THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in 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 China Resources Gas Co., Ltd.***, you should at once hand this Composite Document and the accompanying forms to the purchaser or the 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 the transferee.

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

鄭州華潤燃氣股份有限公司
Zhengzhou China Resources Gas Co., Ltd.*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3928)

COMPOSITE OFFER AND RESPONSE DOCUMENT

PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF THE H SHARES OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

VOLUNTARY CONDITIONAL OFFER BY ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED H SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

VOLUNTARY CONDITIONAL OFFER BY CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED DOMESTIC SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

Financial adviser to China Resources Gas Group Limited

ANGLO CHINESE CORPORATE FINANCE, LIMITED 英高

Independent financial adviser to the independent board committee of Zhengzhou China Resources Gas Co., Ltd.*

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

All capitalised terms used in this cover page shall have the same meaning as set out in the section headed "Definitions" on pages 1 to 4 of this Composite Document.

A letter from the board of CR Gas is set out on pages 8 to 12 of this Composite Document. A letter from Anglo Chinese containing, amongst other things, the terms of the H Share Offer, is set out on pages 13 to 23 of this Composite Document. A letter from the board of ZZ Gas is set out on pages 24 to 31 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Independent ZZ Gas Shareholders in relation to the Proposal is set out on pages 32 to 33 of this Composite Document. A letter from First Shanghai containing its advice to the Independent Board Committee, is set out on pages 34 to 66 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 H Share Offer must be received by the Registrar no later than 4:00 p.m. on 6 February 2012 or such later time and date as CR Gas may determine and announce with the consent of the Executive, in accordance with the Takeovers Code. Acceptance of the Domestic Share Offer must be received by ZZ Gas no later than 4:00 p.m. on 6 February 2012 or such later time and date as CR Gas may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

Notices convening the H Share Class Meeting to be held at Meeting Room No. 2, 2/F, 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC on 9 January 2012 at 10:00 a.m., and the EGM to be held at the same address on the same day immediately after the conclusion or adjournment of the H Share Class Meeting, are set out on pages VI-1 to VII-3 of this Composite Document. Whether or not you are able to attend either or both of the H Share Class Meeting and the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed forms of proxy in respect of the H Share Class Meeting and the EGM in accordance with the instructions printed thereon, and to lodge them with, in the case of H Shareholders, the Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, in the case of Domestic Shares, at ZZ Gas's registered address, as soon as possible but in any event not later than 10:00 a.m. on 8 January 2012 or not less than 24 hours before the time appointed for any adjournment of the H Share Class Meeting and EGM respectively. Return of the proxy forms will not preclude you from attending and voting in person at the H Share Class Meeting or the EGM or any adjourned meeting should you wish to do so. Reply slips for the H Share Class Meeting and EGM are also enclosed. You are reminded to complete and sign the reply slips (if you are entitled to attend the H Share Class Meeting and the EGM) and return the signed reply slips to the Registrar or ZZ Gas (as the case may be) on or before 19 December 2011 in accordance with the instructions printed thereon.

* *For identification purposes only.*

23 November 2011

CONTENTS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise.

"acting in concert"	has the meaning given to it in the Takeovers Code
"Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, the financial adviser to CR Gas, and a corporation licensed to carry on business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO
"Articles of Association"	the articles of association of ZZ Gas
"associate(s)"	has the meaning given to it in the Takeovers Code
"business day"	a day other than a Saturday, Sunday or public holiday in Hong Kong, the PRC or Bermuda
"Cash Consideration"	HK$14.73 per H Share or RMB12.02 equivalent based on the Exchange Rate per Domestic Share in cash
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China Resources Group"	China Resources (Holdings) Company Limited which is the ultimate Hong Kong incorporated controlling shareholder of CR Gas, and its subsidiaries
"Closing Date"	6 February 2012, being the expected final closing date of the Offers, which is the 28th day after the date on which the Offers become unconditional
"Composite Document"	this composite offer and response document dated 23 November 2011 issued by CR Gas and ZZ 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), a wholly-owned subsidiary of CR Gas
"CR Gas Share(s)"	share(s) of par value of HK$0.10 each in the capital of CR Gas

"Domestic Share(s)"	ordinary unlisted shares in the share capital of ZZ Gas, with a nominal value of RMB1.00 each, which are subscribed for in RMB
"Domestic Share Offer"	conditional voluntary offer by CR Gas to acquire all the issued Domestic Shares other than those already owned by CR Gas Group
"Domestic Shareholder(s)"	holder(s) of Domestic Share(s)
"EGM"	the extraordinary general meeting of ZZ Gas Shareholders to be held to consider and vote on the delisting of H Shares from the Stock Exchange and the proposed amendments to the Articles of Association
"Exchange Rate"	the exchange rate of RMB1 to HK$1.2257 at the Last Trading Date as quoted on Bloomberg
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"First Shanghai"	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee in respect of the terms of the Offers and a corporation licensed to carry on business in type 6 (advising on corporate finance) of the regulated activities under the SFO
"H Share(s)"	ordinary shares with a nominal value of RMB1.00 each in the issued share capital of ZZ Gas, which are listed and traded on the Stock Exchange in HK$
"H Share Class Meeting"	the special general meeting of H Shareholders be held to consider and vote on the delisting of H Shares from the Stock Exchange
"H Share Offer"	conditional voluntary offer by Anglo Chinese on behalf of CR Gas to acquire all the issued H Shares other than those already owned by CR Gas Group
"H Shareholder(s)"	holder(s) of H Share(s)
"HK$"	Hong Kong dollar(s), 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 ZZ Gas constituted to advise the Independent ZZ Gas Shareholders on the terms of the Offers, comprising all the independent non-executive directors of ZZ Gas, namely Mr.Yu Jingsong, Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping, and Mr. Liu Jianwen, a non-executive director of ZZ Gas
"Independent H Shareholder(s)"	H Shareholders other than members of the CR Gas Group and parties acting in concert with it
"Independent ZZ Gas Shareholder(s)"	H Shareholders and Domestic Shareholders, other than members of the CR Gas Group and parties acting in concert with it
"Joint Announcement"	the joint announcement issued jointly by CR Gas and ZZ Gas on 19 October 2011 in relation to the Proposal
"Last Trading Date"	10 October 2011, being the last trading date in the shares of CR Gas and ZZ Gas prior to the publication of the Joint Announcement
"Latest Practicable Date"	21 November 2011, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Offer Period"	has the meaning ascribed to it in the Takeovers Code and commencing from 19 October 2011, being the date of the Joint Announcement
"Offers"	the H Share Offer and the Domestic Share Offer
"PRC" or "China"	the People's Republic of China, excluding, for the purposes of this Composite Document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposal"	the proposed privatisation and delisting of H Shares from the Stock Exchange and the Offers
"Registrar"	Computershare Hong Kong Investor Services Limited, the H Share registrar and transfer office of ZZ Gas in Hong Kong
"Relevant Period"	the period commencing six months before the date of the Joint Announcement and ending on the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC

"SFC"	the Securities and Futures Commission
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share Consideration"	1.5 new CR Gas Shares for each H Share tendered under the H Share Offer, rounded down to the nearest whole CR Gas Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Zhengzhou SASAC"	the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality* (鄭州市國有資產監督管理委員會)
"ZZ Gas"	Zhengzhou China Resources Gas Co., Ltd.* (鄭州華潤燃氣股份有限公司), a joint stock limited company incorporated in the PRC whose H Shares are listed on the Stock Exchange (Stock code: 3928)
"ZZ Gas Group"	ZZ Gas and its subsidiaries
"ZZ Gas Shareholder(s)"	holders of ZZ Gas Share(s)
"ZZ Gas Shares"	H Shares and Domestic Shares
"%"	per cent.

Note: The figures in RMB are converted into HK$ at the rate of RMB1:HK$1.2257 throughout this Composite Document for illustration purpose only.

* *For identification purposes only.*

	Hong Kong time *(unless otherwise stated)*
Opening date of the Offers *(Note 1)*	Wednesday, 23 November 2011
Latest time for lodging transfer of ZZ Gas Shares in order to be entitled to attend and vote at the H Share Class Meeting and EGM	4:30 p.m. on Thursday, 8 December 2011
Closure of the shareholder register of ZZ Gas for the determination of entitlements of ZZ Gas Shareholders to attend and vote at the H Share Class Meeting and EGM *(Note 2)*	Friday, 9 December 2011 to Monday, 9 January 2012 (both days inclusive)
Last day for return of reply slips for the H Share Class Meeting and EGM *(Note 3)*	Monday, 19 December 2011
Latest time for lodging proxy forms in respect of the H Share Class Meeting and EGM *(Note 4)*	10:00 a.m. on Sunday, 8 January 2012
Suspension of dealings in CR Gas Shares and H Shares	9:00 a.m. on Monday, 9 January 2012
H Share Class Meeting	10:00 a.m. on Monday, 9 January 2012
EGM	on Monday, 9 January 2012 immediately after the conclusion or adjournment of the H Share Class Meeting
Announcement of the results of the H Share Class Meeting and the EGM on the Stock Exchange's website	by 7:00 p.m. on Monday, 9 January 2012
Resumption of dealings in CR Gas Shares and H Shares	9:00 a.m. on Tuesday, 10 January 2012
Re-opening of the shareholder register of ZZ Gas	Tuesday, 10 January 2012
Latest date for despatch of cheques / share certificates of new CR Gas Shares to H Shareholders who have tendered valid acceptance forms on or prior to the date of H Share Class Meeting *(Note 5)*	by Thursday, 19 January 2012

Hong Kong time
(unless otherwise stated)

Announcement made and written notification sent to ZZ Gas Shareholders in respect of the Closing Date and the implications of not accepting the Offers *(Note 6)*	by Friday, 20 January 2012
Last day of dealings in the H Shares on the Stock Exchange	Tuesday, 31 January 2012
Closing Date	Monday, 6 February 2012
Latest time for acceptance of the Offers on Closing Date *(Note 7)*	4:00 p.m. on Monday, 6 February 2012
Announcement of the results of the Offers as at the Closing Date on the Stock Exchange's website	by 7:00 p.m. on Monday, 6 February 2012
Withdrawal of the listing of the H Shares from the Stock Exchange *(Note 8)*	9:00 a.m. on Tuesday, 14 February 2012
Latest date for despatch of cheques/share certificates of new CR Gas Share to ZZ Gas Shareholders who have tendered valid acceptance forms at or before the latest time for acceptances of the Offers on the Closing Date *(Note 5)*	by Thursday, 16 February 2012

The above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. The Offers are made on 23 November 2011, the date of posting of this Composite Document.

2. The register of members of ZZ Gas will be closed during such period for the purpose of determining the entitlement of ZZ Gas Shareholders to attend and vote at the H Share Class Meeting and the EGM. This book closure period is not for determining entitlements under the Proposal.

3. Reply slips should be:

   — (in the case of Domestic Sharesholders) deposited at or returned by post or by fax to ZZ Gas's registered address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC 450006 (fax number: (86) 371-6889 0488); or

— (in the case of H Shareholders) deposited at or returned by post to Computershare Hong Kong Investor Services Limited, the H Share registrar of ZZ Gas in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong,

as soon as possible and in any event no later than the time and date stated above. Failure to return the reply slips will not affect H Shareholders' right to attend the H Share Class Meeting or the EGM.

4. Proxy forms should be deposited at:

— (in the case of Domestic Shareholders) ZZ Gas's registered address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC 450006; or

— (in the case of H Shareholders) Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong,

as soon as possible and in any event by the time and date stated above, in order to be valid. Completion and return of a proxy form for the H Share Class Meeting or EGM will not preclude a ZZ Gas Shareholder from attending the H Share Class Meeting or EGM, or from attending the H Share Class Meeting or EGM and voting in person if he/she/it so wishes and if such ZZ Gas Shareholder has notified ZZ Gas not less than 24 hours in writing before the time appointed for any adjournment of the H Share Class Meeting or EGM. In such event, the returned proxy forms will be deemed to have been revoked.

5. Pursuant to Rule 20.1 of the Takeovers Code, settlement of consideration in respect of acceptances of each of the Offers will be made within 10 days of the later of the date on which the relevant offer becomes or is declared unconditional and the date on which relevant documents of title and duly completed forms are received by the Registrar to render the relevant acceptance complete and valid.

6. In accordance with Rule 15.3 of the Takeovers Code, where the Offers become or are declared unconditional (whether as to acceptances or in all respects) they should remain open for acceptance for not less than 14 days thereafter and at least 14 days' notice in writing must be given before the Offers are closed to the relevant Independent ZZ Gas Shareholders who have not accepted the Offers.

7. Unless the Offers have previously become or been declared unconditional, revised or extended, the latest time and date for acceptance of the Offers is 4:00 p.m. on the Closing Date. Please refer to Appendix I to this Composite Document for additional information on how to accept the Offers.

8. It is expected that the withdrawal of listing of the H Shares from the Stock Exchange will become effective at 9:00 a.m. on 14 February 2012, subject to the satisfaction of any conditions for delisting such securities from the Stock Exchange, and receipt of any regulatory approvals required for such delisting.

Unless otherwise indicated, all time references contained in this Composite Document are to Hong Kong time.

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

Executive Directors:
Ma Guoan *(Chairman)*
Wang Chuandong *(General Manager)*
Ong Thiam Kin

Non-Executive Directors:
Du Wenmin
Wei Bin

Independent Non-Executive Directors:
Wong Tak Shing
Luk Chi Cheong
Yu Jian

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Place of Business:
Room 1901-05
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

23 November 2011

To the Independent ZZ Gas Shareholders

Dear Sir or Madam,

PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF THE H SHARES OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

VOLUNTARY CONDITIONAL OFFER BY CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED DOMESTIC SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

1. INTRODUCTION

On 19 October 2011, CR Gas and ZZ Gas jointly announced that:

(a) Anglo Chinese, on behalf of CR Gas, will make a voluntary conditional offer to acquire all of the issued H Shares (other than those owned by CR Gas Group); and

(b) subject to the H Share Offer becoming unconditional in all respects, CR Gas will make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those owned by CR Gas Group).

This letter forms part of this Composite Document and sets out certain background information on CR Gas, explains why we are making the Offers and our intention in relation to ZZ Gas Group. Further details of the terms of the Offers are set out under the paragraphs headed "Voluntary Conditional Offers for the ZZ Gas Shares" and "Conditions of the Offers" in the "Letter from Anglo Chinese" which immediately follows this letter in this Composite Document. Details of the procedures for acceptance of the Offers are set out in Appendix I to this Composite Document and in the accompanying forms of acceptance.

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

2. INFORMATION ON THE CR GAS GROUP

CR Gas is a limited liability company incorporated in Bermuda on 20 September 1994 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 gas connection operations in the PRC. It has been active in seeking attractive business opportunities in the PRC to expand its core business of city gas operation and distribution 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 operations cover provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Chongqing, Wuxi and Suzhou. The ultimate holding company of CR Gas is China Resources National Corporation, a state-owned enterprise which is the parent company of China Resources Co., Ltd., a company incorporated in the PRC, which in turn is the parent company of CRC Bluesky Limited, a company incorporated in the British Virgin Islands, which is in turn the parent company of the China Resources Group.

3. H SHARE OFFER

For further details of the H Share Offer, please refer to the "Letter from Anglo Chinese" which immediately follows this letter in this Composite Document.

4. DOMESTIC SHARE OFFER

We hereby give notice to all Domestic Shareholders that we are making an offer for all the Domestic Shares (other than those already owned by CR Gas Group) at a price of RMB12.02 per Domestic Share in cash, being the RMB equivalent of HK$14.73 based on the Exchange Rate. A transfer of Domestic Shares under the Domestic Share Offer by Domestic Shareholders will be treated as a domestic transaction under the foreign exchange law of the PRC. Accordingly, the consideration payable under a domestic transaction must be Renminbi or assets in the PRC. As a result, the Share Consideration cannot be extended to Domestic Shareholders.

The Domestic Share Offer is subject to the fulfillment or waiver, as applicable, of the following conditions:

(a) the H Share Offer becoming unconditional in all respects; and

(b) all other necessary authorisations, consents and approvals of any government or governmental or regulatory body or court or institution in relation to the Domestic Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions.

Any Domestic Shareholder who accepts the Domestic Share Offer is required to indicate its acceptance to us by completing the accompanying GREEN form of acceptance and sending it to ZZ Gas no later than 4:00 p.m. on 6 February 2012. Once the accompanying GREEN form of acceptance is signed, the Domestic Shareholder is deemed to have agreed to all the terms and conditions of the Domestic Share Offer as contained in this Composite Document and the GREEN form of acceptance. The acceptance of Domestic Share Offer shall be irrevocable except under Rule 17 and Rule 19.2 of the Takeovers Code, which respectively stipulate that (i) an acceptor shall be entitled to withdraw his acceptance after 21 days from the first closing date of the offer, if the offer has not by then become unconditional as to acceptances; and (ii) if an offeror is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, it should consult the Executive who may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements of Rule 19 of the Takeovers Code can be met.

Further terms of the Domestic Share Offer, 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.

5. REASONS FOR THE PROPOSAL

In line with the long term objective of the China Resources Group to hold all its interests in a specific industrial or commercial sector under one company listed on the Stock Exchange, the Proposal includes the withdrawal of the listing of H Shares on the Stock Exchange so that the only listed company within the China Resources Group engaged in gas distribution in the PRC and related activities will be CR Gas. If the Proposal is implemented CR Gas will be able to increase its attributable interest in ZZ Gas and the privatisation and de-listing of ZZ Gas is anticipated to lead to cost savings with the simplification of the structure and operations of the CR Gas Group and to eliminate or substantially reduce any potential conflict between CR Gas and ZZ Gas in the allocation of CR Gas Group resources or the exploitation of investment and acquisition opportunities.

The terms of the Proposal are designed so that by accepting the Share Consideration, H Shareholders will be able to maintain an indirect interest in ZZ Gas and to be invested in CR Gas, a much larger, more geographically diversified gas distributor which has a substantially larger market capitalisation and more readily marketable shares than ZZ Gas. The terms of the Proposal, whether holders of ZZ Gas Shares elect to accept the Share Consideration or cash, are also designed so that holders of ZZ Gas Shares will receive a consideration which is substantially higher than the prevailing market price of the H Shares immediately before trading in them was suspended pending the publication of the Joint Announcement.

The directors of CR Gas believe that the Proposal is fair and reasonable and in the interests of the shareholders of CR Gas and the CR Gas Group as a whole.

6. OUR INTENTION WITH RESPECT TO ZZ GAS

CR Gas intends to continue with the existing business of ZZ Gas and does not intend to make any material changes to the current business operations of the ZZ Gas Group following completion of the Offers. It is also the intention of CR Gas that there will not be any material changes in the management or employees of ZZ Gas Group as a result of the Offers.

Set out below is a table of the shareholding structure of CR Gas:

	As at the Latest Practicable Date		Assuming all independent H Shareholders elected the Share Consideration	
	shares	%	shares	%
China Resources Group	1,411,360,991	70.84%	1,411,360,991	68.26%
Existing public shareholders of CR Gas	580,908,727	29.16%	580,908,727	28.10%
Independent H Shareholders	—	—	75,210,000	3.64%
Public	580,908,727	29.16%	656,118,727	31.74%
Total	1,992,269,718	100%	2,067,479,718	100%

7. NO RIGHT OF COMPULSORY ACQUISITION

CR Gas has been advised that as it is not incorporated in the PRC and the consideration under the H Share Offer may comprise CR Gas Shares, in addition or as an alternative to cash, it is not possible to effect a privatisation of ZZ Gas by way of a business merger under the companies law of the PRC. Consideration has been given to adopt the "merger by absorption" provisions of PRC company law which have been used previously for the privatisation of H share listed companies. However, as merger by absorption is only available to domestic companies incorporated in the PRC, such option is not available to CR Gas, a company incorporated in Bermuda. Consequently, there is no readily available method under PRC company law to effect a privatisation of an H share company by its non-PRC incorporated parent which can ensure the acquisition of all minority interests. Accordingly the privatisation of ZZ Gas is being implemented through a withdrawal of listing and appropriate offers being made for the H Shares and the Domestic Shares.

CR Gas has no right under the laws of the PRC and the Articles of Association to acquire compulsorily the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Stock Exchange or any other exchange. In addition, ZZ Gas may not continue to be subject to the Takeovers Code after the completion of the Offers.

