a transfer agreement in connection with the trademark licences. Pursuant to the transfer agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Company the trademark licences without consideration from 1 April 2009. The trademark licences are to be expired in July 2010 and March 2012, respectively.

- (e) The transactions were conducted by both parties based on negotiation by reference to market price.

In the opinion of the directors of the Company, the above transactions were conducted in the ordinary course of business.

(ii) *Compensation of key management personnel of the Group:*

	For the six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Short term employee benefits	2,621	2,421
Retirement benefits	<u>134</u>	<u>47</u>
Total compensation paid to key management personnel	<u><u>2,755</u></u>	<u><u>2,468</u></u>

(iii) *Transactions with other State-owned Enterprises in Mainland China*

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “State-owned Enterprises”). During Relevant Periods, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

The directors consider that the transactions with other State-owned Enterprises were conducted in the ordinary course of the Group's business, and that the transactions of the Group have not been significantly or unduly affected by the fact that the Group and those State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. The directors have confirmed that these transactions were carried out on terms similar to those that would be entered into with non-state-owned enterprises and have been reflected in the financial statements. The directors of the Company are of the opinion that the transactions with other State-owned Enterprises were fair and reasonable.

Having due regard to the substance of the relationships, the directors of the Company are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

19. Events after the reporting period

- (i) On 27 August 2010, China Resources Gas Group Limited ("CRGG") announced in the joint announcement issued by CRGG and the Company (the "Joint Announcement") that all the approvals and registrations in the PRC in connection with the acquisition of 54,041,510 domestic shares of the Company which represent approximately 43.18% equity interest of the Company (the "Acquisition") by the Zhengzhou China Resources Gas Co., Ltd. ("Zhengzhou CR Gas") from the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality have been obtained and the conditions precedent for the completion of the Acquisition have been fulfilled on 27 August 2010. Accordingly, the new holding company of the Group is Zhengzhou CR Gas.

- (ii) On 27 August 2010, the Board has received a joint request from Zhengzhou CR Gas and another shareholder of the Company for convening an extraordinary general meeting of the Company to approve the proposed distribution of a special dividend of RMB0.492 per share. The proposed distribution of which is subject to approval by the shareholders of the Company at the forthcoming extraordinary general meeting. The proposed distribution of the special dividend is not reflected in the interim condensed consolidated financial statements for the six months ended 30 June 2010.

20. Approval of the interim financial statements

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 27 August 2010.

4. INDEBTEDNESS STATEMENT**Borrowings**

The borrowings of Zhengzhou Gas Group as at 30 June 2010 are as follows:

As at 30 June 2010, Zhengzhou Gas Group has no borrowings.

As at 30 June 2010, Zhongzhou Gas Group has restricted cash deposits of RMB26,450,000.

Contingent liabilities

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 June 2010.

Save as aforesaid and apart from intra-group liabilities, the Zhengzhou Gas Group did not have outstanding at the close of business on 30 June 2010 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or material contingent liabilities.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the directors of Zhengzhou Gas confirm that there is no material change in the financial or trading position or outlook of Zhengzhou Gas Group since 31 December 2009, the date to which the latest published audited financial statements of Zhengzhou Gas Group were made up.

1. RESPONSIBILITY STATEMENT

The information contained herein relating to Zhengzhou Gas Group has been provided by the directors of Zhengzhou Gas, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those in relation to the Offers, CR Gas, CR Gas Investment, Zhengzhou SASAC, Zhengzhou GGCL and their respective associates) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by CR Gas, CR Gas Investment, Zhengzhou SASAC, Zhengzhou GGCL and their respective associates) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement contained herein misleading.

The information contained herein relating to Zhengzhou SASAC and Zhengzhou GGCL has been provided by the standing deputy officer on behalf of Zhengzhou SASAC and the directors of Zhengzhou GGCL, respectively, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those in relation to CR Gas Group and Zhengzhou Gas Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by CR Gas Group and Zhengzhou Gas Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement contained herein misleading.

The information contained herein has been provided by the directors of CR Gas and CR Gas Investment, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those in relation to Zhengzhou Gas Group, Zhengzhou SASAC, Zhengzhou GGCL and their respective associates) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by Zhengzhou Gas Group, Zhengzhou SASAC, Zhengzhou GGCL and their respective associates) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement contained herein misleading.