For further information, please refer to the "Letter from Anglo Chinese" which forms part of this Composite Document.

8. DISCLOSEABLE TRANSACTION

As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Offers exceed 5% but are less than 25%, the Proposal and the transactions contemplated thereunder will constitute a discloseable transaction of CR Gas under the Rule 14.08 of the Listing Rules.

9. WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, ZZ Gas will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 of the Listing Rules. It is expected that the last day for dealing in the H Shares will be 31 January 2012 and the day on which the withdrawal of the listing of the H Shares on the Stock Exchange will become effective will be 14 February 2012. CR Gas and parties acting in concert with it will abstain from voting at the H Share Class Meeting and EGM on the resolutions to approve the withdrawal of listing in compliance with the Takeovers Code and Listing Rules.

10. OTHER INFORMATION

Your attention is drawn to the "Letter from Anglo Chinese" which immediately follows this letter in this Composite Document, as well as the other information set out in the rest of this Composite Document.

Yours faithfully,
For and on behalf of the board of directors of
China Resources Gas Group Limited
Ma Guoan
Chairman

* *For identification purposes only.*

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
www.anglochinesegroup.com

英高財務顧問有限公司

23 November 2011

To the Independent ZZ Gas Shareholders

Dear Sir or Madam,

PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF THE H SHARES OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

VOLUNTARY CONDITIONAL OFFER BY ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED H SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

1. INTRODUCTION

On 19 October 2011, CR Gas and ZZ Gas jointly announced that:

(c) Anglo Chinese, on behalf of CR Gas, will make a voluntary conditional offer to acquire all of the issued H Shares (other than those owned by the CR Gas Group); and

(d) subject to the H Share Offer becoming unconditional in all respects, CR Gas will make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those owned by the CR Gas Group).

This letter forms part of this Composite Document and sets out the details of the principal terms of the Offers, together with information relating to CR Gas and the intention of CR Gas in relation to ZZ Gas. Further details of the terms of the Offers are set out under the paragraphs headed "Voluntary Conditional Offers for the ZZ Gas Shares" and "Conditions of the Offers" below, and details of the procedures for acceptance of the Offers are set out in Appendix I to this Composite Document and in the accompanying forms of acceptance.

Your attention is also drawn to the letter from the board of CR Gas, the letter from the board of ZZ Gas, the letter from the Independent Board Committee and the letter from First Shanghai in this Composite Document.

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

2. VOLUNTARY CONDITIONAL OFFERS FOR THE ZZ GAS SHARES

2.1 Consideration for the Offers

The Offers are being made by or for and on behalf of CR Gas on the following basis:

for the H Share Offer — 1.5 new CR Gas Shares for each H Share held as Share Consideration rounded down to the nearest whole CR Gas Share, or cash of HK$14.73 for every H Share held as Cash Consideration, or a combination of both; and

for the Domestic Share Offer — cash of RMB12.02 for every Domestic Share held, being the RMB equivalent of HK$14.73 based on the Exchange Rate.

Under the H Share Offer, H Shareholders may elect either the Share Consideration or Cash Consideration or a combination of both. A transfer of Domestic Shares under the Domestic Share Offer by Domestic Shareholders will be treated as a domestic transaction under the foreign exchange law of the PRC. Accordingly, the consideration payable under a domestic transaction must be Renminbi or assets in the PRC. As a result, the Share Consideration cannot be extended to Domestic Shareholders.

The terms of the Offers were determined by CR Gas with reference to, among others, the latest published financial information of ZZ Gas, the prevailing closing price of H Shares and CR Gas Shares, and the outlook and development of both ZZ Gas and CR Gas.

2.2 Comparisons of value if Share Consideration is elected

The Share Consideration of 1.5 new CR Gas Shares for every H Share tendered under the H Share Offer values each H Share at HK$17.37 based on the closing price of HK$11.58 per CR Gas Share as quoted on the Stock Exchange on the Latest Practicable Date and represents:

— a premium of approximately 3.64% over the closing price of HK$16.76 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

— a premium of approximately 80.56% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 58.63% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

The Share Consideration of 1.5 new CR Gas Shares for every H Share tendered under the H Share Offer values each H Share at HK$15.12 based on the closing price of HK$10.08 per CR Gas Share as quoted on the Stock Exchange on the Last Trading Date and represents:

— a premium of approximately 49.70% over the closing price of HK$10.10 per H Share as quoted on the Stock Exchange on the Last Trading Date;

— a premium of approximately 57.17% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 38.08% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at Latest Practicable Date.

Based on the average closing price of approximately HK$10.43 per CR Gas Share for the last 10 consecutive trading days up to and including the Last Trading Date, the Share Consideration is valued at approximately HK$15.65 per H Share and represents:

— a premium of approximately 61.67% over the average closing price of HK$9.68 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 62.68% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 42.92% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

Based on the average closing price of approximately HK$11.38 per CR Gas Share for the last 30 consecutive trading days up to and including the Last Trading Date, the Share Consideration is valued at approximately HK$17.07 per H Share and represents:

— a premium of approximately 60.43% over the average closing price of approximately HK$10.64 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 77.44% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 55.89% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

On the basis that all Independent H Shareholders elect the Share Consideration, 75,210,000 new CR Gas Shares will be allotted and issued, representing approximately 3.78% of the issued share capital of CR Gas, or 3.64% of the enlarged issued share capital of CR Gas, assuming no additional CR Gas Shares are issued by CR Gas after the Latest Practicable Date.

New CR Gas Shares to be issued in satisfaction of the Share Consideration pursuant to the H Share Offer will be issued and credited as fully paid and will rank pari passu with the existing CR Gas Shares at the date of issue and will be issued under the general mandate granted to its directors at the annual general meeting held on 30 May 2011. A condition to the H Share Offer is that the Listing Committee of the Stock Exchange grants the listing of, and permission to deal in, the new CR Gas Shares to be issued in satisfaction of the Share Consideration on the Stock Exchange.

2.3 **Comparisons of value if Cash Consideration is elected**

The Cash Consideration of HK$14.73 per H Share under the H Share Offer and RMB12.02 per Domestic Share under the Domestic Share Offer represents (based on the Exchange Rate):

— a discount of approximately 12.11% to the closing price of HK$16.76 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

— a premium of approximately 45.84% over the closing price of HK$10.10 per H Share as quoted on the Stock Exchange on the Last Trading Date;

— a premium of approximately 52.17% over the average closing price of HK$9.68 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 38.44% over the average closing price of HK$10.64 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 53.12% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 34.52% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011 being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK$16.98 on 4 November 2011 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$9.20 on 26 September 2011.

2.4 **Consideration**

On the basis that all Independent ZZ Gas Shareholders elect to receive the Cash Consideration under the Offers, based on 50,140,000 H Shares and 3,840,000 Domestic Shares not already held by CR Gas Group as at the Latest Practicable Date, the H Share Offer and the Domestic Share Offer are valued at approximately HK$738.56 million and HK$56.56 million (on the basis of the Exchange Rate) respectively. The maximum cash consideration payable under the Offers is therefore approximately HK$795.12 million (on the basis of the Exchange Rate).

Based on the closing price of HK$10.08 per CR Gas Share on the Last Trading Date, the value of the Share Consideration for the H Share Offer is approximately HK$758.12 million.

Based on the closing price of HK$11.58 per CR Gas Share on the Latest Practicable Date, the value of the Share Consideration for the H Share Offer is approximately HK$870.93 million.

2.5 **Settlement of consideration**

Settlement of consideration in respect of acceptances of each of the Offers, if applicable, will be made as soon as possible but in any event within 10 days of the later of the date on which the relevant offer becomes or is declared unconditional and the date on which relevant documents of title and duly completed forms are received by CR Gas Group to render the relevant acceptance complete and valid.

2.6 **Financial resources sufficiency**

CR Gas will finance such cash consideration for the Offers by funds made available from bank loans provided by The Bank of Tokyo-Mitsubishi UFJ Ltd.. The payment of interest on, repayment of, or security for any liability (contingent or otherwise) for, such loans will not depend to any significant extent on the business of ZZ Gas.

We are satisfied that resources available to CR Gas Group are sufficient to satisfy full acceptance of the Offers.

3. CONDITIONS OF THE OFFERS

The H Share Offer is subject to the fulfillment or waiver, as applicable, of the following conditions, in compliance with the requirements of Rule 6.12 of the Listing Rules:

(a) the passing of a resolution approving the delisting of the H Shares from the Stock Exchange at the H Share Class Meeting to be convened for this purpose by the Independent H Shareholders, provided that:

(i) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and

(ii) the number of votes, cast by way of poll, against the resolution is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders;

(b) the passing of a resolution approving the delisting of the H Shares from the Stock Exchange at the EGM to be convened for this purpose by the Independent ZZ Gas Shareholders, provided that:

(i) approval is given by at least 75% of the votes attaching to the ZZ Gas Shares held by the Independent ZZ Gas Shareholders that are cast either in person or by proxy; and

(ii) the number of votes, cast by way of poll, against the resolution is not more than 10% of the votes attaching to all the ZZ Gas Shares held by the Independent ZZ Gas Shareholders;

(c) the grant by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, new CR Gas Shares to be issued as the Share Consideration; and

(d) all other necessary authorisations, consents and approvals of any government or governmental or regulatory body or court or institution in relation to the H Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions.

The Domestic Share Offer is subject to the fulfillment or waiver, as applicable, of the following conditions:

(a) the H Share Offer becoming unconditional in all respects; and

(b) all other necessary authorisations, consents and approvals of any government or governmental or regulatory body or court or institution in relation to the Domestic Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions.

CR Gas has the right to waive conditions (a) and (b) in relation to the H Share Offer and in this event, the Offers will remain open until at least the 28th day after they are declared unconditional and ZZ Gas shall remain as a company listed on the Stock Exchange.

As the Domestic Share Offer and the H Share Offer are not interconditional, CR Gas has applied to the Executive for, and the Executive has granted, a waiver from the requirements under Note 3 to Rule 14 of the Takeovers Code.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to ZZ 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. CR Gas will place down its shareholding in ZZ Gas to restore the public float, as and when appropriate.

4. NO RIGHT OF COMPULSORY ACQUISITION

CR Gas has been advised that as it is not incorporated in the PRC and the consideration under the H Share Offer may comprise CR Gas Shares, in addition or as an alternative to cash, it is not possible to effect a privatisation of ZZ Gas by way of a business merger under the companies law of the PRC. Consideration has been given to adopt the "merger by absorption" provisions of PRC company law which have been used previously for the privatisation of H share listed companies. However, as merger by absorption is only available to domestic companies incorporated in the PRC, such option is not available to CR Gas, a company incorporated in Bermuda. Consequently, there is no readily available method under PRC company law to effect a privatisation of an H share company by its non-PRC incorporated parent which can ensure the acquisition of all minority interests. Accordingly the privatisation of ZZ Gas is being implemented through a withdrawal of listing and appropriate offers being made for the H Shares and the Domestic Shares.

CR Gas has no right under the laws of the PRC and the Articles of Association to acquire compulsorily the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Stock Exchange or any other exchange. In addition, ZZ Gas may not continue to be subject to the Takeovers Code after the completion of the Offers.

Rule 2.2(c) of the Takeovers Code requires that the resolution to approve the delisting of ZZ Gas must be subject to CR Gas being entitled to exercise, and exercising, its rights of compulsory acquisition. CR Gas has applied to the Executive for, and the Executive has granted, a waiver from the requirements under Rule 2.2(c) of the Takeovers Code. Once all of the conditions of the Offers have been either satisfied, or, if permitted, waived by CR Gas, the Offers will be declared unconditional and the Offers will remain open until at least the 28th day thereafter in order to allow sufficient time for ZZ Gas Shareholders to process the transfer of their shares, in particular for the Domestic Shareholders. Written notification will be given to ZZ Gas Shareholders in respect of the closing date of the Offers and the implications of not accepting the Offers.

Set out below is a table of the shareholding structure of ZZ Gas:

	H Shares		**Domestic Shares**		**Total issued shares of ZZ Gas**	
	share	*%*	*share*	*%*	*share*	*%*
CR Gas Group	4,926,000	8.95%	66,244,000	94.52%	71,170,000	56.87%
Public	50,140,000	91.05%	3,840,000	5.48%	53,980,000	43.13%
Total	55,066,000	100%	70,084,000	100%	125,150,000	100%

5. OTHER INFORMATION RELATING TO THE OFFERS

5.1 Availability of the Offers

By accepting the Offers, subject to the fulfillment or waiver of conditions (as the case may be), Independent ZZ Gas Shareholders will be obliged to sell their ZZ Gas Shares to CR Gas, or such other person nominated by CR Gas, free from all encumbrances and together with all rights attaching to the ZZ Gas Shares or which subsequently become attached thereto, including the right to receive all dividends and other distributions declared after the date of the Joint Announcement. The making of the Offers for Domestic Shares or H Shares to a person with a registered address in a jurisdiction outside Hong Kong may be affected by the applicable laws of the relevant jurisdiction.

CR Gas intends to make available the H Share Offer to all Independent H Shareholders, including those who are resident outside Hong Kong, to the extent practicable. The availability of the H Share Offer to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. Independent ZZ Gas Shareholders who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

No Hong Kong stamp duty will arise on acceptance for the Domestic Share Offer. Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable in respect of the relevant acceptances for the H Share Offer, whichever is higher, will be paid by CR Gas.

Under the Proposal, fractions of a CR Gas Share will not be issued to any H Shareholder electing to receive the Share Consideration.

5.2 **Further agreements or arrangements**

None of CR Gas nor parties acting in concert with it has dealt in ZZ Gas Shares, outstanding options, derivatives, warrants or other securities convertible into ZZ Gas Shares in the Relevant Period. CR Gas and parties acting in concert with it have not entered into any arrangements or contracts in relation to the outstanding derivatives in respect of securities in ZZ Gas nor has any of them borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in ZZ Gas. Save for 66,244,000 Domestic Shares and 4,926,000 H Shares held by CR Gas Group, CR Gas and parties acting in concert with it did not hold, own or control any ZZ Gas Shares, outstanding options, derivatives, warrants or other securities convertible into ZZ Gas Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, (i) there was no arrangement whether by way of option, indemnity or otherwise in relation to the shares of CR Gas or ZZ Gas which might be material to the Offers; (ii) there was no agreement or arrangement to which CR Gas as the offeror was a party which relates to circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the Offers; and (iii) none of CR Gas or parties acting in concert with it has received any irrevocable commitment to accept the Offers.

5.3 **Completion of the Offers**

If the other conditions under the H Share Offer and, or, Domestic Share Offer, are not fulfilled by 30 April 2012, the H Share Offer and, or, Domestic Share Offer, as the case may be, will lapse. Under note 2 to Rule 30.1 of the Takeovers Code, an offeror should not invoke any condition, other than the acceptance condition, so as to cause the offer to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the offeror in the context of the offer.

If the conditions of the Offers are satisfied (or, if permissible, waived), ZZ Gas Shareholders will be notified by an announcement in accordance with the Takeovers Code and Listing Rules as soon as practicable thereafter.

5.4 **General**

As at the Latest Practicable Date, there were 55,066,000 H Shares and 70,084,000 Domestic Shares in issue and ZZ Gas did not have any outstanding convertible securities, warrants, options or derivatives in respect of any shares.

As at the Latest Practicable Date, there were 1,992,269,718 CR Gas Shares in issue and 188,000 outstanding options under the share option scheme of CR Gas. Save as disclosed above, as at the Latest Practicable Date, CR Gas did not have any outstanding convertible securities, warrants, options or derivatives in respect of any its shares.

6. WITHDRAWAL OF LISTING OF THE H SHARES

Upon the H Share Offer becoming unconditional, ZZ Gas will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 of the Listing Rules. ZZ Gas Shareholders will be notified by way of an announcement of the last day for dealing in the H Shares and the day on which the withdrawal of the listing of the H Shares on the Stock Exchange will become effective. CR Gas and the parties acting in concert with it will abstain from voting at the H Share Class Meeting and EGM on the resolutions to approve the withdrawal of the listing in compliance with the Takeovers Code and the Listing Rules.

7. FINANCIAL EFFECTS OF THE PROPOSAL

7.1 Earnings

As set out in the audited consolidated financial statements on pages III-7 and II-5 of this Composite Document, CR Gas and ZZ Gas had profit attributable to shareholders of approximately HK$733.7 million and HK$204.5 million respectively for the year ended 31 December 2010. ZZ Gas is a non wholly-owned subsidiary of CR Gas and approximately 56.87% of ZZ Gas's earnings is attributable to CR Gas Group. On the basis that all Independent ZZ Gas Shareholders accept the Offers, the entire earnings of ZZ Gas will be attributable to CR Gas Group.

7.2 Assets and liabilities

As set out in the unaudited consolidated financial statements on pages III-121 to III-123 of this Composite Document, CR Gas had total assets and total liabilities of approximately HK$20,129.9 million and HK$11,871.1 million respectively as at 30 June 2011.

As the assets and liabilities of ZZ Gas have already been consolidated into the accounts of CR Gas, total assets and total liabilities of CR Gas Group will remain the same if all Independent ZZ Gas Shareholders accept the Offers. Nevertheless, the minority interest attributable to Independent ZZ Gas Shareholders will be reduced and equity attributable to CR Gas Group will be increased by the same amount.

7.3 Gearing position

Reference is made to the unaudited consolidated financial statements on pages III-121 to III-123 of this Composite Document. CR Gas Group's debt ratio (total borrowings / total assets) was approximately 26% as at 30 June 2011.

On the basis that all Independent ZZ Gas Shareholders accept the Offers and elect the Cash Consideration that will be fully financed by bank loans, CR Gas Group's debt ratio will increase to 34%. There will be no material change in the gearing position of CR Gas Group if all Independent H Shareholders accept the H Share Offer and elect the Share Consideration and all Independent Domestic Shareholders accept the Domestic Share Offer on the basis of the Cash Consideration.

8. ADDITIONAL INFORMATION

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

In making their decision, ZZ Gas Shareholders must rely on their own examination of the terms of the Offers, including the merits and risks involved. ZZ Gas Shareholders should consult their own professional advisers for professional advice.

Your attention is drawn to the information set out in:

(a) the letter from the board of CR Gas;

(b) the letter from the board of ZZ Gas;

(c) the letter from the Independent Board Committee;

(d) the letter from First Shanghai; and

(e) the additional information set out in the appendices to this Composite Document which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Stephen Clark
Managing Director

* *For identification purposes only.*

鄭州華潤燃氣股份有限公司
Zhengzhou China Resources Gas Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3928)

Executive Directors:
Yan Guoqi *(Chairman)*
Yang Changyi *(General Manager)*
Li Hongwei

Non-Executive Directors:
Zhang Wushan
Li Yantong
Ding Ping
Liu Jianwen

Independent Non-Executive Directors:
Yu Jingsong
Zhang Jianqing
Wang Xiuli
Wong Ping

Registered Office:
352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

Principal Place of Business In PRC:
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

23 November 2011

To the Independent ZZ Gas Shareholders

Dear Sir or Madam,

PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF THE H SHARES OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

VOLUNTARY CONDITIONAL OFFER BY ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED H SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

VOLUNTARY CONDITIONAL OFFER BY CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED DOMESTIC SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

INTRODUCTION

On 19 October 2011, ZZ Gas and CR Gas jointly announced that:

(a) Anglo Chinese, on behalf of CR Gas, will make a voluntary conditional offer to acquire all of the issued H Shares (other than those already held by the CR Gas Group); and

(b) subject to the H Share Offer becoming unconditional in all respects, CR Gas will make a voluntary conditional offer to acquire all of the issued Domestic Shares (other than those already held by the CR Gas Group).

The principal terms of the Offers, together with information relating to CR Gas and its intention regarding ZZ Gas, are set out in the "Letter from the board of CR Gas" and in the "Letter from Anglo Chinese" set out on pages 8 to 12 and pages 13 to 23, 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.

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

Terms defined in this Composite Document have the same meaning when used in this letter.

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 ZZ Gas, namely Mr. Yu Jingsong, Mr. Zhang Jianqing, Ms. Wang Xiuli, Mr. Wong Ping, and Mr. Liu Jianwen, a non-executive director of ZZ Gas, each of whom have no direct or indirect interest in the Offers, to advise and make recommendations to the Independent Shareholders of ZZ Gas in respect of the Offers. Having consulted the Executive, the board of the directors of ZZ Gas has decided that the other non-executive directors of ZZ Gas (being Mr. Zhang Wushan, Mr. Li Yantong and Mr. Ding Ping) have a direct or indirect interest in the Offers and therefore they have not been appointed as members of the Independent Board Committee. Mr. Zhang Wushan was a member of the party committee and the standing deputy general manager of Zhengzhou China Resources Gas Limited ("**ZCRG**"), a controlling shareholder of ZZ Gas and an indirect subsidiary of CR Gas, from December 2009 to April 2011. Mr. Ding Ping was a member of the party committee and the chairman of the labour union of ZCRG from December 2009 to April 2011. Mr. Li Yantong is currently the chairman of 南陽鄭燃燃氣有限公司 (Nanyang Zhengran Natural Gas Co., Ltd.*), a subsidiary of ZCRG, and has been a member of the party committee and a director of ZCRG from December 2009 to June 2011.

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

The Offers will be made on the following basis:

for the H Share Offer — 1.5 new CR Gas Shares for each H Share held as Share Consideration rounded down to the nearest whole CR Gas Share, or cash of HK$14.73 for every H Share held as Cash Consideration, or a combination of both; and

for the Domestic Share Offer — cash of RMB12.02 for every Domestic Share held as Cash Consideration, being the RMB equivalent of HK$14.73 based on the Exchange Rate.

Under the H Share Offer, H Shareholders may elect either the Share Consideration or Cash Consideration or a combination of both. A transfer of Domestic Shares under the Domestic Share Offer by Domestic Shareholders will be treated as a domestic transaction under the foreign exchange law of the PRC. Accordingly, the consideration payable under a domestic transaction must be Renminbi or assets in the PRC. As a result the Share Consideration cannot be extended to Domestic Shareholders.

Further details of the Offers, including the comparisons of value, the acceptance and settlement procedures, are set out in the "Letter from the board of CR Gas" and "Letter from Anglo Chinese" on pages 8 to 12 and pages 13 to 23, respectively, of this Composite Document, Appendix I to this Composite Document and the accompanying forms of acceptance.

Comparison of value if Share Consideration is elected

The Share Consideration of 1.5 new CR Gas Shares for every H Share tendered under the H Share Offer values each H Share at HK$17.37 based on the closing price of HK$11.58 per CR Gas Share as quoted on the Stock Exchange on the Latest Practicable Date and represents:

— a premium of approximately 3.64% over the closing price of HK$16.76 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

— a premium of approximately 80.56% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 58.63% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

The Share Consideration of 1.5 new CR Gas Shares for every H Share tendered under the H Share Offer values each H Share at HK$15.12 based on the closing price of HK$10.08 per CR Gas Share as quoted on the Stock Exchange on the Last Trading Date and represents:

— a premium of approximately 49.70% over the closing price of HK$10.10 per H Share as quoted on the Stock Exchange on the Last Trading Date;

— a premium of approximately 57.17% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 38.08% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at Latest Practicable Date.

Based on the average closing price of approximately HK$10.43 per CR Gas Share for the last 10 consecutive trading days up to and including the Last Trading Date, the Share Consideration is valued at approximately HK$15.65 per H Share and represents:

— a premium of approximately 61.67% over the average closing price of HK$9.68 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 62.68% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 42.92% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

Based on the average closing price of approximately HK$11.38 per CR Gas Share for the last 30 consecutive trading days up to and including the Last Trading Date, the Share Consideration is valued at approximately HK$17.07 per H Share and represents:

— a premium of approximately 60.43% over the average closing price of approximately HK$10.64 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 77.44% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 55.89% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

Consideration

On the basis that all Independent H Shareholders elect the Share Consideration, 75,210,000 new CR Gas Shares will be allotted and issued, representing approximately 3.78% of the issued share capital of CR Gas, or 3.64% of the enlarged issued share capital of CR Gas, assuming no additional CR Gas Shares are issued by CR Gas after the Latest Practicable Date.

New CR Gas Shares to be issued in satisfaction of the Share Consideration pursuant to the H Share Offer will be issued and credited as fully paid and will rank pari passu with the existing CR Gas Shares at the date of issue and are expected to be issued under the general mandate granted to its directors at the annual general meeting held on 30 May 2011. A condition to the H Share Offer is that the Listing Committee of the Stock Exchange grants the listing of, and permission to deal in, the new CR Gas Shares to be issued in satisfaction of the Share Consideration on the Stock Exchange.

Based on the closing price of HK$10.08 per CR Gas Share on the Last Trading Date, the value of the Share Consideration for the H Share Offer is approximately HK$758.12 million.

Based on the closing price of HK$11.58 per CR Gas Share on the Latest Practicable Date, the value of the Share Consideration for the H Share Offer is approximately HK$870.93 million.

Comparisons of value if Cash Consideration is elected

The Cash Consideration of HK$14.73 per H Share under the H Share Offer and RMB12.02 per Domestic Share under the Domestic Share Offer represents (based on the Exchange Rate):

— a discount of approximately 12.11% to the closing price of HK$16.76 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

— a premium of approximately 45.84% over the closing price of HK$10.10 per H Share as quoted on the Stock Exchange on the Last Trading Date;

— a premium of approximately 52.17% over the average closing price of HK$9.68 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 38.44% over the average closing price of HK$10.64 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date;

— a premium of approximately 53.12% over the equity attributable to shareholders of HK$9.62 per ZZ Gas Share (being equivalent of approximately RMB7.85 per ZZ Gas Share based on the Exchange Rate) as at 31 December 2010, being the latest audited net assets (net non-controlling interests) of ZZ Gas as stated in its annual report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date; and

— a premium of approximately 34.52% over the equity attributable to shareholders of HK$10.95 per ZZ Gas Share as at 30 June 2011, being the latest published net assets (net non-controlling interests) of ZZ Gas (being equivalent of approximately RMB8.93 per ZZ Gas Share based on the Exchange Rate) as stated in its interim report divided by the number of issued ZZ Gas Shares as at the Latest Practicable Date.

The highest and lowest prices

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK$16.98 on 4 November 2011 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$9.20 on 26 September 2011.

Consideration

On the basis that all Independent ZZ Gas Shareholders elect to receive the Cash Consideration under the Offers, based on 50,140,000 H Shares and 3,840,000 Domestic Shares not already held by CR Gas Group as at the Latest Practicable Date, the H Share Offer and the Domestic Share Offer are valued at approximately HK$738.56 million and HK$56.56 million (on the basis of the Exchange Rate) respectively. The maximum cash consideration payable under the Offers is therefore approximately HK$795.12 million (on the basis of the Exchange Rate).

INFORMATION OF ZZ GAS

Business

The ZZ 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 ZZ Gas for each of the three financial years ended 31 December 2010, 31 December 2009 and 31 December 2008 and the unaudited financial information for the six months ended 30 June 2011 are set out in Appendix II to this Composite Document.

Further information

Further information in relation to ZZ Gas is set out in Appendix V to this Composite Document.

INFORMATION OF THE CR GAS GROUP AND ITS INTENTION

Your attention is drawn to the sections headed "Information on the CR Gas Group" and "Our intention with respect to ZZ Gas" in the "Letter from the board of CR Gas" as set out on pages 8 to 12 of this Composite Document.

It is noted that CR Gas intends to continue with the existing business of ZZ Gas and does not intend to make any material changes to the current business operations of the ZZ Gas Group following completion of the Offers. It is also noted that CR Gas does not intend to make any material changes in the management or employees of ZZ Gas Group as a result of the Offers.

WITHDRAWAL OF LISTING OF THE H SHARES

As set out in the section headed "Withdrawal of Listing of the H Shares" in the "Letter from the board of CR Gas" of this Composite Document, upon the H Share Offer becoming unconditional, ZZ Gas will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 of the Listing Rules. The ZZ Gas Shareholders will be notified by way of an announcement of the date of the last day for dealing in the H Shares and the date on which the withdrawal of the listing of the H Shares on the Stock Exchange will become effective.

EGM AND AMENDMENT OF THE ARTICLES OF ASSOCIATION

It is proposed that, subject to the delisting of H Shares from the Stock Exchange taking effect, the Articles of Association be amended to reflect ZZ Gas's status as a non-listed joint stock limited company. A special resolution to approve amendments to the Articles of Association will be put to ZZ Gas Shareholders at the EGM. The text of the resolution is set out in the notice of EGM (see Appendix VII to this Composite Document) and a summary of the changes, together with an English translation of the actual changes to be made to the Articles of Association, is set out in Appendix IV to this Composite Document.

ZZ Gas Shareholders who wish to appoint a proxy to the EGM may do so by signing and returning to the Registrar (in the case of H Shareholders) or ZZ Gas (in the case of Domestic Shareholders) a reply slip and proxy form accompanying this Composite Document in accordance with the terms set out in therein. Completion and deposit of the proxy form will not preclude a ZZ Gas Shareholder from attending and voting at the EGM if he/she so wishes. If he/she attends and votes at the EGM, the authority of his/her proxy will be revoked.

WARNING:

Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Stock Exchange or any other exchange. In addition, ZZ Gas may not continue to be subject to the Listing Rules and the Takeovers Code after the completion of the Offers and, subject to the passing of the resolution to amend the Articles of Association to be proposed at the EGM, certain provisions which are required by PRC law or the Listing Rules to be included in the articles of association of a PRC company listed on the Stock Exchange will no longer apply.

RECOMMENDATION

Your attention is drawn to the "Letter from the Independent Board Committee" which sets out its recommendation to the Independent ZZ Gas Shareholders on pages 32 to 33 of this Composite Document and the "Letter from First Shanghai" on pages 34 to 66 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 ZZ Gas Shareholders should consider their own financial and tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read this Composite Document together with the accompanying forms of acceptance for the 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 China Resources Gas Co., Ltd.*
Yan Guoqi
Chairman

** For identification purposes only.*

鄭州華潤燃氣股份有限公司
Zhengzhou China Resources Gas Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3928)

23 November 2011

To the Independent ZZ Gas Shareholders,

Dear Sir and Madam,

PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF THE H SHARES OF ZHENGZHOU CHINA RESOURCES GAS CO., LTD.*

VOLUNTARY CONDITIONAL OFFER BY ANGLO CHINESE CORPORATE FINANCE, LIMITED ON BEHALF OF CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED H SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

VOLUNTARY CONDITIONAL OFFER BY CHINA RESOURCES GAS GROUP LIMITED FOR ALL THE ISSUED DOMESTIC SHARES IN ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (OTHER THAN THOSE OWNED BY CHINA RESOURCES GAS GROUP LIMITED AND MEMBERS OF ITS GROUP)

We refer to the Composite Document dated 23 November 2011 issued jointly by CR Gas and ZZ Gas of which this letter forms part. We have been appointed by the board of directors of ZZ 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 and to make a recommendation as to acceptance or voting. 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 to make recommendations to the independent shareholders of ZZ Gas.

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

We draw your attention to the “Letter from CR Gas” and the “Letter from Anglo Chinese” set out on pages 8 to 12 and pages 13 to 23, respectively, of this Composite Document which contains, inter alia, information about the Offers, and the “Letter from First Shanghai” set out on pages 34 to 66 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.

We also draw your attention to the “Letter from the board of directors of ZZ Gas” set out on pages 24 to 31 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 ZZ 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 (i) the Independent H Shareholders to vote in favour of the resolution to approve the Proposal at the H Share Class Meeting; (ii) the Independent ZZ Gas Shareholders to vote in favour of the resolution to approve the Proposal at the EGM; (iii) the Independent ZZ Gas Shareholders to accept the Offers; and (iv) the Independent H Shareholders to elect the Share Consideration rather than the Cash Consideration.

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

Yours faithfully,
The Independent Board Committee
Mr. Yu Jingsong   Mr. Zhang Jianqing   Ms. Wang Xiuli   Mr. Wong Ping   Mr. Liu Jianwen

* *For identification purposes only.*

The following is the letter of advice to the Independent Board Committee from First Shanghai, as independent financial adviser, in respect of the Proposal for the purpose of incorporation in this Composite Document.

FIRST SHANGHAI CAPITAL LIMITED
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

23 November 2011

To the Independent Board Committee

Dear Sir or Madam,

Proposed privatisation and withdrawal of listing of the H Shares of Zhengzhou China Resources Gas Co., Ltd.*

Voluntary conditional offer by Anglo Chinese Corporate Finance, Limited on behalf of China Resources Gas Group Limited for all the issued H Shares in Zhengzhou China Resources Gas Co., Ltd.* (other than those owned by China Resources Gas Group Limited and members of its group)

Voluntary conditional offer by China Resources Gas Group Limited for all the issued Domestic Shares in Zhengzhou China Resources Gas Co., Ltd.* (other than those owned by China Resources Gas Group Limited and members of its group)

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Offers. Details of the Proposal are set out in the document jointly issued by ZZ Gas and CR Gas dated 23 November 2011 (the "**Composite Document**") of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meaning as those defined in the Composite Document.

CR Gas is a controlling shareholder of ZZ Gas, where CR Gas held approximately 56.9% of the total number of ZZ Gas Shares in issue as at the Latest Practicable Date. As disclosed in the Joint Announcement, the board of directors of ZZ Gas received a notification from CR Gas on 10 October

2011 that CR Gas was considering to place before the shareholders of ZZ Gas a proposal which, if implemented, would result in the delisting of the H Shares on the Stock Exchange and a voluntary conditional offer being made for all the issued ZZ Gas Shares, other than those owned by the CR Gas Group.

The Independent Board Committee, comprising a non-executive director of ZZ Gas, being Mr. Liu Jianwen, and all the independent non-executive directors of ZZ Gas, namely Mr. Yu Jingsong, Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping, each of whom have no direct or indirect interest in the Offers, has been established to advise and make recommendations to the Independent ZZ Gas Shareholders in respect of the Offers. Having consulted the Executive, the board of the directors of ZZ Gas has decided that the other non-executive directors of ZZ Gas (being Mr. Zhang Wushan, Mr. Li Yantong and Mr. Ding Ping) have a direct or indirect interest in the Offers and therefore they have not been appointed as members of the Independent Board Committee. Mr. Zhang Wushan was a member of the party committee and the standing deputy general manager of Zhengzhou China Resources Gas Limited ("**ZCRG**"), a controlling shareholder of ZZ Gas and an indirect subsidiary of CR Gas, from December 2009 to April 2011. Mr. Ding Ping was a member of the party committee and the chairman of the labour union of ZCRG from December 2009 to April 2011. Mr. Li Yantong is currently the chairman of 南陽鄭燃燃氣有限公司 (Nanyang Zhengran Natural Gas Co., Ltd.*), a subsidiary of ZCRG, and has been a member of the party committee and a director of ZCRG from December 2009 to June 2011. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Offers.

During the last two years, First Shanghai Capital Limited was, on separate occasions, appointed as the independent financial adviser to the independent board committees of ZZ Gas, China Resources Land Limited and China Resources Microelectronics Limited. The relevant fees for such appointments paid to us represented less than approximately 1% of the consolidated revenue of our parent company, First Shanghai Investments Limited, for the year ended 31 December 2010 and the six months ended 30 June 2011. Apart from the above, which we do not consider likely to create, or create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice, First Shanghai is not connected with the directors, chief executive or substantial shareholders of ZZ Gas or CR Gas or any of their subsidiaries or their respective associates. Therefore, we consider ourselves suitable to give independent advice to the Independent Board Committee. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from CR Gas or ZZ Gas or any of their respective directors, chief executive, substantial shareholders, subsidiaries, associates or persons acting in concert with CR Gas.

In formulating our opinion with regard to the terms of the Offers, we have, in respect of matters relating to ZZ Gas, relied on the information, opinions and facts supplied, and representations made, to us by the management of the ZZ Gas Group (including those contained or referred to in the Joint Announcement and the Composite Document). We have assumed that such information, opinions, facts and representations which have been provided to us by the management of the ZZ Gas Group, and for which they are wholly responsible, are true and accurate in all material respects. We have assumed that statements and representations made or referred to in the Joint Announcement and the Composite Document were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete until the date of the Composite Document. Should there be any subsequent major changes which occur during the period of the Offers and would affect or alter our opinion, we will notify the Independent Board Committee and the Independent ZZ Gas Shareholders as soon as practicable. 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 has been withheld, nor doubt the truth, accuracy or completeness of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the ZZ Gas Group, the CR Gas Group or the associates of any of them, nor have we carried out any independent verification of the information supplied.

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

PRINCIPAL TERMS AND STRUCTURE OF THE PROPOSAL

The Proposal, if implemented, will result in the delisting of the H Shares on the Stock Exchange and voluntary conditional offers being made for all the H Shares and the Domestic Shares, other than those already owned by CR Gas Group. The Proposal is subject to a number of conditions, which include, amongst others, the approval of the delisting of the H Shares by the Independent H Shareholders at the H Share Class Meeting and by the Independent ZZ Gas Shareholders at the EGM, each voting by way of a poll, in each case in accordance with Rule 2.2(a) and (b) of the Takeovers Code.

Under the Proposal, the Offers will be made by CR Gas or on its behalf in accordance with the provisions of the Takeovers Code on the following basis:

for the H Share Offer	:	1.5 new CR Gas Shares for each H Share held (the "**Share Exchange Ratio**") rounded down to the nearest whole CR Gas Share as Share Consideration, or cash of HK$14.73 for every H Share held as Cash Consideration, or a combination of both; and
for the Domestic Share Offer	:	cash of RMB12.02, being the RMB equivalent of HK$14.73 based on the Exchange Rate, for every Domestic Share held.

Under the H Share Offer, the H Shareholders may elect either the Share Consideration or the Cash Consideration or a combination of both. Under the Domestic Share Offer, a transfer of the Domestic Shares by the Domestic Shareholders will be treated as a domestic transaction under the foreign exchange law in the PRC. Accordingly, the consideration payable under a domestic transaction must be RMB or assets in the PRC and the Share Consideration cannot therefore be extended to the Domestic Shareholders.

CR Gas has been advised that as it is not incorporated in the PRC and the consideration under the H Share Offer may comprise CR Gas Shares, in addition or as an alternative to cash, it is not possible to effect a privatisation of ZZ Gas by way of a business merger under the companies law of the PRC. Consideration has been given to adopt the "merger by absorption" provisions of PRC company law which have been used previously for the privatisation of H share listed companies. However, as merger by absorption is only available to domestic companies incorporated in the PRC, such option is not available to CR Gas, a company incorporated in Bermuda. Consequently, there is no readily available method under PRC company law to effect a privatisation of an H share company by its non-PRC incorporated parent which can ensure the acquisition of all minority interests. Accordingly, the privatisation of ZZ Gas is being implemented through a withdrawal of listing and appropriate offers being made for the H Shares and the Domestic Shares.

CR Gas has no rights under the laws of the PRC and the articles of association of ZZ Gas to acquire compulsorily the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, the Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Stock Exchange or any other exchange.

Further details of the terms of the Proposal are disclosed in the letter from the board of ZZ Gas and Appendix I to the Composite Document. The Independent ZZ Gas 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 Proposal, we have taken into consideration the following principal factors and reasons:

1. Business and financial information of the ZZ Gas Group

ZZ Gas is a joint stock limited company established in the PRC. 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. The ZZ 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 in Zhengzhou City, Henan Province.

(i) ***Historical financial performance of the ZZ Gas Group***

The following table summarises the income statement of the ZZ Gas Group for each of the years ended 31 December 2009 and 2010 and the six months ended 30 June 2010 and 2011, details of which are set out in Appendix II to the Composite Document and the published annual and interim reports of ZZ Gas:

	For the year ended 31 December			**For the six months ended 30 June**		
	2009	**2010**		**2010**	**2011**	
	(RMB million) (Restated)[1]	*(RMB million) (Audited)*	*(year on year change)*	*(RMB million) (Restated)*[2]	*(RMB million) (Unaudited)*	*(period on period change)*
Revenue	1,258	1,528	+21.5%	757	973	+28.5%
Gross profit	379	428	+12.9%	240	265	+10.4%
Profit before tax	244	270	+10.7%	176	181	+2.8%
Profit for the year/period	181	207	+14.4%	130	136	+4.6%
Dividend *(RMB per ZZ Gas Share)*	0.1626	0.492		nil	nil	

Notes:

(1) The financial information for the year ended 31 December 2009 has been restated to reflect the effect of change in accounting policies, as disclosed in the annual report of ZZ Gas for the year ended 31 December 2010.