2. SHARE CAPITAL OF ZHENGZHOU GAS

The authorised and issued share capital of Zhengzhou Gas as at the Latest Practicable Date are as follows:

	<i>RMB</i>
Authorised:	
70,084,000 Domestic Shares of RMB1.00 each	70,084,000
55,066,000 H Shares of RMB1.00 each	55,066,000
Issued and fully paid:	
70,084,000 Domestic Shares of RMB1.00 each	70,084,000
55,066,000 H Shares of RMB1.00 each	55,066,000

All of the H Shares currently in issue rank pari passu in all respects with each other, including, as to dividends, voting rights and return of capital. No H Shares have been issued since 31 December 2009 (being the date to which the latest published audited financial statement of Zhengzhou Gas were prepared) up to and including the Latest Practicable Date. Zhengzhou Gas does not have any outstanding options, warrants or derivatives or other securities which are convertible into the H Shares and/or the Domestic Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing prices of the H Shares as quoted on the Stock Exchange on the Latest Practicable Date, and last trading days of each of the calendar months during the period commencing six months preceding the commencement of the Offer Period and ending on the Latest Practicable Date:

Date	Closing price (HK\$)
30 January 2009	6.45
27 February 2009	6.75
31 March 2009	8.54
30 April 2009	9.30
29 May 2009	9.88
30 June 2009	9.38
31 July 2009	13.86
31 August 2009	15.72
30 September 2009	16.10
23 October 2009	17.18
30 November 2009	14.62
31 December 2009	15.20
29 January 2010	15.72
26 February 2010	16.10
31 March 2010	15.90
30 April 2010	15.30
31 May 2010	14.46
30 June 2010	14.30
30 July 2010	14.86
31 August 2010	14.68
Latest Practicable Date	14.60

The closing prices of the H Shares quoted on the Stock Exchange on 6 July 2009, being the last trading day prior to the commencement of the Offer Period, and on 23 October 2009, being the last trading day prior to the publication of the Announcement, were HK\$10.38 and HK\$17.18 respectively. The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the period commencing six months preceding the commencement of the Offer Period and ending on the Latest Practicable Date were HK\$17.52 on 19 October 2009 and HK\$6.15 on 23 January 2009.

4. DISCLOSURE OF INTERESTS AND DEALINGS

(a) Directors' interests and short positions in the securities of Zhengzhou Gas and its associated corporations

As at the Latest Practicable Date, none of the directors of Zhengzhou Gas, supervisors or chief executive of Zhengzhou Gas or their respective associates had any interests or short positions in any shares, underlying shares or debentures of Zhengzhou Gas or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to Zhengzhou Gas and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have been taken under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" to be notified to Zhengzhou Gas and the Stock Exchange.

(b) Substantial shareholders and other person's interests and short positions in Zhengzhou Shares and underlying Zhengzhou Shares

So far as the directors of Zhengzhou Gas are aware, as at the Latest Practicable Date, the persons (not being a director or supervisor or chief executive of Zhengzhou Gas) or companies who had equity interests or short positions in the shares or underlying shares of Zhengzhou Gas which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which will be required pursuant to section 336 of the SFO to be recorded in the register of Zhengzhou Gas, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any member of the Zhengzhou Gas Group (other than Zhengzhou Gas) were as follows:

Name	Number and class of shares	Capacity	Approximate	Approximate
			percentage of the total Domestic Shares	percentage of the total share capital of Zhengzhou Gas (including both H Shares and Domestic Shares)
Joint Venture	54,041,510 Domestic	Beneficial owner	77.11%	43.18%
CR Gas Investment (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%

Name	Number and class of shares	Capacity	Approximate percentage of the total Domestic Shares	Approximate percentage of total registered share capital of Zhengzhou Gas (including both H Shares and Domestic Shares)
China Resources Gas Limited (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
CR Gas (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
Splendid Time Investments Inc. (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
China Resources (Holdings) Company Limited (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
CRC Bluesky Limited (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
China Resources Co., Limited (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
China Resources National Corporation (note 1)	54,041,510 Domestic	Interest of controlled corporation	77.11%	43.18%
Beijing Jinqiyuan Investment Management Co., Ltd. (北京金啟元投資管理有限公司) (formerly known as Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (鄭州啟元投資諮詢有限公司 (note 2))	11,550,000 Domestic	Beneficial owner	16.48%	9.23%

Name	Number and class of shares	Capacity	Approximate	Approximate
			percentage of the total Domestic Shares	percentage of total registered share capital of Zhengzhou Gas (including both H Shares and Domestic Shares)
Beijing Crystal Stone Investment Company Limited (北京水晶岩投資管理有限公司) (note 3)	11,550,000 Domestic	Interest of controlled corporation	16.48%	9.23%
Liu Liangkun (劉良昆) (note 4)	11,550,000 Domestic	Interest of controlled corporation	16.48%	9.23%

Notes:

- (1) As at the Latest Practicable Date, Splendid Time Investments Inc. is owned as to 100% by China Resources (Holdings) Company Limited which is a wholly-owned subsidiary of CRC Bluesky Limited. CRC Bluesky Limited is a wholly-owned subsidiary of China Resources Co., Limited which in turn is 99.98% owned by China Resources National Corporation. CR Gas is owned as to 74.94% by Splendid Time Investments Inc. CR Gas is the sole shareholder of China Resources Gas Limited which owns 100% in CR Gas Investment, which, in turn, directly owns 72.06% of the interest in the Joint Venture as at the Latest Practicable Date. As such, China Resources National Corporation, China Resources Co., Limited, CRC Bluesky Limited, China Resources (Holdings) Company Limited, Splendid Time Investments Inc., CR Gas, China Resources Gas Limited and CR Gas Investment are deemed to be interested in the 54,041,510 Domestic Shares representing approximately 43.18% of the total registered share capital of Zhengzhou Gas held by the Joint Venture.
- (2) As at the Latest Practicable Date, Beijing Jinqiyuan Investment Management Co., Ltd., formerly known as Zhengzhou Qiyuan Investment Consultancy Co. Ltd. ("Beijing Jinqiyuan") held 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in the Domestic Shares. However, pursuant to the Listing Rules, Beijing Jinqiyuan was not a substantial shareholder of Zhengzhou Gas because the Domestic Shares held by it represented only 9.23% of the total registered share capital of Zhengzhou Gas.
- (3) As at the Latest Practicable Date, Beijing Crystal Stone Investment Company Limited ("Beijing Crystal Stone") was deemed to have an interest in 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in Domestic Shares, as it was interested in 37.39% of the registered capital of Beijing Jinqiyuan, which held 11,550,000 Domestic Shares. However, pursuant to the Listing Rules, Beijing Crystal Stone was not a substantial shareholder of Zhengzhou Gas because the Domestic Shares in which Beijing Crystal Stone was deemed to be interested represented only 9.23% of the total registered share capital of Zhengzhou Gas.
- (4) As at the Latest Practicable Date, Mr. Liu Liangkun was deemed to have an interest in 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in the Domestic Shares, as he was interested in 33.75% of the registered capital of Beijing Crystal Stone, which was deemed to have an interest of 11,550,000 Domestic Shares. However, pursuant to the Listing Rules, Mr. Liu Liangkun was not a substantial shareholder of Zhengzhou Gas because the Domestic Shares in which Mr. Liu Liangkun was deemed to be interested represented only 9.23% of the total registered share capital of Zhengzhou Gas.

So far as the directors of Zhengzhou Gas are aware, as at the Latest Practicable Date, the persons (not being a director or supervisor or chief executive of Zhengzhou Gas) or companies who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any member of the Zhengzhou Gas Group (other than Zhengzhou Gas) were as follows:

Name of subsidiary of Zhengzhou Gas	Name of shareholder	Nominal value of registered and paid-up capital held by the shareholder in the subsidiary	Approximate % of shareholding of the subsidiary
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB23,500,000	78.33%

Save as disclosed above, the directors of Zhengzhou Gas are not aware of any other person (not being a director or supervisor or chief executive of Zhengzhou Gas) who had an interest or short position in the shares or underlying shares of Zhengzhou Gas which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any classes of the share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any member of Zhengzhou Gas Group (other than Zhengzhou Gas).

(c) **Other interests**

As at the Latest Practicable Date:

- (i) none of the directors of CR Gas, CR Gas Investment nor parties acting in concert with any of them holds, owns or controls any Zhengzhou Shares, outstanding options, derivatives, warrants or other securities convertible into Zhengzhou Shares other than the Sale Shares held by the Joint Venture;
- (ii) no subsidiary of Zhengzhou Gas, nor any pension fund of the Zhengzhou Gas Group or any adviser to Zhengzhou Gas as specified in class (2) of the definition of “associate” under the Takeovers Code, owns or controls any Zhengzhou Shares or any convertible securities, warrants, options or derivatives in respect of Zhengzhou Shares;
- (iii) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between Zhengzhou Gas or any person who is an associate of Zhengzhou Gas by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code and any other person;
- (iv) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between CR Gas Investment or any persons acting in concert with it and a person who owns or controls any shares of Zhengzhou Gas;