(2) The financial information for the six months ended 30 June 2010 has been restated to reflect the effect of change in accounting policies, as disclosed in the interim report of ZZ Gas for the six months ended 30 June 2011.

As noted from the above table, revenue increased from approximately RMB1,258 million for the year ended 31 December 2009 to approximately RMB1,528 million for the year ended 31 December 2010, representing an annual growth rate of approximately 21.5%. Revenue for the six months ended 30 June 2011 amounted to approximately RMB973 million, representing period on period increase of approximately 28.5%. We understand from the published annual and interim reports of ZZ Gas that the improvement in revenue was primarily 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 pipeline construction. The revenue of the ZZ Gas Group is classified into two segments, namely (i) sale of natural gas and related products; and (ii) gas pipeline connection and construction. Set out in the below tables are the recent performance of the sales of natural gas and related products segment based on the annual report of ZZ Gas for the year ended 31 December 2010 (the "**2010 ZZ Gas Annual Report**") and the interim report of ZZ Gas for the six months ended 30 June 2011 (the "**2011 ZZ Gas Interim Report**").

	For the year ended 31 December 2010	For the six months ended 30 June 2011
Revenue from sales of natural gas and related products *(RMB million)*	1,139	731
- year on year/period on period increase	20.1%	32.0%
- as a percentage of total revenue	74.5%	75.1%

	Natural gas consumption for the year ended 31 December 2010			Natural gas consumption for the six months ended 30 June 2011		
	(in approximate million m^3)	*(as a percentage of total gas consumption)*	*(year on year change)*	*(in approximate million m^3)*	*(as a percentage of total gas consumption)*	*(period on period change)*
Residential users	166	33.6%	+11.8%	109	34.8%	+12.7%
Commercial users	165	33.4%	+6.7%	105	33.5%	+23.4%
Industrial users	80	16.2%	+11.0%	53	16.9%	+41.5%
Vehicular users	77	15.6%	+7.5%	35	11.2%	-2.7%
Compressed natural gas users	6	1.2%	n/a	11	3.6%	+3,842.4%
Total natural gas consumption	**494**	**100.0%**	**+10.5%**	**313**	**100.0%**	**+22.7%**

As noted from the above tables, sales of natural gas and related products is the principal revenue stream of the ZZ Gas Group and residential users is the largest sector of the natural gas consumption of the ZZ Gas Group. We also note that the sales of natural gas and related products segment has been improving, which recorded year on year increase of approximately 20.1% and period on period increase of approximately 32.0% for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively. According to the 2011 ZZ Gas Interim Report, the increase in natural gas consumption was mainly due to the natural growth of the number of residential users, whereas the increase in natural gas consumption by industrial and commercial users was mainly a result of the progressive development of larger industrial and commercial users for the six months ended 30 June 2011.

Despite the growth in revenue, we are advised by the management of ZZ Gas that the overall gross profit margin of the ZZ Gas Group has decreased from approximately 30.1% for the year ended 31 December 2009 to approximately 28.0% for the year ended 31 December 2010 primarily due to the continuous rise in purchase costs of natural gas as a result of the increase in upstream wellhead gas price permitted by the National Development and Reform Commission with effect from 1 June 2010. The overall gross profit margin continued to decrease from approximately 31.7% for the six months ended 30 June 2010 to approximately 27.2% for the six months ended 30 June 2011 and we are advised by the management of ZZ Gas that such deterioration in margin was mainly due to the continuous rise in purchase cost of natural gas and the difficulty for the ZZ Gas Group to pass through the increase in procurements cost of natural gas to its customers, in particular to the residential users, under the current pricing policy.

Net profit margin, being the net profit (including that attributable to minority interests) divided by total revenue, decreased from approximately 14.4% for the year ended 31 December 2009 to approximately 13.5% for the year ended 31 December 2010 due to (i) the abovementioned reasons for the decrease in gross profit margin; (ii) the share of results of an associate which turned from share of profits of approximately RMB4.8 million for the year ended 31 December 2009 to share of losses of approximately RMB3.5 million for the year ended 31 December 2010; and (iii) the growth of selling and distribution expenses, which rose from approximately RMB49 million for the year ended 31 December 2009 to approximately RMB66 million for the year ended 31 December 2010, representing an increase of approximately 34.7% mainly due to the increase in depreciation and employees' salary. Net profit margin further deteriorated from approximately 17.2% for the six months ended 30 June 2010 to approximately 14.0% for the six months ended 30 June 2011 due to (i) the squeeze in the abovementioned gross profit margin; and (ii) the growth of selling and distribution expenses, which rose from approximately RMB25 million for the year ended 31 December 2009 to approximately RMB36 million for the year ended 31 December 2010, representing an increase of approximately 44.0% mainly due to increase in staff costs such as employees' salary, welfare and labour insurance.

Having taken into account the effect of the share consolidation of every ten then shares of ZZ Gas Shares of RMB0.10 each into one existing ZZ Gas Share of RMB1.00 on 22 May 2009, ZZ Gas distributed dividends (including both final dividend and special dividend) of RMB0.1626 and RMB0.492 per ZZ Gas Share for each of the years ended 31 December 2009 and 2010, respectively. We understand from the 2010 ZZ Gas Annual Report that the dividend distributed for the year ended 31 December 2010 was a special dividend, the payment of which was a condition precedent to the completion of the previous acquisition of 54,041,510 Domestic Shares (representing approximately 43.2% of the then total issued share capital of ZZ Gas) (the "**Previous Acquisition**") by a joint venture which was held as to 80% by China Resources Gas (China) Investment Limited ("**CR Gas Investment**"), which was a wholly-owned subsidiary of CR Gas. Given that such special dividend paid in 2010 was related to the Previous Acquisition which was an one-off event, the Independent ZZ Gas Shareholders should note that the sustainability of such relatively higher amount of dividend payment in the future is uncertain.

(ii) ***Historical financial position of the ZZ Gas Group***

The following table summarises the financial position of the ZZ Gas Group as at 31 December 2009 and 2010 and 30 June 2011, which are set out in full in Appendix II to the Composite Document:

	As at 31 December 2009 *(RMB million)* *(Restated)*	**As at 31 December 2010** *(RMB million)* *(Audited)*	**As at 30 June 2011** *(RMB million)* *(Unaudited)*
Non-current assets	996	1,203	1,244
Current assets	568	674	821
Total assets	**1,564**	**1,877**	**2,065**
Non-current liabilities	—	—	—
Current liabilities	681	870	923
Total liabilities	**681**	**870**	**923**
Net current liabilities	**113**	**196**	**102**
Net assets attributable to owners of the Company	860	982	1,118
Minority interests	23	25	24
Net assets	**883**	**1,007**	**1,142**

As illustrated in the above table, net assets gradually increased from approximately RMB883 million as at 31 December 2009 to approximately RMB1,142 million as at 30 June 2011. The improvement in net assets was mainly driven by the increase in total assets, which primarily comprised property, plant and equipment and bank balances and cash. Nonetheless, the ZZ Gas Group has been recording net current liabilities, being the difference between current assets and current liabilities, which amounted to approximately RMB102 million as at 30 June 2011.

As at 31 December 2010, non-current assets amounted to approximately RMB1,203 million, which primarily comprised property, plant and equipment of approximately RMB1,042 million. Current assets amounted to approximately RMB674 million, which primarily comprised bank balances and cash of approximately RMB357 million. Current liabilities amounted to approximately RMB870 million, which primarily comprised receipt in advance from customers of approximately RMB434 million, being pre-paid pipelines construction fees which were deferred revenue but not amount payable in nature.

As at 30 June 2011, non-current assets amounted to approximately RMB1,244 million, which primarily comprised property, plant and equipment of approximately RMB1,083 million. Current assets amounted to approximately RMB821 million, which primarily comprised bank balances and cash of approximately RMB522 million. Current liabilities amounted to approximately RMB923 million, which primarily comprised receipt in advance from customers of approximately RMB466 million.

Despite the ZZ Gas Group recording net current liabilities, we understand from the 2011 ZZ Gas Interim Report that, having taken into account that the balance of trade and other payables as at 30 June 2011 included receipts in advance from customers of approximately RMB466 million and the internally generated funds, the directors of ZZ Gas are confident that the ZZ Gas Group will be able to meet its financial obligations, including its obligations in relation to the receipts in advance from customers for gas construction projects when they fall due in the foreseeable future.

Further details of the financial information on the ZZ Gas Group are disclosed in Appendix II to the Composite Document and in the published interim and annual reports of ZZ Gas.

2. Business and financial information of the CR Gas Group

CR Gas is a limited liability company incorporated in Bermuda and the CR Gas Shares have been listed on the Main Board of the Stock Exchange since 7 November 1994. The CR Gas Group is principally engaged in the sale and distribution of gas fuel and related products and gas connection operations 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, Nanjing, Wuhan, Kunming, Jinan, Chongqing, Wuxi and Suzhou. As at 30 June 2011, the CR Gas Group operates 57 city gas projects in 15 provinces in the PRC.

(i) ***Historical financial performance of the CR Gas Group***

The following table summarises the income statement of the CR Gas Group for each of the years ended 31 December 2009 and 2010 and the six months ended 30 June 2010 and 2011, details of which are set out in Appendix III to the Composite Document and the published annual and interim reports of CR Gas:

	For the year ended 31 December			**For the six months ended 30 June**		
	2009	**2010**		**2010**	**2011**	
	(HK$ million) (Restated)[1]	*(HK$ million) (Audited)*	*(year on year change)*	*(HK$ million) (Restated)*[2]	*(HK$ million) (Unaudited)*	*(period on period change)*
Revenue	4,110	8,327	+102.6%	3,274	5,511	+68.3%
Gross profit	1,252	2,475	+97.7%	1,007	1,733	+72.1%
Profit before tax	644	1,275	+98.0%	551	975	+77.0%
Profit for the year/period	559	970	+73.5%	420	749	+78.3%
Dividend *(HK$ per CR Gas Share)*	0.065	0.100		0.02	0.02	

Notes:

(1) The financial information for the year ended 31 December 2009 has been restated to reflect (i) the effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities; and (ii) the effect of business combination of entities under common control, as disclosed in the annual report of CR Gas for the year ended 31 December 2010.

(2) The financial information for the six months ended 30 June 2010 has been restated to reflect (i) the effect of the finalisation of accounting for acquisition of a jointly controlled entity; and (ii) the effect of business combination of entities under common control, as disclosed in the interim report of CR Gas for the six months ended 30 June 2011.

As noted from the above table, revenue increased from approximately HK$4,110 million for the year ended 31 December 2009 to approximately HK$8,327 million for the year ended 31 December 2010, representing an annual growth rate of approximately 102.6%. Revenue for the six months ended 30 June 2011 amounted to approximately HK$5,511 million, representing a period on period increase of approximately 68.3%. We understand from the annual report of CR Gas for the year ended 31 December 2010 (the "**2010 CR Gas Annual Report**") that the improvement in financial performance was primarily attributable to the continual organic and acquisition growth, where 20 and 21 new city gas projects were added during 2009 and 2010, respectively. We also understand that CR Gas is more directly supported by China Resources Group where CR Gas can, in addition to external acquisitions, acquire quality natural gas projects from China Resources Group and CR Gas is also assured of adequate gas supply by leveraging on the strategic gas supply arrangements made with China Resources Group and other energy corporations. The revenue of the CR Gas Group is classified into two segments, namely (i) sale of natural gas and related products; and (ii) gas pipeline connection and construction. Set out in the below tables are the recent performance of the sales of natural gas and related products segment based on the 2010 CR Gas Annual Report and the interim report of CR Gas for the six months ended 30 June 2011 (the "**2011 CR Gas Interim Report**").

	For the year ended 31 December 2010	**For the six months ended 30 June 2011**
Revenue from sales of natural gas and related products ***(HK$ million)***	6,368	4,552
- year on year increase	105.7%	74.5%
- as a percentage of total revenue	76.5%	82.6%

	Natural gas consumption for the year ended 31 December 2010			Natural gas consumption for the six months ended 30 June 2011		
	(in approximate million m^3)	*(as a percentage of total gas consumption)*	*(year on year change)*	*(in approximate million m^3)*	*(as a percentage of total gas consumption)*	*(period on period change)*
Commercial and industrial users	3,407	61.1%	+148.7%	2,041	60.7%	+45.6%
Residential users	1,673	30.0%	+157.0%	1,076	32.0%	+40.7%
Compressed natural gas users	427	7.7%	+146.8%	235	7.0%	+65.5%
Bottled gas users	70	1.3%	+250.0%	10	0.3%	-37.5%
Total natural gas consumption	**5,577**	**100.0%**	**+151.9%**	**3,362**	**100.0%**	**+44.6%**

As noted from the above tables, sales of natural gas and related products is the principal revenue stream of the CR Gas Group and commercial and industrial users is the largest sector for natural gas consumption for the CR Gas Group. We also note that the sale of natural gas and related products segment has been improving, which recorded year on year increase of approximately 105.7% and period on period increase of approximately 74.5% for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively. According to the 2011 CR Gas Interim Report, the growth in natural gas consumption was attributable to both organic and acquisition growth, where the number of natural gas projects increased from 32 projects as at 30 June 2010 to 48 projects as at 31 December 2010 and further increased to 57 projects as at 30 June 2011.

We note that the gross profit margin of the CR Gas Group slightly decreased from approximately 30.5% for the year ended 31 December 2009 to approximately 29.7% for the year ended 31 December 2010, mainly due to the lower gross margin contribution from newly acquired project in Chongqing. Nonetheless, gross profit margin recovered from approximately 30.8% for the six months ended 30 June 2010 to approximately 31.4% for the six months ended 30 June 2011.We understand that the lower gas sales margins of Chongqing, Chengdu and Luzhou, where gas sales price are traditionally lower due to abundance of gas sources in Sichuan Province, were negated to a certain extent by the higher gas sales margins of industrial cities such as Wuxi, Wuhan, Zhenjiang, Zibo and Xianfang and the higher gross margin of the connection fee segment.

Net profit margin, being the net profit (including that attributable to minority interests) divided by total revenue, decreased from approximately 13.6% for the year ended 31 December 2009 to approximately 11.6% for the year ended 31 December 2010. We understand that the amount of selling and distribution and general and administration expenses for the year ended 31 December 2010, which increased due to numerous projects acquired in 2010, were quite stable when compared as a percentage of revenue with those for the year ended 31 December 2009. Hence, the decrease in net profit margin for the year ended 31 December 2010 was due to the decrease in gross profit margin, increase in interest expenses due to more bank borrowings and increase in effective tax rate as a result of most city gas projects graduating from tax incentive period to non-tax incentive period. Nonetheless, net profit margin recovered from approximately 12.8% for the six months ended 30 June 2010 to approximately 13.6% for the six months ended 30 June 2011, which was due to, amongst others, the improvement in gross margin as discussed above and the reduction of administrative expenses as a percentage of revenue.

CR Gas declared dividends, including both interim and final dividends, of HK$0.065 and HK$0.100 per CR Gas Share for each of the years ended 31 December 2009 and 2010, respectively. CR Gas declared an interim dividend of HK$0.020 per CR Gas Share for the six months ended 30 June 2011.

(ii) ***Historical financial position of the CR Gas Group***

The following table summarises the statement of financial position of the CR Gas Group as at 31 December 2009 and 2010 and 30 June 2011, details of which are set out in Appendix III to the Composite Document and the published annual and interim reports of CR Gas:

	As at 31 December 2009	**As at 31 December 2010**	**As at 30 June 2011**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
	(Restated)	*(Audited)*	*(Unaudited)*
Non-current assets	6,647	10,403	11,865
Current assets	4,070	8,756	8,265
Total assets	**10,717**	**19,159**	**20,130**
Non-current liabilities	3,383	5,649	5,315
Current liabilities	4,176	5,931	6,556
Total liabilities	**7,559**	**11,580**	**11,871**
Net assets attributable to shareholders	2,425	5,685	6,243
Minority interests	733	1,894	2,016
Net assets	**3,158**	**7,579**	**8,259**

Due to the significant increase in total assets, which was principally attributable to acquisition expansion, net assets substantially increased from approximately HK$3,158 million as at 31 December 2009 to approximately HK$8,259 million as at 30 June 2011.

As at 31 December 2010, non-current assets amounted to approximately HK$10,403 million, which primarily comprised property, plant and equipment of approximately HK$7,810 million. Current assets amounted to approximately HK$8,756 million, which primarily comprised bank balances and cash of approximately HK$6,521 million. Non-current liabilities amounted to approximately HK$5,649 million, which primarily comprised bank and other borrowings of approximately HK$5,133 million. Current liabilities amounted to approximately HK$5,931 million, which primarily comprised trade and other payables of approximately HK$3,346 million.

As at 30 June 2011, non-current assets amounted to approximately HK$11,865 million, which primarily comprised property, plant and equipment of approximately HK$7,975 million. Current assets amounted to approximately HK$8,265 million, which primarily comprised bank balances and cash of approximately HK$5,598 million. Non-current liabilities amounted to approximately HK$5,315 million, which primarily comprised bank and other borrowings of approximately HK$4,760 million. Current liabilities amounted to approximately HK$6,556 million, which primarily comprised trade and other payables of approximately HK$3,577 million.

As stated in the 2011 CR Gas Interim Report, the CR Gas Group has a net cash balance, being cash balances less borrowings, of approximately HK$352 million as at 30 June 2011. The gross gearing ratio of the CR Gas Group, calculated as total borrowings over total assets, improved from approximately 37% as at 31 December 2010 to approximately 26% as at 30 June 2011. The earnings before interest, taxes, depreciation and amortisation to interest cover ratio improved from approximately 22 times as at 31 December 2010 to approximately 32 times as at 30 June 2011. As at 30 June 2011, the CR Gas Group has been granted a total of HK$5.88 billion term loan facilities with maturities from 2012 to 2016, approximately 80% of which has been drawn down. The facilities together with healthy operating cash flow are expected to provide sufficient funding for foreseeable expansion and working capital requirements.

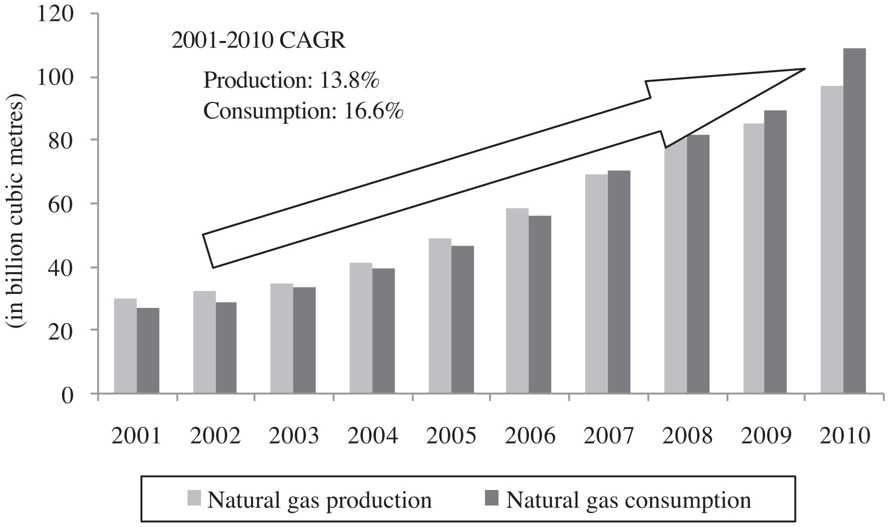
Further details of the financial information on the CR Gas Group are disclosed in Appendix III to the Composite Document and the published interim and annual reports of CR Gas.

3. Industry outlook and the prospects of ZZ Gas and CR Gas

(i) ***Industry outlook***

We understand that the demand for energy in the PRC has been rising along with the growth of the economy in recent years and the PRC government has been supportive of the development of the natural gas industry, as natural gas is a cleaner energy source as compared with conventional energy sources such as coal and crude oil. We also understand that, in order to increase natural gas supply, the “West to East Gas Transmission” pipelines were constructed with the support of the PRC government to bring natural gas from the western to the eastern region of the PRC. The “West to East Gas Transmission” pipelines cover some major provinces and cities in the PRC, amongst others, Xinjiang, Gansu, Ningxia, Shaanxi, Zhejiang, Henan, Anhui, Jiangsu, Shanghai, Hubei, Hunan, Jiangxi, Guangxi and Guangdong. Construction of the second and third phases of the “West to East Gas Transmission” pipelines, the “Sichuan to East” pipelines from the Sichuan Province to coastal regions and the “Myanmar to Yunnan” gas pipeline are in progress. Upon the completion of the abovementioned construction projects, supply of the natural gas in the PRC is expected to increase substantially in the next few years.