- (v) no fund manager connected with Zhengzhou Gas who manages funds on a discretionary basis owns or controls any Zhengzhou Shares or any convertible securities, warrants, options or derivatives in respect of Zhengzhou Shares;
- (vi) none of the directors of Zhengzhou Gas is interested in Zhengzhou Shares, therefore there is no intention to accept or reject the Offers from any of the director of Zhengzhou Gas;
- (vii) neither Zhengzhou Gas nor any of its directors has borrowed or lent any Zhengzhou Shares or any convertible securities, warrants, options or derivatives in respect of Zhengzhou Shares; and
- (viii) none of the directors of Zhengzhou Gas is interested in convertible securities, warrants, options and derivatives of Zhengzhou Shares.

(d) Shareholdings and dealings in Joint Venture shares

During the period commencing six months prior to the commencement of Offer Period, and up to the Latest Practicable Date, none of Zhengzhou Gas nor any of its directors had any interest in the shares of the Joint Venture, and no such person (including Zhengzhou Gas) had dealt in the shares of the Joint Venture.

(e) Dealings in Zhengzhou Shares

During the period commencing six months prior to the commencement of Offer Period, and up to the Latest Practicable Date:

- (i) no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code exists between CR Gas Investment, or any person acting in concert with it, and any other person;
- (ii) none of the directors of Zhengzhou Gas had dealt for value in any Zhengzhou Shares or convertible securities, warrants, options or derivatives issued by Zhengzhou Gas;
- (iii) no subsidiary of Zhengzhou Gas, nor any pension fund of the Zhengzhou Gas Group or any adviser to Zhengzhou Gas as specified in class (2) of the definition of “associate” under the Takeovers Code, had dealt for value in any Zhengzhou Shares or any convertible securities, warrants, options or derivatives in respect of Zhengzhou Shares; and
- (iv) no fund manager connected with Zhengzhou Gas, who manages funds on a discretionary basis, had dealt for value in any Zhengzhou Shares or any convertible securities, warrants, options or derivatives issued by Zhengzhou Gas.

(f) Shareholdings and dealings in CR Gas Investment

As at the Latest Practicable Date, CR Gas Investment is an indirect wholly-owned subsidiary of CR Gas. CR Gas currently does not hold any convertible securities, warrants, options or derivatives in respect of CR Gas Investment. None of Zhengzhou Gas nor any of its directors has any shareholding in CR Gas Investment, or is interested in convertible securities, warrants, options and derivatives of CR Gas Investment.

During the period commencing six months prior to the commencement of Offer Period, and up to the Latest Practicable Date:

- (i) none of Zhengzhou Gas or any of its directors had dealt for value in any shares of CR Gas Investment or convertible securities, warrants, options or derivatives issued by CR Gas Investment;
- (ii) no subsidiary of Zhengzhou Gas, nor any pension fund of the Zhengzhou Gas Group or any adviser to Zhengzhou Gas as specified in class (2) of the definition of “associate” under the Takeovers Code, had dealt for value in any shares of CR Gas Investment or convertible securities, warrants, options or derivatives in respect of CR Gas Investment; and;
- (iii) no fund manager connected with Zhengzhou Gas, who manages funds on a discretionary basis, had dealt for value in any shares of CR Gas Investment or any convertible securities, warrants, options or derivatives in respect of CR Gas Investment.

5. OTHER ARRANGEMENTS

As at the Latest Practicable Date,

- (a) no benefit has been given or will be given to any director of Zhengzhou Gas as compensation for the loss of office or otherwise in connection with the Offers;
- (b) no material contract has been entered into by CR Gas Investment in which any director of Zhengzhou Gas had a material personal interest; and
- (c) there is no agreement or arrangement between any director of Zhengzhou Gas and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, Zhengzhou Gas has entered into service contracts with the following directors:

- (a) a service contract dated 8 April 2009 with Mr. Yan Guoqi for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 8 April 2009 at an annual remuneration of RMB189,000. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Yan Guoqi and Zhengzhou Gas;
- (b) a service contract dated 8 April 2009 with Mr. Li Jinlu for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 8 April 2009 at an annual remuneration of RMB180,000. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Li Jinlin and Zhengzhou Gas;
- (c) (i) a service contract dated 2 February 2008 between Mr. Li Hongwei and Zhengzhou Gas for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 25 January 2008 at an annual remuneration of RMB 151,000;
- (ii) a service contract dated 8 April 2009 between Mr. Li Hongwei and Zhengzhou Gas for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 8 April 2009 at an annual remuneration of RMB 161,000, which replaced the service contract dated 2 February 2009 between Mr. Li Hongwei and Zhengzhou Gas as mentioned in sub-paragraph (i) above;
- (d) a service contract dated 8 April 2009 with Mr. Song Jinhui for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at nil remuneration. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Song Jinlu and Zhengzhou Gas;
- (e) a service contract dated 8 April 2009 with Mr. Zhang Wushan for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at nil remuneration. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Zhang Wushan and Zhengzhou Gas;
- (f) a service contract dated 8 April 2009 with Mr. Ding Ping for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at nil remuneration. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Ding Ping and Zhengzhou Gas;
- (g) a service contract dated 8 April 2009 with Mr. Liu Jianwen for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at an annual remuneration of RMB60,000. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Liu Jianwen and Zhengzhou Gas;

- (h) a service contract dated 8 April 2009 with Mr. Yu Jingsong for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at an annual remuneration of RMB60,000. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Yu Jingsong and Zhengzhou Gas;
- (i) a service contract dated 8 April 2009 with Mr. Zhang Jianqing for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at an annual remuneration of RMB60,000. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Mr. Zhang Jianqing and Zhengzhou Gas;
- (j) a service contract dated 8 April 2009 with Ms. Wang Xiuli for a term of three years which is terminable by Zhengzhou Gas with not less than three months' notice, commencing from 8 April 2009 at an annual remuneration of RMB60,000. No earlier contracts have been replaced or amended by the service contract dated 8 April 2009 between Ms. Wang Xiuli and Zhengzhou Gas; and
- (k) (i) a service contract dated 22 November 2006 between Mr. Wong Ping and Zhengzhou Gas for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 22 November 2006 at an annual remuneration of RMB 70,000;
- (ii) a service contract dated 8 April 2009 between Mr. Wong Ping and Zhengzhou Gas for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 8 April 2009 at an annual remuneration of RMB 70,000, which replaced the service contract dated 22 November 2006 between Mr. Wong Ping and Zhengzhou Gas as mentioned in sub- paragraph (i) above.

Each of Mr. Yan Guoqi, Mr. Li Jinlu and Mr. Li Hongwei may receive a management bonus which is approved by the remuneration and appraisal committee and the board of Zhengzhou Gas at its discretion. There is no fixed formula for calculating the amount of management bonus and the remuneration and appraisal committee and the board of Zhengzhou Gas will consider, among others, individual performance of each director and the consolidated net profits of the Zhengzhou Group after taxation but before extraordinary items for the relevant financial year, in determining the management bonus for these three directors. No variable remuneration is payable to other directors of Zhengzhou Gas under their respective service contracts. For the year ended 31 December 2009, the executive directors received salaries, allowances and benefits in kind in an amount of RMB556,000, and performance related bonuses in an amount of RMB540,000.

As at the Latest Practicable Date, save as disclosed above, none of the directors of Zhengzhou Gas have any existing or proposed service contracts with any member of the Zhengzhou Gas Group or any associated company of the Zhengzhou Gas Group which:

- (a) (including both continuous and fixed term contracts) have been entered into or amended within six months prior to the commencement of Offer Period;
- (b) are continuous contracts with a notice period of 12 months or more; or

- (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

7. MATERIAL CONTRACTS

Save as disclosed below, the Zhengzhou Gas Group has not entered into any material contract (not being a contract entered into in the ordinary course of business) within the period commencing two years before the commencement of Offer Period, and up to and including the Latest Practicable Date:

- (a) On 26 November 2007, a “Guidance Agreement for an Initial Public Offer of A-share issue” was signed between Zhengzhou Gas and Essence Securities Co. Ltd. (hereinafter referred to as “Essence”). Pursuant to the agreement, Zhengzhou Gas appointed Essence to provide guidance to Zhengzhou Gas on matters relating to the previous initial public offer of A-share issue of Zhengzhou Gas and the application for listing of A shares on stock exchange in the PRC. The guidance fee is RMB1,000,000.
- (b) On 19 December 2007, Zhengzhou Gas and PetroChina Company Limited signed the “Framework Agreement relating to the Sale and Purchase and Transportation of PetroChina West-to-East natural gas transmission second line”. Both parties temporarily plan to fulfill the conditions of gas supply within 3 years depending on the progress and circumstances of officially obtaining the approval of the State on the West-to-East Natural Gas Transmission Second Line Project and construction of the infrastructure. Once the conditions are fulfilled, PetroChina Company Limited undertakes to continuously and stably supply gas to Zhengzhou Gas for a period of 25 years.
- (c) Zhengzhou Gas and Zhengzhou Gas Group signed the “Motor Vehicle Lease Agreement” on 30 December 2007 pursuant to which Zhengzhou Gas shall rent certain motor vehicles from Zhengzhou Gas Group. The agreement expired on 1 January 2009 and therefore both parties entered into a new “Motor Vehicle Lease Agreement” on 31 December 2008, pursuant to which Zhengzhou Gas shall rent from Zhengzhou Gas Group a total of 16 vehicles used for business purposes including Toyota Jeep, Volkswagen and Samsung Motorcycle. The term shall be from 1 January 2009 to 31 December 2009, the rent shall be RMB442,743.82.
- (d) On 1 January 2008, Zhengzhou Gas and the Huabei branch of Sinopec signed the “Sales Agreement of Natural Gas”. Zhengzhou Gas shall purchase from the Huabei branch of Sinopec natural gas produced from Danjudi gasfields. The agreement provides that the price of the inner gas shall be \$1.06/cubic meter and price of the outer gas shall be \$1.16/cubic meter. The term of the agreement shall start from 1 January 2008 to 31 December 2008.
- (e) On 1 January 2008, Zhengzhou Gas and Henan Anfei Electronic Glass Company Limited* (河南安飛電子玻璃有限公司) signed the “Agreement for Industrial Natural Gas Supply”. Pursuant to the agreement, Zhengzhou Gas shall supply Henan Anfei Electronic Glass Company Limited with industrial gas, the amount of gas supplied is planned to be 33,000,000 standard cubic meters per year as stated in the agreement. The planned gas supply amount shall be at the price at \$2.26/standard cubic meter, the excessive portions shall be at the price of \$2.50/standard cubic meter.

- (f) On 6 March 2008, Zhengzhou Gas entered into an equity transfer agreement with the State-owned Assets Supervision and Administration Commission of the People's Government of Pingdingshan City" ("Pingdingshan SASAC"), pursuant to which Zhengzhou Gas has agreed to purchase and Pingdingshan SASAC has agreed to sell a 27% equity interest in Pingdingshan City Gas Corporation (平頂山市燃氣總公司) at an aggregate cash consideration of RMB30.5 million payable in cash.
- (g) On 29 April 2008, Zhengzhou Gas entered into an assets transfer agreement with the Zhengzhou Coal Gas Project Preparatory Office, pursuant to which Zhengzhou Gas has agreed to purchase and the Zhengzhou Coal Gas Project Preparatory Office has agreed to sell its coal gas assets at an aggregate consideration of RMB120,500,000.
- (h) On 13 June 2008, Zhengzhou Bureau of Land and Resources of Henan Province, the PRC* (中華人民共和國河南省鄭州市國土資源局) (the "Land and Resources Bureau") and Zhengzhou Gas entered into a "State-owned Land Use Right Lease Agreement", pursuant to which Land and Resources Bureau has agreed to lease the land use right of a parcel of land in the new development area of Zhengzhou New District (鄭州新區發展區) with a size of 5,243 square meters in total to Zhengzhou Gas. The total consideration was RMB19,430,000. The land is for commercial service use (gas station). Zhengzhou Gas shall build some new buildings on the land and agreed to start the construction from 31 December 2008 and complete the construction by 30 June 2009. The term of the lease of the land use right was for a period of 40 years starting from the day when the certificate for the use of state-owned land had been obtained.
- (i) On 13 June 2008, the Land and Resources Bureau and Zhengzhou Gas entered into another "State-owned Land Use Right Lease Agreement", pursuant to which Land and Resources Bureau has agreed to lease the land use right of a parcel of land in the Long Wunan area of Zhengdong New District (鄭州新區龍湖區) with a size of 7,694.8 square meters in total to Zhengzhou Gas. The total consideration was RMB22,640,000. The land is for commercial service use (gas station). Zhengzhou Gas shall build some new buildings on the land and agreed to start the construction from 31 December 2008 and complete the construction by 30 June 2009. The term of the lease of the land use right was for a period of 40 years starting from the day when the certificate for the use of state-owned land had been obtained.
- (j) On 16 June 2008, Zhengzhou Gas and Zhengzhou China Oil and Gas Company Limited* (鄭州中油恒燃石油燃氣有限公司) (hereinafter shall be referred to as "COGC") signed the "Sales Agreement of Natural Gas". The agreement provides that COGC shall provide gas to Zhengzhou Gas in the volume of 40,000N cubic meters. The price of gas supply shall be: Zhengzhou Gas shall set the price at \$1.86/N cubic meter. The agreement shall remain effective from 1 May 2008 to 30 April 2009.
- (k) On 25 August 2008, Zhengzhou City Public Administration Management Bureau of Zhengzhou City, Henan Province of the PRC (中國河南省鄭州市人民政府鄭州市市政管理執法局) ("Management Bureau") and Zhengzhou Gas entered into a "Formal Concession Right Agreement on the City Gas Pipeline". Pursuant to the agreement, the Management Bureau granted Zhengzhou Gas for a concession right for the provision of natural gas and other gas materials through the pipeline and provision of related services, such as maintenance, operation and repairing, of pipeline facilities within the designated administrative areas of Zhengzhou City (鄭州市規劃行政管轄區域). The term of the concession right is 30 years from 4 January 2002 to 3 January 2032.

- (l) On 22 November 2008, Zhengzhou Gas' subsidiary, Zhengzhou Zhengran Pressure Control Technology Co., Ltd.* (鄭州鄭燃調壓控制技術有限公司) (hereinafter referred to as "Pressure Control Company") signed the "Sales Agreement on Pressure Control Products" with Nanyang Zhengzhou Natural Gas Company Limited* (南陽鄭燃燃氣有限公司). Pursuant to the agreement, the Pressure Control Company shall supply pressure control products to Nanyang Zhengzhou Natural Gas Company Limited, the consideration shall be RMB135,950.
- (m) On 17 December 2008, Zhengzhou Gas issued an "Establishment Guarantee Letter Application and Undertaking Letter" (開立保函申請書暨承諾書) to China Everbright Bank Zhengzhou Branch, pursuant to which, the beneficiaries of the guarantee letter are PetroChina Company Limited West-to-East Natural Gas Transmission Sale Branch* (中國石油天然氣股份有限公司西氣東輸銷售分公司) and PetroChina Company Limited West-to-East Natural Gas Transmission Pipeline Branch* (中國石油天然氣股份有限公司西氣東輸管道分公司) and the guarantee is payment guarantee with the guarantee amount of RMB50,490,000. Zhengzhou Gas deposited RMB25,250,000 to the bank, which could not be withdrawn or used by Zhengzhou Gas before the payment liability under the guarantee letter is released. The undertaking letter shall be effective until the external liability under the guarantee letter is released by China Everbright Bank Zhengzhou Branch and all the liability under the guarantee letter has been repaid by Zhengzhou Gas.
- (n) On 23 December 2008, Zhengzhou Gas and Zhengzhou Aerial Port Zone Management Committee (鄭州航空港區管理委員會) (the "Aerial Port Committee") entered into a formal gas supply agreement. Pursuant to the agreement, the Aerial Port Committee granted Zhengzhou Gas an exclusive rights for the provision of piped gas and construction of pipeline in the administrative region under the control of the Aerial Port Committee for a term of 30 years from 1 January 2009 to 31 December 2038.
- (o) On 31 December 2008, Zhengzhou Gas and Bank of Communications Zhengzhou Branch entered into a "Loan Agreement", pursuant to which Zhengzhou Gas borrowed RMB22,000,000 from the bank for the purpose of Zhengzhou Natural Gas Pipeline (博愛—鄭州天然氣管道) Construction Project. The Loan Agreement shall be effective from 31 December 2008 to 1 December 2009, the interest rate is 4.779% per annum during the agreement period.
- (p) On 31 December 2008, Zhengzhou Gas and China Everbright Bank Zhengzhou Zhongyuan Lu Branch entered into a "Loan Agreement", pursuant to which Zhengzhou Gas borrowed RMB20,000,000 from the bank for the purpose of the fixed assets investments of the construction projects. The loan agreement shall be effective from 31 December 2008 to 1 December 2009, the interest rate is 5.0445% per annum during the agreement period.
- (q) On 28 April 2009, Zhengzhou Gas and Zhengzhou Gas Group Co., Ltd. entered into a transfer agreement in connection with a trademark license agreement entered into between the same parties on 1 April 2006. Pursuant to the transfer agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant Zhengzhou Gas the trademark licence without consideration from 1 April 2009.