We have reviewed the BP Statistical Review of World Energy June 2011 (the "**2011 BP Energy Report**"[(1)]). We note that worldwide natural gas consumption grew by approximately 7.4% in 2010, being the most rapid increase since 1984, and the PRC experienced its historically largest increase in natural gas consumption volume of approximately 21.8% in 2010. Further, according to the 2011 BP Energy Report, the amount of annual natural gas consumption has surpassed the amount of annual natural gas production in the PRC since 2007. The following chart illustrates the increasing amount of natural gas production and consumption in the PRC from 2001 to 2010, which recorded compound annual growth rates of approximately 13.8% and 16.6%, respectively.



Source: 2011 BP Energy Report

Despite the increase in recent years in the consumption of natural gas in the PRC, natural gas consumption as a percentage of total fuel consumption is still very low in the PRC as compared with international levels. According to the 2011 BP Energy Report, natural gas and coal represented approximately 4.0% and 70.5% of total fuel consumption in the PRC in 2010, whereas the worldwide average percentages were approximately 23.8% and 29.6% in the same year, respectively. The "Outline of the Twelfth Five-Year Plan for National Economic and Social Development of the People's Republic of China" was presented by the PRC government in March 2011, pursuant to which the PRC government will commit to promote reform of energy production and to build a safe, stable, economical and clean modern energy industry system. Further, National Energy Administration of the PRC anticipates that, by 2015, the natural gas consumption in the PRC would surge to approximately 260 billion cubic metres, representing approximately 8.3% of the total fuel consumption in the PRC.

Note:

(1) The 2011 BP Energy Report was published by BP p.l.c., one of the world's largest oil and gas companies serving customers in more than 90 countries across six continents. The BP Energy Report, first published in 1951, is one of the most respected publications in the energy sector, used for reference by the media, academia, governments and energy companies. The 2011 BP Energy Report was compiled using a combination of primary official sources and third-party data, among others, the Organization of the Petroleum Exporting Countries, World Energy Council and US Energy Information Administration. As at the Latest Practicable Date, we are not aware of any other source/body recently giving a materially contradictory or materially different opinion as compared to the 2011 BP Energy Report in respect of the aforesaid.

Having considered the above, in particular, (i) upon completion of the construction of various pipelines projects in the PRC, including the "West to East Gas Transmission" pipelines, supply of natural gas in the PRC is expected to increase substantially; (ii) the amount of annual natural gas consumption has surpassed the amount of annual natural gas production in the PRC since 2007 and the PRC has experienced its historically largest increase in natural gas consumption volume of approximately 21.8% in 2010; and (iii) by 2015, share of the natural gas consumption in the PRC is anticipated to double to approximately 8.3% of the total fuel consumption in the PRC, we understand that the natural gas industry in the PRC has the potential to achieve further growth.

(ii) ***Prospects of ZZ Gas and CR Gas***

Set out below is a comparison table containing information of the ZZ Gas Group and the CR Gas Group:

	The ZZ Gas Group	**The CR Gas Group**
Geographic coverage	Zhengzhou City, Henan Province	Various provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Chongqing, Wuxi and Suzhou
Natural gas consumption volume for the latest full financial year	494 million m^3	5,577 million m^3
Market capitalisation as at the Last Trading Date	HK$1,264 million	HK$20,082 million
Revenue for the latest full financial year	RMB1,528 million	HK$8,327 million
Annual growth of revenue for the latest full financial year	+21.5%	+102.6%
Net profit for the latest full financial year	RMB207 million	HK$970 million
Annual growth of net profit for the latest full financial year	+14.4%	+73.5%
Net assets according to the latest published financial statement	RMB1,142 million	HK$8,259 million
Bank balances and cash according to the latest published financial statement	RMB522 million	HK$5,598 million

	The ZZ Gas Group	The CR Gas Group
Geographic coverage	Zhengzhou City, Henan Province	Various provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Chongqing, Wuxi and Suzhou
Growth style	Organic	Acquisitions and organic

The operations of the ZZ Gas Group is limited to Zhengzhou City, Henan Province, whereas the operations of the CR Gas Group covers a vast region in the PRC, which includes provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Chongqing, Wuxi and Suzhou.

Given the larger scale of the CR Gas Group, we understand that the CR Gas Group has an advantage in cost control as compared with the ZZ Gas Group. Despite the growth in the overall industry and the improvement in turnover of the ZZ Gas Group, the gross profit margin and net profit margin of the ZZ Gas Group deteriorated from approximately 31.7% and 17.2% for the six months ended 30 June 2010 to approximately 27.2% and 14.0% for the six months ended 30 June 2011, respectively. On the other hand, the gross profit margin and net profit margin of the CR Gas Group improved from approximately 30.7% and 12.8% for the six months ended 30 June 2010 to approximately 31.4% and 13.6% for the six months ended 30 June 2011, respectively.

Moreover, the larger scale also allows the CR Gas Group to attain acquisition growth in addition to organic growth, whereas the ZZ Gas Group currently can only rely on organic growth. Revenue and net profit of the ZZ Gas Group amounted to approximately RMB973 million and RMB136 million for the six months ended 30 June 2011, representing a period on period increase of approximately 28.5% and 4.6%, respectively. On the other hand, revenue and net profit of the CR Gas Group amounted to approximately HK$5,511 million and HK$749 million for the six months ended 30 June 2011, representing a period on period increase of approximately 68.3% and 78.3%, respectively. We understand that the significantly higher growth recorded by the CR Gas Group as compared with the ZZ Gas Group was mainly attributable to the additional acquisition growth of the CR Gas Group.

In addition, we note from the 2011 ZZ Gas Interim Report that residential users were the largest sector of the natural gas consumption for the ZZ Gas Group. However, the PRC government implemented a series of policy to control the property market, amongst others, (i) the purchase restriction of only one new housing unit may be purchased in the Zhengzhou City for each family; and (ii) the first instalment ratio is required to be at least 30% and 50% for the first and second housing unit purchased. We are of the view that the governmental enforcement of purchase restriction order and increase in the first instalment ratio of the second property may limit the development of residential property market and hence may limit the development of the ZZ Gas Group in such market. We are also advised by the management of ZZ Gas that the natural gas penetration rate of residential users within the Zhengzhou City has already reached above 80% in 2011 and the market of which will only grow steadily as influenced by a series of government policy controlling the property market, while the natural gas consumption derived from the commercial and industrial users had been stable as compared with last year. As such, the growth potential of the ZZ Gas Group is uncertain if it fails to expand to other regions or transfer increasing costs to end users shortly after the increase in costs.

On the contrary, we noted from the 2011 CR Gas Interim Report that commercial and industrial customers accounted for approximately 65% of the total natural gas sales revenue of the CR Gas Group for the six months ended 30 June 2011. We understand that the CR Gas Group will continue to grow rapidly via organic and acquisition growths and aspires to become one of the leading natural gas distribution companies.

3. Reasons of the Proposal and the intentions of CR Gas

As disclosed in the letter from the board of CR Gas in the Composite Document, in line with the long term objective of the China Resources Group to hold all its interests in a specific industrial or commercial sector under one company listed on the Stock Exchange, the Proposal is being made to withdraw the listing of ZZ Gas so that the only listed company within the China Resources Group engaged in gas distribution in the PRC and related activities will be CR Gas. If the Proposal is implemented and ZZ Gas ceases to be a listed company, it is anticipated to lead to cost savings with the simplification of the structure and operations of the CR Gas Group and to eliminate or substantially reduce any potential conflict between CR Gas and ZZ Gas in the allocation of the CR Gas Group resources or the exploitation of investment and acquisition prospects.

We understand that CR Gas intends to continue with the existing business of ZZ Gas and does not intend to make any material changes to the current business operations of the ZZ Gas Group following completion of the Offers. It is also the intention of CR Gas that there will not be any material changes in the management or employees of the ZZ Gas Group as a result of the Offers. Consequently, there should be no material change to the businesses or personnel of the ZZ Gas Group as a result of the Proposal becoming effective.

4. Evaluation of the Offers under the Proposal

Under the Proposal, the Offers will be made by or on behalf of CR Gas in accordance with the provisions of the Takeovers Code on the following basis:

for the H Share Offer	:	1.5 new CR Gas Shares for each H Share held rounded down to the nearest whole CR Gas Share as Share Consideration, or cash of HK$14.73 for every H Share held as Cash Consideration, or a combination of both; and
for the Domestic Share Offer	:	cash of RMB12.02, being the RMB equivalent of HK$14.73 based on the Exchange Rate, for every Domestic Share held.

As illustrated above, Independent ZZ Gas Shareholders can receive cash of HK$14.73 for every H Share held or RMB12.02 for every Domestic Share held as Cash Consideration. In order to facilitate our analysis on the Share Consideration, for illustrative purposes, based on the closing price of HK$10.08 per CR Gas Shares as at the Last Trading Date, the implied value of the Share Consideration of 1.5 new CR Gas Shares for each H Share equals to approximately HK$15.12 per H Share (the "**Implied Value**").

(i) ***Historical share price performance of the H Shares***

Having reviewed the historical closing prices of the H Shares, the Cash Consideration of HK$14.73 represents:

(a) a discount of approximately 12.1% to the closing price as quoted on the Stock Exchange as at the Latest Practicable Date of HK$16.76 per H Share;

(b) a premium of approximately 45.8% over the closing price as quoted on the Stock Exchange on the Last Trading Date of HK$10.10 per H Share;

(c) a premium of approximately 52.2% over 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 Date of approximately HK$9.68 per H Share;

(d) a premium of approximately 38.4% over 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 Date of approximately HK$10.64 per H Share;

(e) a premium of approximately 22.8% over the average of the closing prices as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Date of approximately HK$12.00 per H Share;

(f) a premium of approximately 53.1% over the net assets attributable to shareholders per ZZ Gas Share as at 31 December 2010 of approximately HK$9.62 per H Share (being the equivalent of approximately RMB7.85 per H Share based on the Exchange Rate); and

(g) a premium of approximately 34.5% over the net assets attributable to shareholders per ZZ Gas Share as at 30 June 2011 of approximately HK$10.95 per H Share (being the equivalent of approximately RMB8.93 per H Share based on the Exchange Rate).

Having reviewed the historical closing prices of the H Shares, we noted that the Implied Value under the Share Consideration of HK$15.12 per H Share represents:

(a) a discount of approximately 9.8% to the closing price as quoted on the Stock Exchange as at the Latest Practicable Date of HK$16.76 per H Share;

(b) a premium of approximately 49.7% over the closing price as quoted on the Stock Exchange on the Last Trading Date of HK$10.10 per H Share;

(c) a premium of approximately 56.2% over 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 Date of approximately HK$9.68 per H Share;

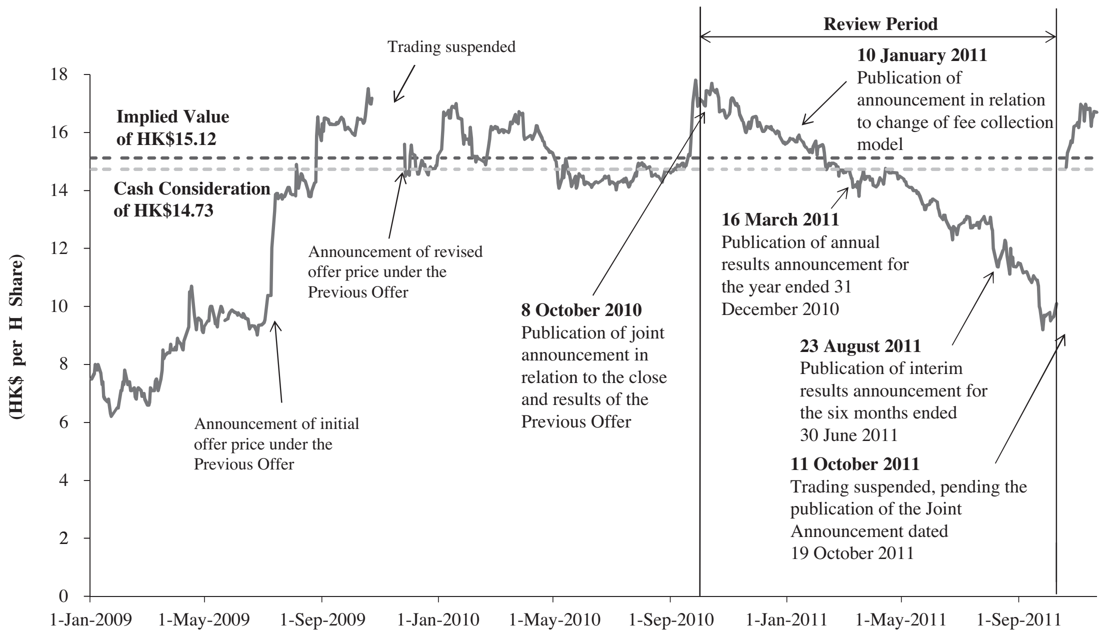
(d) a premium of approximately 42.1% over the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date of approximately HK$10.64 per H Share;

(e) a premium of approximately 26.0% over the average of the closing prices as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Date of approximately HK$12.00 per H Share;

(f) a premium of approximately 57.2% over the net assets attributable to shareholders per ZZ Gas Share as at 31 December 2010 of approximately HK$9.62 per H Share (being the equivalent of approximately RMB7.85 per H Share based on the Exchange Rate); and

(g) a premium of approximately 38.1% over the net assets attributable to shareholders per ZZ Gas Share as at 30 June 2011 of approximately HK$10.95 per H Share (being the equivalent of approximately RMB8.93 per H Share based on the Exchange Rate).

The chart below depicts the closing prices of the Shares from 1 January 2009 up to the Latest Practicable Date, of which we will review in detail the period from 1 October 2010 (approximately 12 months prior to the publication of the Joint Announcement) up to and including the Last Trading Date (the "**Review Period**").



Source: Bloomberg and the website of the Stock Exchange

CR Gas Investment previously made a mandatory conditional cash offer (the "**Previous Offer**"), which was first announced at the initial offer price of HK$9.60 per H Share in July 2009 and the revised offer price of HK$14.73 was announced in December 2009, and the closing price of the H Shares surged substantially during the previous offer period. On 8 October 2010, ZZ Gas, CR Gas and CR Gas Investment jointly published an announcement in relation to the close of the Previous Offer, where the shareholding of CR Gas Investment and parties acting in concert with it increased to approximately 52.9%. The closing price of the H Shares slightly decreased from HK$17.44 on 8 October 2010 to HK$17.40 on 11 October 2010, being the next trading day. The closing price reached a high of HK$17.70 on 14 October 2010 and entered a decreasing trend.

On 10 January 2011, ZZ Gas published a voluntary announcement in relation to a new fee collection model which was expected to improve the fee management of residential estates gas pipeline construction services and enhance the efficiency of customer services. Nonetheless, the closing price of the H Shares continued to decrease and dropped to HK$14.72 on 11 February 2011, which is lower than both the Implied Value and the Cash Consideration.

The annual results announcement and annual report of ZZ Gas for the year ended 31 December 2010 were published on 16 March 2011 and 20 April 2011, respectively. The closing price of the H Shares slightly rebounded from HK$14.30 on 16 March 2011 to HK$14.62 on 21 April 2011. However, after the slight rebound, the closing price of the H shares entered a downward trend.

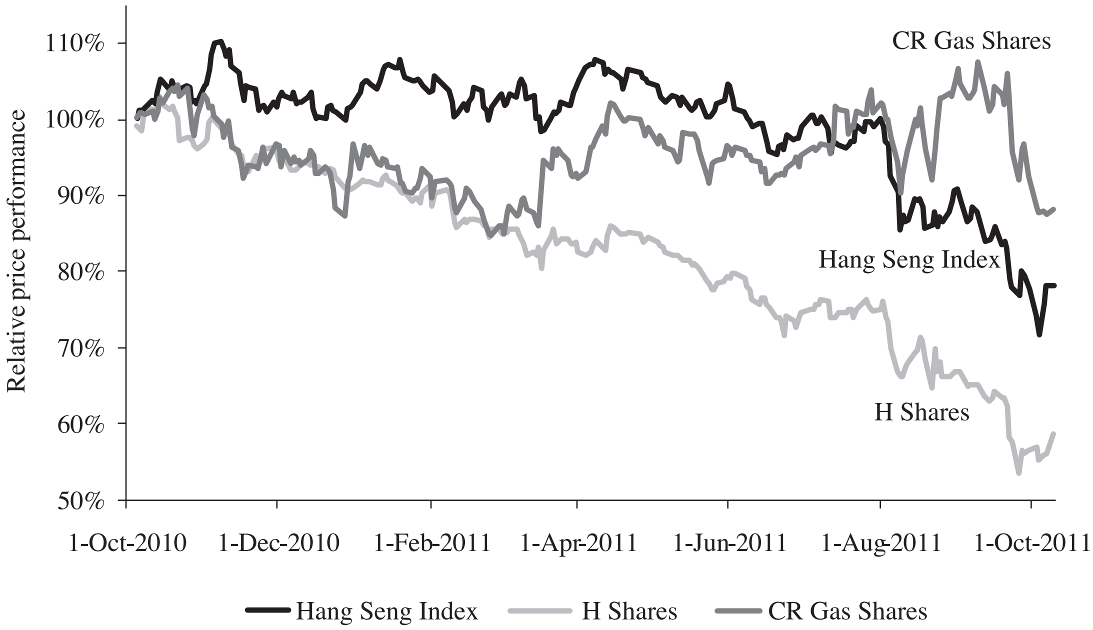
The interim results announcement of ZZ Gas for the six months ended 30 June 2011 and the 2011 ZZ Gas Interim Report were published on 23 August 2011 and 9 September 2011, respectively. The closing price of the H Shares decreased from HK$12.00 on 23 August 2011 to HK$10.94 on 12 September 2011 and subsequently reached a low of HK$9.20 on 26 September 2011.

The trading of the H Shares was suspended on 11 October 2011 pending the release of the Joint Announcement. The trading of the Shares resumed on 20 October 2011 following the publication of the Joint Announcement, where the closing price of the H Shares surged from HK$10.10 on 10 October 2011 to HK$14.82 on 20 October 2011, representing a significant upsurge of approximately 46.7% to a closing price slightly higher than the Cash Consideration.

The highest and lowest closing prices of the H Shares during the Review Period of HK$17.70 and HK$9.20 were recorded on 14 October 2010 and 26 September 2011, respectively, which represented a decrease of approximately 48.0% between the highest and lowest points. We note that, following the surge of closing prices during the period of the Previous Offer, the closing price of the H Shares has demonstrated a continually decreasing trend and both the Cash Consideration and the Implied Value were higher than the closing prices of the H Shares for the majority of the Review Period. We wish to highlight to the Independent ZZ Gas Shareholders that the recent upsurge of the price of the H Shares after the publication of the Joint Announcement was mainly attributable to the market reaction to the Proposal and the Independent ZZ Gas Shareholders should note that the sustainability of the increased price level is uncertain. **Nonetheless, the Independent ZZ Gas Shareholders must closely monitor the prevailing market price of the H Shares, which may be trading at above the Cash Consideration or the Implied Value, and exercise due care and caution when deciding whether to accept the Offers or to deal in the H Shares.**

(ii) ***Historical share price performance of the CR Gas Shares and the Share Exchange Ratio***

The following chart sets out the performance of the CR Gas Shares, the H Shares and the Hang Seng Index relative to their respective closing price on 10 October 2011 during the Review Period.