- (r) On 10 August 2009, Zhengzhou Gas and Zhengzhou Traffic and Transportation (Group) Company Limited (鄭州交通運輸集團有限責任公司) entered into a joint venture agreement to form a joint venture company, with an aim to develop jointly the short and mid haul gas driven coach market in Henan Province. The registered capital of the joint venture company shall be contributed by Zhengzhou Gas and Zhengzhou Traffic and Transportation (Group) Company Limited as to RMB22,000,000 and RMB18,000,000 respectively.

8. LITIGATION

As at the Latest Practicable Date, no member of the Zhengzhou Gas Group is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is pending or known to the board of directors of Zhengzhou Gas to be threatened by or against any member of the Zhengzhou Gas Group.

9. EXPERTS

The following is the qualification of the experts who have given an opinion or advice contained in this Composite Document:

Name	Qualification
Anglo Chinese	a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.
First Shanghai	a licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activity.

Each of Anglo Chinese and First Shanghai has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its letter and, or, opinions, and references to its name, letter or opinions in the form and context in which they respectively appear.

10. GENERAL

The offeror of the Offers is CR Gas Investment (華潤燃氣(中國)投資有限公司), an indirect wholly-owned subsidiary of CR Gas. The principal place of business of CR Gas and CR Gas Investment is at Room 1901-05, 19th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The financial adviser to the offeror of the Offers is Anglo Chinese, whose office is located at 40/F, Two Exchange Square, Central, Hong Kong.

- (a) The company secretary of Zhengzhou Gas is Mr. Wong Cheuk Lam who is a member of Hong Kong Institute of Certified Public Accountants and a member of CPA, Australia.

- (b) The registered office of Zhengzhou Gas is at 352 Longhai Road West, Zhengzhou City, Henan Province, PRC 450006.
- (c) The principal place of business of Zhengzhou Gas in Hong Kong is located at Room 908, 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (d) The branch share registrar of Zhengzhou Gas in Hong Kong is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) None of the directors will be given any benefit (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offers.
- (f) As at the Latest Practicable Date, there was no arrangement, agreement or understanding (including any compensation arrangement) between CR Gas Investment or any of the persons acting in concert with it, on the one hand, and any directors, recent directors, shareholders, or recent shareholders of Zhengzhou Gas, on the other hand, having any connection with or dependence upon the Offers.
- (g) The English language text of this Composite Document shall prevail over the Chinese language text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at (i) the principal place of business of CR Gas, Room 1901-05, 19th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong; (ii) on the website of the SFC (<http://www.sfc.hk>); and (iii) the website of CR Gas at <http://www.crgas.com.hk> when the Offers remain open for acceptance:

- (a) the "Letter from CR Gas Investment", the text of which is set out in this Composite Document;
- (b) the "Letter from Anglo Chinese", the text of which is set out in this Composite Document;
- (c) the written consent from Anglo Chinese referred to in the section headed "Experts" in this Appendix;
- (d) the letter from Anglo Chinese confirming the financial resources available to CR Gas Investment for the Offers; and
- (e) the articles and memorandum of association of CR Gas Investment.

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at (i) the principal place of business of Zhengzhou Gas in Hong Kong, 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong; (ii) on the website of the SFC (<http://www.sfc.hk>); and (iii) the website of Zhengzhou Gas at <http://www.hnzzgas.com> when the Offers remain open for acceptance:

- (a) the articles of association of Zhengzhou Gas;

- (b) the memorandum and articles of association of the Joint Venture;
- (c) the annual report of Zhengzhou Gas for the three years ended 31 December 2009, 31 December 2008 and 31 December 2007;
- (d) the “Letter from the board of directors of Zhengzhou Gas”, the text of which is set out in this Composite Document;
- (e) the “Letter from the Independent Board Committee”, the text of which is set out in this Composite Document;
- (f) the “Letter from First Shanghai”, the text of which is set out in this Composite Document;
- (g) the material contracts referred to in the section headed “Material Contracts” in this Appendix;
- (h) the service contracts of the directors of Zhengzhou Gas referred to in the section headed “Directors’ Service Contracts” in this Appendix; and
- (i) the written consent from First Shanghai referred to in the section headed “Experts” in this Appendix.