Source: Bloomberg

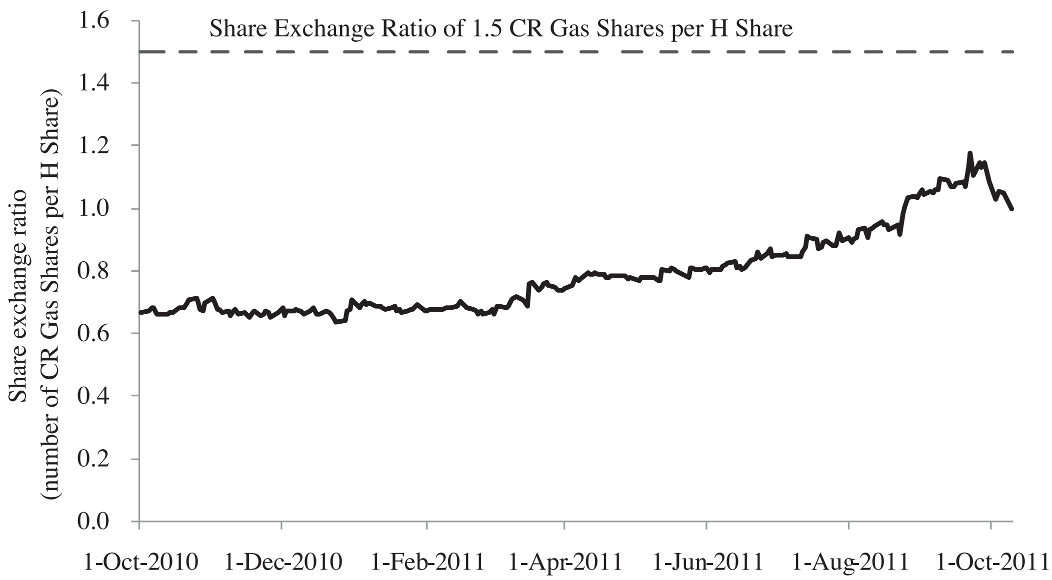
As illustrated in the chart above, the CR Gas Shares, the H Shares and the Hang Seng Index have been on a decreasing trend in general during the Review Period. We note that the CR Gas Shares slightly underperformed the Hang Seng Index at the beginning of the Review Period but later outperformed the Hang Seng Index since mid July 2011. During the Review Period, the lowest closing price of the CR Gas Shares of HK$9.69 was recorded on 25 February 2011, since then, the CR Gas Shares surged to the highest closing price of HK$12.28 on 9 September 2011, representing an increase of approximately 26.7%. On the other hand, the H Shares continued to underperform the Hang Seng Index by a substantial margin.

In assessing the Share Exchange Ratio of 1.5 new CR Gas Shares for each H Share, we have calculated the historical share exchange ratios, which are set out in the following table.

			Average closing price up to and including the Last Trading Date			
		Closing price as at the Last Trading Date	**10 trading days**	**30 trading days**	**90 trading days**	**180 trading days**
CR Gas Share ***(HK$)***	A	10.08	10.43	11.38	11.17	10.91
H Share ***(HK$)***	B	10.10	9.68	10.64	12.00	13.28
Share exchange ratio for the period ***(number of CR Gas Shares per H Share)***	C=A/B	1.00	1.08	1.07	0.93	0.82
Premium represented by the Share Exchange Ratio	D=(1.5-C)/C	50.0%	38.9%	40.2%	61.3%	82.9%

Source: Bloomberg

Set out in the chart below is the historical share exchange ratio during the Review Period as compared with the Share Exchange Ratio.



Source: Bloomberg

As illustrated in the above table and chart, the Share Exchange Ratio of 1.5 new CR Gas Shares per H Share represents a substantial premium over the historical share exchange ratio, i.e. the Share Exchange Ratio offers a higher number of CR Gas Shares per H Share than the historical share exchange ratio as calculated by reference to the respective closing prices of CR Gas Shares and H Shares over the Review Period. Assuming all the Independent H Shareholders accept the Share Consideration, the total number of new CR Gas Shares to be issued represents less than 5% of the total existing issued CR Gas Shares.

For illustrative purposes, without considering factors including transaction costs and the liquidity and prospects of the CR Gas Shares, the Share Consideration of 1.5 CR Gas Shares per H Share would be more favourable than the Cash Consideration of HK$14.73 per H Share should the price of the CR Gas Share remain above approximately HK$9.82 per CR Gas Share, being HK$14.73 per H Share divided by 1.5 CR Gas Shares per H Share.

(iii) ***Liquidity of the H Shares and the CR Gas Shares***

The following table sets out the historical monthly trading volume of the 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)*	**Percentage of average daily trading volume of the H Shares to average total issued H Shares** *(%)*
2010			
October	4.99	0.25	0.45%
November	3.02	0.14	0.25%
December	4.94	0.22	0.41%
2011			
January	2.46	0.12	0.21%
February	0.91	0.05	0.09%
March	1.73	0.08	0.14%
April	1.37	0.08	0.14%
May	1.17	0.06	0.11%
June	1.34	0.07	0.12%
July	1.22	0.06	0.12%
August	2.12	0.09	0.17%
September	1.51	0.08	0.14%
October *(up to the Last Trading Date)*	0.81	0.16	0.29%

Source: Bloomberg

The following table sets out the historical monthly trading volume of the CR Gas Shares during the Review Period:

	Total monthly trading volume of the CR Gas Shares *(million CR Gas Shares)*	**Average daily trading volume of the CR Gas Shares during the month** *(million CR Gas Shares)*	**Percentage of average daily trading volume of the CR Gas Shares to average total issued CR Gas Shares** *(%)*	**Percentage of average daily trading volume of the CR Gas Shares to average public float** *(%)*
2010				
October	45.54	2.28	0.14%	0.54%
November	72.55	3.30	0.18%	0.56%
December	52.58	2.39	0.13%	0.41%
2011				
January	29.48	1.40	0.08%	0.24%
February	20.20	1.12	0.06%	0.19%
March	41.12	1.79	0.10%	0.31%
April	51.96	2.89	0.16%	0.49%
May	20.98	1.05	0.06%	0.18%
June	19.84	0.94	0.05%	0.16%
July	49.03	2.45	0.13%	0.45%
August	84.97	3.69	0.20%	0.88%
September	61.41	3.07	0.16%	0.55%
October *(up to the Last Trading Date)*	18.24	3.65	0.18%	0.63%

Source: Bloomberg

We note from the above tables that the trading volume of both the H Shares and the CR Gas Shares has been generally very thin during the Review Period, where the percentages of average daily trading volume of the H Shares to the average total issued H Shares were mainly below 0.1% and the percentages of average daily trading volume of the CR Gas Shares to the average total issued CR Gas Shares and average public float of the CR Gas Shares were mainly below 0.2% and 0.5%, respectively. Hence, Independent H Shareholders may find it difficult to dispose of a large volume of the H Shares or the CR Gas Shares in the open market without exerting downward pressure on the price of the H Shares or the CR Gas Shares. Accordingly, we consider that the Cash Alternative provides an alternative exit for the Independent ZZ Gas Shareholders to realise their investments in ZZ Gas.

We wish to highlight to the Independent ZZ Gas Shareholders that the trading volume of the H Shares has increased after the publication of the Joint Announcement, which we believe was mainly attributable to the market reaction to the Proposal. Independent ZZ Gas Shareholders should note that the sustainability of the recent growth in trading volume of the H Shares is uncertain.

(iv) ***Comparison with market comparables***

For the purpose of assessing the Offers, we have identified an exhaustive, fair and representative list of comparable companies (the "**Comparable Companies**") based on our selection criteria that such companies are currently listed on the Stock Exchange and principally engaged in sales of natural gas or businesses comparable to those of the ZZ Gas Group with market capitalisation of less than HK$4,000 million and geographic coverage of less than five provinces in the PRC. Set out in the following table is the price to earnings ratio (the "**P/E Ratio**") and the price to book value ratio (the "**P/B Ratio**") of the Comparable Companies based on information obtained from the website of the Stock Exchange as at the Latest Practicable Date.

Company name (stock code)	Principal business	Market Capitalisation(1) *(HK$ million)*	P/E Ratio(2) *(times)*	P/B Ratio(3) *(times)*
China Tian Lun Gas Holdings Limited (1600 HK)	Investment, operation and management of gas pipeline connections, transportation, distribution and sales of pipelined gas, and distribution and sales of compressed natural gas filling stations	1,465	16.48	2.04
Zhongyu Gas Holdings Limited (8070 HK)	Development, construction and operation of natural gas and coalbed gas projects	1,752	76.82	1.84
Tianjin Tianlian Public Utilities Company Limited (1265 HK)	Operation and management of gas pipeline infrastructure and the sale and distribution of piped gas	1,747	18.58	1.07
	Maximum:	1,752	76.82	2.04
	Mean:	1,655	37.30	1.65
	Median:	1,747	18.58	1.84
	Minimum:	1,465	16.48	1.07
	Adjusted maximum(4):		18.58	
	Adjusted mean(4):		17.53	
	Adjusted median(4):		17.53	
	Adjusted minimum(4):		16.48	
	Cash Consideration(5):	**1,843**	**7.36**	**1.35**
	Implied Value under the Share Consideration(6):	**1,894**	**7.56**	**1.38**

Source: the website of the Stock Exchange

Notes:

(1) The market capitalisation is derived from multiplying the number of shares as disclosed in the then latest monthly return or relevant disclosures and share price as at the Latest Practicable Date.

(2) The P/E Ratio is derived from dividing the market capitalisation by profit attributable to shareholders for the then latest full financial year, being 31 December 2010.

(3) The P/B Ratio is derived from dividing the market capitalisation by net assets attributable to shareholders as disclosed in the then latest published financial statement as at 30 June 2011.

(4) The calculation of the adjusted statistics have excluded the extreme P/E Ratio of Zhongyu Gas Holdings Limited, which may be attributable to, amongst others, the lower profit margin for the latest full financial year.

(5) The statistics are calculated based on the Cash Consideration of HK$14.73 per H Share.

(6) The statistics are calculated based on the Implied Value under the Share Consideration of HK$15.13 per H Share.

(7) Unless otherwise specified, currencies used in deriving information in the above table have been translated based on the Exchange Rate.

We note that the P/E Ratio and P/B Ratio of ZZ Gas were below the range of those of the Comparable Companies as at the Latest Practicable Date. We also note that the P/E Ratio and P/B Ratio of ZZ Gas have been generally lower than those of the Comparable Companies in the past few years. As illustrated in the above table, despite the P/E Ratio represented by both the Cash Consideration and the Implied Value being below the range of those of the Comparable Companies, the P/B Ratio represented by both the Cash Consideration and the Implied Value were within the range of those of the Comparable Companies.

(v) ***Comparison with privatisation proposals***

For the purpose of assessing the Cash Consideration, we have also identified an exhaustive, fair and representative list of privatisation proposals (the "**Comparable Transactions**") based on our selection criteria that (i) the privatisation proposals were first announced between 1 January 2009 and the Last Trading Date; and (ii) the shareholders of the subject companies have approved the privatisation proposals as at the Last Trading Date. Although the subject companies in the Comparable Transactions are engaged in different nature of businesses, we consider that this analysis provides additional reference as to premium/discount of offer/cancellation price over/to the share trading prices prior to the announcement of privatisation. Set out in the following table are the pricing details of the Comparable Transactions.

Date of announcement	Company	Principal business	Premium of offer/cancellation price over the average closing share price prior to the announcement of privatisation: Last trading day (%)	10 trading days (%)	30 trading days (%)	90 trading days (%)
12 March 2009	Delta Networks, Inc. (722 HK)	Design and manufacture of a wide range of networking products, such as ethernet switches, broadband access products, wireless adaptors and routers	43.8	62.7	80.7	95.7
19 May 2009	Nam Tai Electronic & Electrical Products Limited (2633 HK) ("**NTEEP**") (1)	Manufacturing and marketing of consumer electronic and communication products, telecommunication component assembly and liquid crystal display products	2.0	3.5	6.3	68.2
22 May 2009	The Ming An (Holdings) Company Limited (1389 HK)	Provision of a variety of property and casualty insurance products in Hong Kong and the PRC	44.4	48.6	55.1	60.8
25 May 2009	Stone Group Holdings Limited (409 HK)	Distributes a range of healthcare products, and manufactures, distributes and sells electronic and electrical products, office equipment and operates an internet café chain in the PRC	39.1	43.9	48.1	69.5
16 November 2009	Meadville Holdings Limited (3313 HK) ("**Meadville**")(2)	Manufacturing and distributing printed circuit boards, including circuit design, quick-turn-around services and drilling and routing services	61.4	35.3	51.6	83.8

Date of announcement	Company	Principal business	Premium of offer/cancellation price over the average closing share price prior to the announcement of privatisation: Last trading day (%)	10 trading days (%)	30 trading days (%)	90 trading days (%)
8 January 2010	Hutchison Telecommunications International Limited (2332 HK)	Provides telecommunication services	36.6	38.9	38.5	37.2
27 April 2010	Wheelock Properties Limited (49 HK)	Ownership of properties for development and letting as well as investment holding	143.9	150.5	162.3	162.2
19 May 2010	Denway Motors Limited (203 HK)	Manufacturing, assembly and trading of motor vehicles, the manufacturing and trading of automotive equipment and parts in the PRC and the manufacturing and trading of audio equipment in Hong Kong	18.9	25.7	27.4	21.5
10 August 2010	Industrial and Commercial Bank of China (Asia) Limited (349 HK)	Provision of banking, financial and other financial related services with a focus on retail banking, commercial banking as well as corporate banking business	27.8	37.6	41.2	48.8
12 August 2010	Integrated Distribution Services Group Limited (2387 HK)	Provision of logistics services, distribution of fast moving consumer goods and healthcare products, and manufacturing	36.2	41.4	45.1	51.1

Date of announcement	Company	Principal business	Premium of offer/cancellation price over the average closing share price prior to the announcement of privatisation: Last trading day (%)	10 trading days (%)	30 trading days (%)	90 trading days (%)
10 January 2011	Fubon Bank (Hong Kong) Limited (636 HK)	Provision of a wide range of financial services encompassing wealth management, consumer and wholesale banking, financial markets, securities brokerage and investment services	37.6	43.1	43.2	39.3
20 January 2011	Shanghai Forte Land Co., Ltd. (2337 HK)	Development and sale of high quality commercial and residential properties in the PRC	25.4	24.8	34.3	43.0
30 June 2011	China Resources Microelectronics Limited (597 HK)	Open foundry operations as well as integrated circuit design, discrete devices and integrated circuit testing and packaging	43.3	40.4	29.7	21.8
8 August 2011	HannStar Board International Holdings Limited (667 HK)	Produces a wide range of double-sided printed circuit boards and multi-layer printed circuit boards of up to 12 layers which are principally used in notebook computers	47.1	44.7	51.8	48.0
		Maximum:	143.9	150.5	162.3	162.2
		Mean:	43.4	45.8	51.1	60.8
		Median:	38.4	40.9	44.2	50.0
		Minimum:	2.0	3.5	6.3	21.5
		Cash Consideration(3):	**45.8**	**52.2**	**38.4**	**22.8**
		Implied Value under the Share Consideration(4):	**49.7**	**56.2**	**42.1**	**26.0**

Source: Bloomberg and the website of the Stock Exchange

Notes:

(1) Nam Tai Electronics, Inc. announced its first proposal to privatise NTEEP in February 2009, but the first proposed privatisation lapsed in April 2009.

(2) The dividend of approximately HK$3.47 per share of Meadville to be distributed by Meadville in conjunction with a proposal to withdraw the listing of the shares of Meadville on the Stock Exchange as announced by Meadville on 16 November 2009 is, together with other relevant transactions and corporate actions of Meadville, considered by the Executive as a proposal to privatise Meadville. Accordingly, we have used HK$3.47 as the implied offer/cancellation price for the purpose of our analysis.

(3) The statistics are calculated based on the Cash Consideration of HK$14.73 per H Share.

(4) The statistics are calculated based on the Implied Value under the Share Consideration of HK$15.13 per H Share.

As illustrated in the above table, despite the premium represented by both the Cash Alternative and the Implied Value over the average of the closing prices for 30 and 90 consecutive trading days prior to the publication of the Joint Announcement were mainly below the mean and median of those of the Comparable Transactions, we note that (i) the premium represented by both the Cash Alternative and the Implied Value over the closing price on the Last Trading Date and the average of the closing prices for 10 consecutive trading days are above the mean and the median of those of the Comparable Transactions; and (ii) the premium represented by both the Cash Alternative and the Implied Value over the average closing prices for 30 and 90 consecutive trading days prior to the publication of the Joint Announcement were within the range of those of the Comparable Transactions.

DISCUSSION AND ADVICE

Having taken into account the principal factors as discussed above, in particular:

- following the surge of closing prices during the period of the Previous Offer, the closing price of the H Shares demonstrated a continually decreasing trend during the Review Period, where the highest closing price of HK$17.70 was recorded on 14 October 2010 and the lowest closing price of HK$9.20 was recorded on 26 September 2011, representing a substantial decline of approximately 48.0% between the highest and lowest points;

- both the Cash Consideration and the Implied Value represent a substantial premium over (i) the closing price of the H Shares on the Last Trading Date; (ii) the average closing prices for 10, 30 and 90 consecutive trading days prior to the publication of the Joint Announcement; and (iii) the net assets attributable to shareholders per H Share as at 31 December 2010 and as at 30 June 2011;

- the premium represented by both the Cash Alternative and the Implied Value over the closing price of the H Shares on Last Trading Date and the average closing price for 10 consecutive trading days prior to the publication of the Joint Announcement are above the mean and the median of those of the Comparable Transactions;

- the trading volume of the H Shares has been generally very thin during the Review Period and the Independent H Shareholders may find it difficult to dispose of a large volume of the H Shares in the open market without exerting downward pressure on the price of the H Shares;

- the recent surge of the price and trading volume of the H Shares immediately after the publication of the Joint Announcement were mainly attributable to the market reaction to the Proposal and the Independent ZZ Gas Shareholders should note that the sustainability of such price level and trading volume is uncertain;

- despite the growth in the natural gas industry in the PRC and the improvement in turnover of the ZZ Gas Group through organic growth, the profit margins of the ZZ Gas Group have been deteriorating recently due to the continuous rise in purchase cost of natural gas and the increase in selling and distribution expenses. In addition, the current business operations of the ZZ Gas Group are basically limited to Zhengzhou City, Henan Province. As such, the growth potential of the ZZ Gas Group is uncertain if it fails to expand to other regions or transfer increasing costs to end users shortly after the increase in costs;

- the dividend distributed by ZZ Gas for the year ended 31 December 2010 was a special dividend, the payment of which was a condition precedent to the completion of the Previous Acquisition which was an one-off event, the Independent ZZ Gas Shareholders should note that the sustainability of such relatively higher amount of dividend payment in the future is uncertain;

- if the Independent H Shareholders do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects and the H Shares are delisted from the Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Stock Exchange or any other exchange; and

- the Domestic Shares are not listed and are less likely to have a market in which to deal should Domestic Shareholders wish to realise their investments in ZZ Gas,

we consider the Proposal provides an opportunity for the Independent ZZ Gas Shareholders, in particular those who hold the ZZ Gas Shares in bulk, to realise their investments in ZZ Gas and the terms of the Proposal are fair and reasonable so far as the Independent ZZ Gas Shareholders are concerned. Accordingly, we advise the Independent Board Committee to (i) recommend the Independent H Shareholders to vote in favour of the resolution to approve the Proposal at the H Share Class Meeting; (ii) recommend the Independent ZZ Gas Shareholders to vote in favour of the resolution to approve the Proposal at the EGM; and (iii) recommend the Independent ZZ Gas Shareholders to accept the Offers.

Further, we advise the Independent Board Committee to recommend the Independent H Shareholders to elect the Share Consideration rather than the Cash Consideration after taking into account the following principal factors:

- the operations of the CR Gas Group covers a vast region in the PRC, which includes provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Chongqing, Wuxi and Suzhou. On the other hand, the operations of the ZZ Gas Group is limited to Zhengzhou City, Henan Province with residential users as the largest segment, where the governmental enforcement of purchase restriction order and increase in the first instalment ratio of the second property may limit the development of residential property market and hence may limit the development of the ZZ Gas Group in such market;

- the larger scale of the CR Gas Group allows it to have an advantage in cost control, where the recent profit margins of the CR Gas Group improved while those of the ZZ Gas Group have worsened. Moreover, the larger scale of the CR Gas Group also allows it to attain acquisition growth in addition to organic growth, whereas the ZZ Gas Group currently only relies on organic growth. Furthermore, CR Gas is more directly supported by China Resources Group where CR Gas can, in additional to external acquisitions, acquire quality natural gas projects from China Resources Group and CR Gas is also assured of adequate gas supply by leveraging on the strategic gas supply arrangements made with China Resources Group and other energy corporations;

- despite the trading volume of the H Shares has been generally very thin during the Review Period, the Share Exchange Ratio of 1.5 new CR Gas Shares per H Share represents a substantial premium over the historical share exchange ratios, where the Share Exchange Ratio offers a higher number of CR Gas Shares per H Share than the historical share exchange ratio as calculated by reference to the respective closing prices of CR Gas Shares and H Shares over the Review Period;

- the CR Gas Shares slightly underperformed the Hang Seng Index at the beginning of the Review Period but later outperformed the Hang Seng Index since mid July 2011, whereas the H Shares continued to underperform the Hang Seng Index by a substantial margin during the Review Period; and

- current H Shareholders can maintain their investment in ZZ Gas, albeit indirectly via the holding of equity interests in CR Gas. Further, if the Proposal is implemented and ZZ Gas ceases to be a listed company, it is anticipated to lead to cost savings with the simplification of the structure and operations of the CR Gas Group and to eliminate or substantially reduce any potential conflict between CR Gas and ZZ Gas in the allocation of the CR Gas Group resources or the exploitation of investment and acquisition prospects.

Despite our general recommendation to Independent H Shareholders to elect the Share Consideration rather than the Cash Consideration, for illustrative purposes, without considering factors such as transaction costs and the liquidity and prospects of the CR Gas Shares, the Cash Consideration of HK$14.73 per H Share would be more favourable than the Share Consideration of 1.5 CR Gas Shares per H Share should the price of the CR Gas Share fall below approximately HK$9.82, being HK$14.73 per H Share divided by 1.5 CR Gas Shares per H Share.

We wish to highlight to the Independent H Shareholders that the recent upsurge of the price of the H Shares was mainly attributable to the market reaction to the publication of the Joint

Announcement and the Independent H Shareholders should note that the sustainability of the increased price level is uncertain. Should the Independent H Shareholders be concerned that the H Share price may fall back to lower levels if the Proposal does not become effective, Independent H Shareholders may, instead of accepting the Proposal, consider selling their H Shares in the open market.

In any case, the Independent ZZ Gas Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives and the Independent ZZ Gas Shareholders must closely monitor the prevailing market price of the H Shares, which may be trading at above the Cash Consideration or the Implied Value, and exercise due care and caution when deciding whether to accept the Offers or to deal in the H Shares. If in doubt, Independent ZZ Gas Shareholders should consult their own professional advisers for professional advice. Further, Independent ZZ Gas Shareholders who wish to accept the Proposal are recommended to read carefully the procedures for accepting the Proposal as detailed in the Composite Document.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Eric Lee
Managing Director

Fanny Lee
Managing Director

1. PROCEDURES FOR ACCEPTANCE

H Share Offer

(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 H Share Offer, 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 H Share Offer 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 H Share Offer 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 ZZ 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 H Share Offer 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 in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the H Share Offer 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 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 should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s) and /or transfer receipt(s) and/or other document(s) of title, 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 H Share Offer 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 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/they were delivered to the Registrar with the WHITE form of acceptance.

(e) Acceptance of the H Share Offer 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 the Closing Date or such later time and/or date as CR Gas 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 ZZ 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 ZZ 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 H Share Offer is withdrawn or lapses, CR Gas shall, as soon as possible but in any event within 10 days thereof, return by ordinary post, at the risk of the ZZ Gas Shareholders who have accepted the H Share Offer, the 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) lodged with the WHITE form of acceptance to the relevant accepting ZZ Gas Shareholders.

(h) The address of the Registrar is at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(i) Given the Offers are not conditional on the acceptance level, if the relevant form of acceptance is not completed strictly in accordance with the instructions set out therein, CR Gas reserves the right to treat the form of acceptance as valid to the extent that it may deem such form of acceptance to have been completed in accordance with such instructions as may appear to CR Gas to be your intentions.

(j) Warning: If you only elect the Cash Consideration and you insert a number of H Shares in the box titled "Total number of H Share(s) to which Cash Consideration is applicable" that is higher than your entire registered holding of H Shares, you will be deemed to have accepted the Cash Consideration in respect of your entire registered holding of H Shares.

(k) Warning: If you only elect the Share Consideration and you insert a number of H Shares in the box titled "Total number of H Share(s) to which Share Consideration is applicable" that is higher than your entire registered holding of H Shares, you will be deemed to have accepted the Share Consideration in respect of your entire registered holding of H Shares.

(l) Warning: If you elect both the Share Consideration and the Cash Consideration and the aggregate number of H Share(s) inserted in the boxes titled "Total number of H Share(s) to which Share Consideration is applicable" and "Total number of H Share(s) to which Cash Consideration is applicable" is in excess of your entire registered holding of H Shares, you will be deemed to have accepted (i) the Share Consideration in respect of the number of H Share(s) inserted in the box titled "Total number of H Share(s) to which Share Consideration is applicable" or your entire registered holding of H Shares, whichever is smaller; and (ii) the Cash Consideration in respect of the balance of your entire registered holding of H Shares, if any, to which the foregoing acceptance of the Share Consideration does not apply.

Domestic Share Offer

(a) If you wish to accept the Domestic Share Offer, you need to send the duly completed GREEN form of acceptance to ZZ Gas.

(b) Acceptance of the Domestic Share Offer will be treated as valid only if the completed GREEN form of acceptance is received by ZZ Gas no later than 4:00 p.m. on the Closing Date or such later time and/or date as CR Gas may determine and announce with the consent of the Executive, and will be treated as accepted.

(c) If the GREEN form of acceptance is executed by a person other than the registered shareholder of ZZ Gas, appropriate documentary evidence of authority to the satisfaction of ZZ Gas must be produced.

(d) No acknowledgement of receipt of any GREEN form of acceptance, approvals of relevant authorities (in respect of any Domestic Shares) will be given.

(e) ZZ Gas or CR Gas 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 Domestic Share Offer, it is your responsibility to ensure that the GREEN form of acceptance is properly completed in all respects and all required documents are provided. A decision by ZZ Gas or CR Gas 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 ZZ Gas nor CR Gas accepts any responsibility or liability for the consequences of such a decision.

(f) If the Domestic Share Offer is withdrawn or lapses, CR Gas shall, as soon as possible but in any event within 10 days thereof, return by ordinary post, at the risk of ZZ Gas Shareholders who have accepted the Domestic Share Offer, any supporting documents lodged with the GREEN form of acceptance to the relevant accepting ZZ Gas Shareholders.

(g) The address of ZZ Gas is 352 Longhai Road West, Zhengzhou City, Henan Province, PRC 450006.

(h) Given the Offers are not conditional on the acceptance level, if the relevant form of acceptance is not completed strictly in accordance with the instructions set out therein, CR Gas reserves the right to treat the form of acceptance as valid to the extent that it may deem such form of acceptance to have been completed in accordance with such instructions as may appear to CR Gas to be your intentions.

(i) Warning: If you do not insert the total number of Domestic Shares to which your acceptance relates in the box titled "Total number of Domestic Shares to which this acceptance relates", you will be deemed to have accepted the Domestic Share Offer in respect of your entire registered holding of Domestic Shares.

(j) Warning: If you insert a number in excess of your registered holding of Domestic Shares in the box titled "Total number of Domestic Share(s) to which this acceptance relates", you will be deemed to have accepted the Domestic Share Offer in respect of your entire registered holding of Domestic Shares.

2. SETTLEMENT OF THE OFFERS

H Share Offer

Provided that the WHITE form of acceptance 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 accepting ZZ Gas Shareholder and a share certificate in respect of the new CR Gas Share(s) to which the accepting ZZ Gas Shareholder is entitled to as a result of the H Shares tendered by him/her under the H Share Offer will be despatched to him/her 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, and the date when the H Share Offer becomes or is declared unconditional.

The settlement of the consideration to which any ZZ Gas Shareholder is entitled under the H Share Offer will be implemented in full in accordance with the terms of the H Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which CR Gas may otherwise be, or claim to be, entitled against such ZZ Gas Shareholder.

Domestic Share Offer

The GREEN form of acceptance which is subject to approvals from the relevant PRC authorities, will be treated as valid acceptance when received. Provided that the GREEN form of acceptance and 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 ZZ Gas, a cheque for the amount due to each accepting ZZ Gas Shareholder in respect of the Domestic Shares tendered by it under the Domestic Share Offer will be despatched to it as soon as practicable but in any event within 10 days of the later of the date on which all the relevant documents and approvals are received by ZZ Gas to render such acceptance complete and the date when the Domestic Share Offer becomes or is declared unconditional.

The settlement of the consideration to which any accepting ZZ Gas Shareholder is entitled under the Domestic Share Offer will be implemented in full in accordance with the terms of the Domestic Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which CR Gas may otherwise be, or claim to be, entitled against such ZZ Gas Shareholder.

3. ACCEPTANCE PERIOD AND REVISIONS

(a) The Offers are made on Wednesday, 23 November 2011, the date of the posting of this Composite Document.

(b) Unless either of the Offers is revised or extended with the consent of the Executive, all acceptances of that Offer must be received by the Registrar (in respect of H Shares) or ZZ Gas (in respect of Domestic Shares) by no later than 4:00 p.m. on the Closing Date. In accordance with Rule 15.3 of the Takeovers Code, where an Offer becomes or is 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 an Offer has become unconditional, at least 14 days' notice in writing must be given before the Offer is closed to those ZZ Gas Shareholders who have not accepted the Offer. CR Gas will make an announcement as and when the Offers become or are declared unconditional.

(c) If either of the Offers is extended or revised, the announcement of such extension or revision will state the next closing date and the relevant Offer 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 ZZ Gas Shareholders and shall close on that next closing date unless subsequently revised or extended. If CR Gas revises the terms of either of the Offers, all ZZ Gas Shareholders to whom the revised Offer is made, whether or not they have already accepted the Offer, will be entitled to accept the relevant Offer under the revised terms. The benefit of any revision of an Offer will be available to any ZZ Gas Shareholder who has previously accepted that Offer. The execution by or on behalf of any ZZ Gas Shareholder who has previously accepted an Offer of any forms of acceptance shall be deemed to constitute acceptance of the revised Offer.

(d) Any acceptance of the Offers or revised Offers and/or any election pursuant thereof shall be irrevocable unless and until the accepting ZZ Gas Shareholder becomes entitled to withdraw his/her acceptance under the paragraph headed "Right of Withdrawal" below and duly does so.

(e) CR Gas has the right, subject to the Takeovers Code, to extend either of the Offers after the despatch of this Composite Document or to revise the terms of an Offer, and may introduce new conditions to be attached to any revision to the terms of either of the Offers, or any subsequent revision thereof but only to the extent necessary to implement the relevant revised offer and subject to the consent of the Executive.

(f) In order to be valid, acceptances must be received by the Registrar (in respect of H Shares) or ZZ 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 Offer to which the acceptance relates is extended or revised.

(g) If the Closing Date 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 the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), CR Gas 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 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, have expired or have become or been declared unconditional. The announcement must state the following:

(i) the total number of ZZ Gas Shares and rights over ZZ Gas Shares for which acceptances of the Offers have been received;

(ii) the total number of ZZ Gas Shares and rights over ZZ Gas Shares held, controlled or directed by CR Gas or parties acting in concert with it before the Offer Period; and

(iii) the total number of ZZ Gas Shares and rights over ZZ Gas Shares acquired or agreed to be acquired during the Offer Period by CR Gas 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 ZZ Gas which CR Gas or any person acting in concert with it has borrowed or lent, save for any borrowed ZZ Gas Shares which have been either on-lent or sold. The announcement must specify the percentages of the issued share capital of ZZ Gas and the percentages of voting rights represented by these numbers of ZZ Gas Shares.

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

5. RIGHT OF WITHDRAWAL

Acceptances of the Offers tendered by ZZ Gas Shareholders 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 is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that ZZ Gas Shareholders 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 ZZ Gas Shareholder 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 may be prohibited or affected by the laws of the relevant jurisdictions. ZZ Gas Shareholders who are so resident should inform themselves about and observe any applicable legal requirements. It is the responsibility of any ZZ Gas Shareholder who is a citizen, resident or national of a jurisdiction outside Hong Kong who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the applicable laws of the relevant jurisdiction, including the obtaining of any governmental or other consent, exchange control and any registration or filing which may be required to comply 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 (including any revision thereof) 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 Domestic Share Offer. 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 in respect of the relevant acceptances of the Offers, whichever is higher, will be paid by CR Gas.

8. TAXATION

ZZ Gas Shareholders 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 ZZ Gas, 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 ZZ Gas Shares and new CR Gas 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 ZZ Gas Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk. None of ZZ Gas, CR Gas, Anglo Chinese, the Registrar, nor any of their respective directors or other parties involved in the Offers or any of their 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 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 H Share Offer and the Domestic Share Offer, and all acceptances relating thereto 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 irrevocable authority to CR Gas or such person or persons as CR Gas 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, or such person or persons as it may direct, the ZZ Gas 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 and ZZ Gas that the ZZ Gas Shares acquired under the Offers are sold by 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 date of the Joint Announcement or which subsequently become attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Joint Announcement.

(g) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to CR Gas that the number of ZZ Gas Shares in respect of which it is indicated in the forms of acceptance is the aggregate number of ZZ Gas 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. FINANCIAL SUMMARY

The following summary of the financial information has been extracted from the audited consolidated financial statements of ZZ Gas for each of the three years ended 31 December 2008, 2009 and 2010 in the respective annual reports of ZZ Gas together with the unaudited condensed consolidated financial statements for the six months ended 30 June 2011 as extracted from its interim report of 2011. The auditors of ZZ Gas expressed unqualified opinions on those financial statements in their reports for each of the three years ended 31 December 2008, 2009 and 2010 respectively. There were no extraordinary or exceptional items for the three years ended 31 December 2008, 2009 and 2010 respectively.

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June 2011 *RMB'000* *(unaudited)*	**For the year ended 31 December 2010** *RMB'000* *(audited)*	**For the year ended 31 December 2009** *RMB'000* *(audited and restated)*	**For the year ended 31 December 2008** *RMB'000* *(audited)* *(Note)*
TURNOVER	972,835	1,527,807	1,258,161	1,028,846
Cost of sales	(708,209)	(1,099,514)	(879,303)	(717,039)
Gross profit	264,626	428,293	378,858	311,807
Other income	2,449	5,372	6,446	6,187
Selling and distribution expenses	(36,466)	(66,238)	(48,779)	(41,082)
Administrative expenses	(52,269)	(92,787)	(78,799)	(67,502)
Other expenses and losses	(430)	(1,259)	(16,597)	(5,714)
Finance costs	—	—	(1,662)	—
Share of profits (losses) of an associate	3,058	(3,544)	4,764	—
Profit before taxation	180,968	269,837	244,231	203,696
Taxation	(44,956)	(62,938)	(63,513)	(51,528)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR	136,012	206,899	180,718	152,168

Note: The financial information is extracted from the audited consolidated financial statements of ZZ Gas for the year ended 31 December 2008, which has not taken up prior period adjustments in relation to effect of change in accounting policies as disclosed in the annual report of ZZ Gas for the year ended 31 December 2010.

	For the six months ended 30 June 2011 *RMB'000* *(unaudited)*	For the year ended 31 December 2010 *RMB'000* *(audited)*	For the year ended 31 December 2009 *RMB'000* *(audited and restated)*	For the year ended 31 December 2008 *RMB'000* *(audited)* *(Note)*
Profit and total comprehensive income for the period/year attributable to:				
Owners of the Company	135,690	204,450	178,710	151,216
Non-controlling interests	322	2,449	2,008	952
	136,012	206,899	180,718	152,168
DIVIDENDS				
Proposed interim dividend	—	—	—	—
Proposed final dividend	—	—	20,349	13,016
Proposed special dividend	—	61,574	—	100,120
Proposed interim dividend per share (RMB)	—	—	—	—
Proposed final dividend per share (RMB)	—	—	0.1626	0.104
Proposed special dividend per share (RMB)	—	0.492	—	0.8
	RMB *(unaudited)*	*RMB* *(audited)*	*RMB* *(audited and restated)*	*RMB* *(audited)* *(Note)*
EARNINGS PER SHARE				
Basic	1.084	1.634	1.428	1.208

Note: The financial information is extracted from the audited consolidated financial statements of ZZ Gas for the year ended 31 December 2008, which has not taken up prior period adjustments in relation to effect of change in accounting policies as disclosed in the annual report of ZZ Gas for the year ended 31 December 2010.

Consolidated Statement of Financial Position

	For the six months ended 30 June 2011	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated)*
NON-CURRENT ASSETS				
Property, plant and equipment	1,082,585	1,041,962	841,526	666,115
Prepaid lease payments	108,435	109,868	112,584	113,949
Interests in an associate	29,252	26,194	32,863	32,025
Deferred tax assets	23,909	24,497	9,327	7,398
	1,244,181	1,202,521	996,300	819,487
CURRENT ASSETS				
Inventories	31,641	21,520	18,367	15,460
Trade and other receivables	202,877	240,245	196,921	126,249
Prepaid lease payments	2,852	2,852	2,950	1,749
Amounts due from customers for contract work	12,257	2,964	933	954
Amount due from immediate holding company	3,285	3,200	—	—
Amounts due from fellow subsidiaries	1,097	712	414	143
Pledged bank deposits	—	—	26,450	25,250
Fixed deposits held at banks with maturity over three months	45,000	45,000	30,000	—
Bank balances and cash	521,950	357,342	291,732	368,169
	820,959	673,835	567,767	537,974

	For the six months ended 30 June 2011	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated)*
CURRENT LIABILITIES				
Trade and other payables	823,712	763,628	535,469	466,556
Amounts due to customers for contract work	87,735	81,015	115,414	34,468
Amount due to immediate holding company	3,442	110	—	—
Amounts due to fellow subsidiaries	930	2,173	444	—
Bank borrowings	—	—	—	40,000
Taxation payable	7,345	23,466	29,816	18,263
	923,164	870,392	681,143	559,287
NET CURRENT LIABILITIES	(102,205)	(196,557)	(113,376)	(21,313)
NET ASSETS	1,141,976	1,005,964	882,924	798,174
Capital and reserves				
Share capital	125,150	125,150	125,150	125,150
Reserves	992,902	857,212	734,685	669,111
Equity attributable to owners of the Company	1,118,052	982,362	859,835	794,261
Non-controlling interests	23,924	23,602	23,089	3,913
	1,141,976	1,005,964	882,924	798,174

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ZZ GAS FOR THE YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Notes	**2010** *RMB'000*	**2009** *RMB'000* *(Restated)*
Turnover	9	1,527,807	1,258,161
Cost of sales		(1,099,514)	(879,303)
Gross profit		428,293	378,858
Other income		5,372	6,446
Selling and distribution expenses		(66,238)	(48,779)
Administrative expenses		(92,787)	(78,799)
Other expenses and losses		(1,259)	(16,597)
Finance costs	10	—	(1,662)
Share of (losses) profits of an associate		(3,544)	4,764
Profit before taxation		269,837	244,231
Taxation	11	(62,938)	(63,513)
Profit and total comprehensive income for the year	12	206,899	180,718
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		204,450	178,710
Non-controlling interests		2,449	2,008
		206,899	180,718
		RMB	*RMB* *(Restated)*
Earnings per share	15		
Basic		1.634	1.428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	31.12.2010 RMB'000	31.12.2009 RMB'000 (Restated)	1.1.2009 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	16	1,041,962	841,526	666,115
Prepaid lease payments	17	109,868	112,584	113,949
Interest in an associate	18	26,194	32,863	32,025
Deferred tax assets	26	24,497	9,327	7,398
		1,202,521	996,300	819,487
Current assets				
Inventories	19	21,520	18,367	15,460
Trade and other receivables	20	240,245	196,921	126,249
Prepaid lease payments	17	2,852	2,950	1,749
Amounts due from customers for contract work	21	2,964	933	954
Amount due from immediate holding company	22	3,200	—	—
Amounts due from fellow subsidiaries	22	712	414	143
Pledged bank deposits	23	—	26,450	25,250
Fixed deposits held at banks with maturity over three months	23	45,000	30,000	—
Bank balances and cash	23	357,342	291,732	368,169
		673,835	567,767	537,974

	Notes	31.12.2010 *RMB'000*	31.12.2009 *RMB'000* *(Restated)*	1.1.2009 *RMB'000* *(Restated)*
Current liabilities				
Trade and other payables	24	763,628	535,469	466,556
Amounts due to customers for contract work	21	81,015	115,414	34,468
Amount due to immediate holding company	22	110	—	—
Amounts due to fellow subsidiaries	22	2,173	444	—
Bank borrowings	25	—	—	40,000
Taxation payable		23,466	29,816	18,263
		870,392	681,143	559,287
Net current liabilities		(196,557)	(113,376)	(21,313)
Net assets		1,005,964	882,924	798,174
Capital and reserves				
Share capital	27	125,150	125,150	125,150
Reserves		857,212	734,685	669,111
Equity attributable to owners of the Company		982,362	859,835	794,261
Non-controlling interests		23,602	23,089	3,913
		1,005,964	882,924	798,174

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009, as previously stated	125,150	101,026	185,875	28,150	340,749	780,950	3,913	784,863
Effect of change in accounting policies (Note 2)	—	—	—	—	13,311	13,311	—	13,311
At 1 January 2009, as restated	125,150	101,026	185,875	28,150	354,060	794,261	3,913	798,174
Profit and total comprehensive income for the year	—	—	—	—	178,710	178,710	2,008	180,718
Contribution from non-controlling interests of a subsidiary	—	—	—	—	—	—	18,000	18,000
Transfers between categories	—	—	33,442	—	(33,442)	—	—	—
Dividends paid (Note 14)	—	—	—	—	(113,136)	(113,136)	—	(113,136)
Dividends paid to non-controlling interests	—	—	—	—	—	—	(832)	(832)
At 31 December 2009, as restated	125,150	101,026	219,317	28,150	386,192	859,835	23,089	882,924
Profit and total comprehensive income for the year	—	—	—	—	204,450	204,450	2,449	206,899
Transfers between categories	—	—	39,569	—	(39,569)	—	—	—
Dividends paid (Note 14)	—	—	—	—	(81,923)	(81,923)	—	(81,923)
Dividends paid to non-controlling interests	—	—	—	—	—	—	(1,936)	(1,936)
At 31 December 2010	125,150	101,026	258,886	28,150	469,150	982,362	23,602	1,005,964

Notes:

(a) Other reserves comprise of statutory surplus reserve and general surplus reserve.

In accordance with the Company Law of the People's Republic of China (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 relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. In addition, appropriations to general surplus reserve are made out of profit after taxation of the Company and subsidiaries while the amount and allocation basis are decided by its board of directors annually. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve and general surplus reserve 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.

(b) Capital reserve arises from the acquisition of non-controlling interests in a subsidiary.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
OPERATING ACTIVITIES		
Profit before taxation	269,837	244,231
Adjustments for:		
Interest expense	—	1,662
Interest income	(3,977)	(4,013)
Share of losses (profits) of an associate	3,544	(4,764)
Release from prepaid lease payments	2,814	2,288
Depreciation of property, plant and equipment	55,914	43,322
Impairment loss on property, plant and equipment	—	3,725
Net reversal of impairment loss on trade receivables	(431)	(45)
Write down of inventories to net realisable value	525	925
Loss on property, plant and equipment written off	426	6,183
Operating cash flows before movements in working capital	328,652	293,514
Increase in inventories	(3,678)	(3,832)
Increase in trade and other receivables	(43,319)	(70,201)
(Increase) decrease in amounts due from customers for contract work	(2,031)	21
Increase in trade and other payables	228,159	68,913
(Decrease) increase in amounts due to customers for contract work	(34,399)	80,946
Cash generated from operations	473,384	369,361
PRC Enterprise Income Tax paid	(84,458)	(53,889)
NET CASH FROM OPERATING ACTIVITIES	388,926	315,472

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
INVESTING ACTIVITIES		
Withdrawal of fixed deposits held at banks with maturity over three months	30,000	—
Withdrawal of pledged bank deposits	26,450	25,250
Interest received	4,403	3,587
Dividend received from an associate	3,125	3,926
Payments for acquisition of property, plant and equipment	(256,776)	(228,641)
Placement of fixed deposits held at banks with maturity over three months	(45,000)	(30,000)
Advances to immediate holding company	(3,200)	—
Advances to fellow subsidiaries	(298)	(271)
Placement of pledged bank deposits	—	(26,450)
Payment for acquisition of prepaid lease payments	—	(2,124)
NET CASH USED IN INVESTING ACTIVITIES	(241,296)	(254,723)
FINANCING ACTIVITIES		
Advances from fellow subsidiaries	1,729	444
Advances from immediate holding company	110	—
Dividends paid	(81,923)	(113,136)
Dividends paid to non-controlling interests	(1,936)	(832)
Repayments of bank borrowings	—	(40,000)
Interest paid on bank borrowings	—	(1,662)
Contribution from non-controlling interests of a subsidiary	—	18,000
NET CASH USED IN FINANCING ACTIVITIES	(82,020)	(137,186)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,610	(76,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	291,732	368,169
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	357,342	291,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

1. GENERAL

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 are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's former parent was Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), which was established in the PRC, and the former ultimate controlling shareholder was Zhengzhou Municipal People's Government. During the year ended 31 December 2010, China Resources Gas Group Limited ("CR Gas Group"), a company incorporated in Bermuda with its shares listed on the Stock Exchange, acquired a substantial equity interest in the Company through its subsidiaries and became the parent of the Company, and China Resources National Corporation ("CRNC") became the ultimate holding company of the Company.

The consolidated financial statements are presented in Renminbi which is the functional currency of the Company.

The Company and its subsidiaries are principally engaged in the sales 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 preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately RMB196,557,000 as at 31 December 2010. There was a receipt in advance of RMB434,384,000 in the current liabilities which was deferred revenue but not amount payable as a liability in nature. The Group had net current assets of RMB237,827,000 after deducting such receipt in advance. At the date of this report, the Group also has un-drawn but committed unsecured facilities amounting to RMB120,000,000.

Taking into account of the internally generated funds and the availability of credit facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. PRIOR PERIOD ADJUSTMENTS

In the prior year, the Group recognised income from construction contracts for gas connection upon the completion of construction of pipelines for users and connection of such pipelines to the Group's existing gas pipeline network, which is concurrent with the "fire ignition ceremony". Upon the acquisition of an equity interest in the Company by CR Gas Group, the management reassessed the accounting policies of revenue recognition in respect of gas connection and adopted percentage of completion method (details are set out in Note 5) in order to be consistent with the accounting policies adopted by CR Gas Group.

Apart from the change in accounting policies in respect of construction contracts for gas connection, there are reclassifications regarding offsetting deposits paid to suppliers (included in trade and other receivables) with trade payables as at 31 December 2009 and 1 January 2009. The Group has a current legally enforceable right to set off the trade payables with the deposits paid to suppliers and settles the amounts on net basis, accordingly, the trade payables are presented on net basis after offsetting the deposits paid to suppliers by the Group.

(a) The effect of change in accounting policies on the consolidated statement of comprehensive income during the year ended 31 December 2009 is as follows:

	2009	**Effect of change in accounting policies**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
	(Originally stated)		*(Restated)*
Turnover	1,244,420	13,741	1,258,161
Cost of sales	(866,065)	(13,238)	(879,303)
Gross profit	378,355	503	378,858
Other income	6,446	—	6,446
Selling and distribution expenses	(48,779)	—	(48,779)
Administrative expenses	(78,799)	—	(78,799)
Other expenses and losses	(16,597)	—	(16,597)
Finance costs	(1,662)	—	(1,662)
Share of profits of an associate	4,764	—	4,764
Profit before taxation	243,728	503	244,231
Taxation	(63,269)	(244)	(63,513)
Profit and total comprehensive income for the year	180,459	259	180,718
Profit and total comprehensive income for the year attributable to:			
Owners of the Company	178,451	259	178,710
Non-controlling interests	2,008	—	2,008
	180,459	259	180,718

(b) The effect of change in accounting policies on the result for the year ended 31 December 2010 by line items is as follows:

	RMB'000
Decrease in turnover	(8,693)
Decrease in cost of sales	4,554
Decrease in taxation	1,035
Decrease in profit and total comprehensive income for the year	(3,104)

(c) The effect of change in accounting policies and the reclassifications on the consolidated statement of financial position as at 1 January 2009 is as follows:

	1.1.2009	**Effect of change in accounting policies**	**Reclassifications**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Originally stated)			*(Restated)*
Non-current assets				
Property, plant and equipment	666,115	—	—	666,115
Prepaid lease payments	113,949	—	—	113,949
Interest in an associate	32,025	—	—	32,025
Deferred tax assets	7,398	—	—	7,398
	819,487	—	—	819,487
Current assets				
Inventories	16,414	(954)	—	15,460
Trade and other receivables	143,713	(807)	(16,657)	126,249
Prepaid lease payments	1,749	—	—	1,749
Amounts due from customers for contract work	—	954	—	954
Amounts due from fellow subsidiaries	143	—	—	143
Pledged bank deposits	25,250	—	—	25,250
Bank balances and cash	368,169	—	—	368,169
	555,438	(807)	(16,657)	537,974

	1.1.2009	Effect of change in accounting policies	Reclassifications	1.1.2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Originally stated)			*(Restated)*
Current liabilities				
Trade and other payables	536,236	(53,023)	(16,657)	466,556
Amounts due to customers for contract work	—	34,468	—	34,468
Bank borrowings	40,000	—	—	40,000
Taxation payable	13,826	4,437	—	18,263
	590,062	(14,118)	(16,657)	559,287
Net current liabilities	(34,624)	13,311	—	(21,313)
Net assets	784,863	13,311	—	798,174
Capital and reserves				
Share capital	125,150	—	—	125,150
Reserves	655,800	13,311	—	669,111
Equity attributable to owners of the Company	780,950	13,311	—	794,261
Non-controlling interests	3,913	—	—	3,913
	784,863	13,311	—	798,174

(d) The effect of change in accounting policies and the reclassifications on the consolidated statement of financial position as at 31 December 2009 is as follows:

	31.12.2009	Effect of change in accounting policies	Reclassifications	31.12.2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Originally stated)			*(Restated)*
Non-current assets				
Property, plant and equipment	841,526	—	—	841,526
Prepaid lease payments	112,584	—	—	112,584
Interest in an associate	32,863	—	—	32,863
Deferred tax assets	9,327	—	—	9,327
	996,300	—	—	996,300
Current assets				
Inventories	19,300	(933)	—	18,367
Trade and other receivables	222,163	(1,358)	(23,884)	196,921
Prepaid lease payments	2,950	—	—	2,950
Amounts due from customers for contract work	—	933	—	933
Amounts due from fellow subsidiaries	414	—	—	414
Pledged bank deposits	26,450	—	—	26,450
Fixed deposits held at banks with maturity over three months	30,000	—	—	30,000
Bank balances and cash	291,732	—	—	291,732
	593,009	(1,358)	(23,884)	567,767

	31.12.2009	Effect of change in accounting policies	Reclassifications	31.12.2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Originally stated)			*(Restated)*
Current liabilities				
Trade and other payables	694,376	(135,023)	(23,884)	535,469
Amounts due to customers for contract work	—	115,414	—	115,414
Amounts due to fellow subsidiaries	444	—	—	444
Taxation payable	25,135	4,681	—	29,816
	719,955	(14,928)	(23,884)	681,143
Net current liabilities	(126,946)	13,570	—	(113,376)
Net assets	869,354	13,570	—	882,924
Capital and reserves				
Share capital	125,150	—	—	125,150
Reserves	721,115	13,570	—	734,685
Equity attributable to owners of the Company	846,265	13,570	—	859,835
Non-controlling interests	23,089	—	—	23,089
	869,354	13,570	—	882,924

(e) The effect of change in accounting policies described above on the Group's basic earnings per share for the years ended 31 December 2009 and 2010 is as follows:

	2010	2009
	RMB	*RMB*
Figures before adjustment	1.659	1.426
Adjustment arising from change in accounting policies	(0.025)	0.002
Figures after adjustment	1.634	1.428

3. CHANGE OF DEPRECIATION RATE IN THE YEAR

In previous years, plant, machinery and equipment was depreciated over 12 years to 30 years, after taking into account the residual value. Upon the acquisition of an equity interest in the Company by CR Gas Group, the management reassessed the estimated useful life and residual value of the Group's property, plant and equipment and adopted the same depreciation rate as that of CR Gas Group. As a result, the plant, machinery and equipment are now depreciated over 5 to 20 years, after taking into account the residual value, and the change in depreciation rate has increased the depreciation charge for the year by approximately RMB4,681,000.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, amendments and interpretation ("new and revised IFRSs").

IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (as revised in 2008)	Business combinations
IAS 24 (revised)	Related party disclosures in revaluation to the partial exemption in paragraphs 25 to 27 for government-related entities
IAS 27 (as revised in 2008)	Consolidated and separate financial statements
IAS 39 (Amendments)	Eligible hedged items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC 17	Distributions of non-cash assets to owners

Except as described below, the adoption of the new and revised IFRSs in the current year had no material effect on the consolidated financial statements.

IAS 24 (REVISED) "RELATED PARTY DISCLOSURES"

The amendments to IAS 24 (Revised) "Related party disclosures" modify the definition of a related party and simplify related party disclosures for government-related entities. IAS 24 (Revised) provides a partial exemption from the disclosure requirements for government-related entities. The Group has early partially adopted the paragraphs 25 to 27 of IAS 24 (Revised) in the current year in advance of its effective date (annual periods beginning on or after 1 January 2011).

AMENDMENTS TO IAS 17 "LEASES"

As part of Improvements to IFRSs issued in 2009, IAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

The Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective, except for the partial exemption from disclosure requirement for government-related entity in accordance with IAS 24 (Revised).

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures — Transfers of financial assets[3]
IFRS 9	Financial instruments[4]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
IAS 24 (as revised in 2009)	Related party disclosures[6]
IAS 32 (Amendments)	Classification of rights issues[7]
IFRIC — INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
IFRIC — INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 July 2010.

3 Effective for annual periods beginning on or after 1 July 2011.

4 Effective for annual periods beginning on or after 1 January 2013.

5 Effective for annual periods beginning on or after 1 January 2012.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 February 2010.

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretation will have no material impact on the consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

ALLOCATION OF TOTAL COMPREHENSIVE INCOME TO NON-CONTROLLING INTERESTS

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

REVENUE RECOGNITION

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

Revenue from a construction contract for gas connection is recognised when the outcome of a construction contract for gas connection can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas connection are recognised using the percentage of completion method, measured by reference to the costs incurred during the year relative to the estimated total costs of the contract. When the outcome of a construction contract for gas connection cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Connection fee income is recognised upon the connection of pipelines of customers to the Group's existing gas pipelines.

Revenue from gas supply is recognised when gas is used by customers.

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

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

CONSTRUCTION CONTRACTS

When the outcome of a construction contract for gas connection can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract for gas connection cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

A financial asset and a financial liability shall be offset and the net amount presented in the consolidated statement of financial position when, and only when, an entity: (i) currently has a legally enforceable right to set off the recognised amounts; and (ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

The Group's financial assets are classified into loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from immediate holding company, amounts due from fellow subsidiaries, pledged bank deposits, fixed deposits held at banks with maturity over three months and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policies on impairment loss on financial assets below).

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Financial liabilities

Financial liabilities, including trade and other payables, bank borrowings, amount due to immediate holding company and amounts due to fellow subsidiaries are measured at amortised cost, using the effective interest method subsequent to initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the asset on initial recognition. Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

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

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

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As lessee

Operating lease payments are recognised as an expense on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and release as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes with defined contribution are charged as an expense when employees have rendered service entitling them to the contributions.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

FOREIGN CURRENCIES

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

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

IMPAIRMENT

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. The key estimates and assumptions that may 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.

CONSTRUCTION CONTRACTS

Revenue from construction contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the contract revenue, contract costs and foreseeable losses of construction based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, management reviews and revises the estimates of contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract costs are more than expected, additional losses may need to be recognised.

ESTIMATION OF USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management estimates the useful lives of property, plant and equipment based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment due to the change of commercial and technological environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.

The carrying amount of property, plant and equipment at 31 December 2010 is RMB1,041,962,000 (31 December 2009: RMB841,526,000 and 1 January 2009: RMB666,115,000).

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of property, plant and equipment are determined based on value in use calculations. These calculations and valuations require the use of judgement and estimates on future operating cash flows and discount rates adopted. In case where the recoverable amounts of property, plant and equipment assessed are less than expected, a material recognition of impairment of property, plant and equipment may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

Impairment loss on property, plant and equipment nil (2009: RMB3,725,000) was charged to profit or loss for the year.

ALLOWANCE FOR DOUBTFUL DEBTS

The Group makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are made on trade debtors whenever there is any objective evidence that the balances may not be collectible. The Group makes judgement in assessing the collectability based on observable data including creditworthiness and payment history of the customers (details are set out in Note 20). When objective evidence for allowance exists, the amount of allowance is the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade debtors, net of allowance, at 31 December 2010 is RMB168,738,000 (31 December 2009: RMB161,379,000 and 1 January 2009: RMB104,926,000).

ALLOWANCE FOR INVENTORIES

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31 December 2010, the carrying amount of inventories is RMB21,520,000 (31 December 2009: RMB18,367,000 and 1 January 2009: RMB15,460,000).

INCOME TAXES

As at 31 December 2010, a deferred tax asset of RMB24,497,000 (31 December 2009: RMB9,327,000 and 1 January 2009: RMB7,398,000) in relation to deductible temporary differences has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB4,058,000 (31 December 2009: RMB1,221,000 and 1 January 2009: nil) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated or actual taxable temporary differences are more or less than expected, a material recognition or reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or reversal takes place.

7. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of bank borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements.

The capital structure of the Group consists of debts, net of bank balances and cash and equity attributable to owners of the Company, comprising issued capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the associated risk, and take appropriate actions to adjust the Group's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

8. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Financial assets			
Loans and receivables (including cash and cash equivalents)	619,219	522,578	525,631
Financial liabilities			
At amortised cost	277,300	163,918	125,118

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include trade and other receivables, amount due from/to immediate holding company, amounts due from/to fellow subsidiaries, pledged bank deposits, bank balances and cash, fixed deposits held at banks with maturity over three months, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out searches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. For deposits paid to suppliers, the Group assesses the credit quality of the suppliers before payments and reviews the recoverability on a regular basis. In this regard, the Group considers that the credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

At 31 December 2010, the Group has concentration of credit risk in relation to the receivables from immediate holding company and fellow subsidiaries amounting to RMB3,200,000 and RMB712,000 (31 December 2009: nil and RMB414,000 and 1 January 2009: nil and RMB143,000), respectively. In order to minimise the credit risk, the management has regularly reviewed the recoverable amount of each receivable from its immediate holding company and fellow subsidiaries to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on deposits paid to suppliers in the PRC gas industry is concentrated on certain well-known suppliers. The management have considered the strong financial background and good creditability of those suppliers and believe there is no significant credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest (if any) and principal cash flows.

	Weighted average interest rate	**On demand**	**Less than 1 year**	**Total undiscounted cash flows**	**Carrying amounts**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2010					
Trade and other payables	—	116,285	158,732	275,017	275,017
Amount due to immediate holding company	—	110	—	110	110
Amounts due to fellow subsidiaries	—	2,173	—	2,173	2,173
	—	118,568	158,732	277,300	277,300
At 31 December 2009 (restated)					
Trade and other payables	—	103,368	60,106	163,474	163,474
Amounts due to fellow subsidiaries	—	444	—	444	444
	—	103,812	60,106	163,918	163,918

Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

9. TURNOVER AND SEGMENT INFORMATION

Turnover represents revenue arising from sale of goods, connection fee income and income from construction contracts for gas connection for the year. An analysis of the Group's turnover for the year is as follows:

	2010	2009
	RMB'000	*RMB'000*
Sales of goods	1,139,172	948,358
Connection fee income	231,014	153,802
Income from construction contracts for gas connection	157,621	156,001
	1,527,807	1,258,161

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 5.

The Group's operating and reportable segments under IFRS 8 "Operating segments" are as follows:

Sale and distribution of gas fuel and related products — sale of natural gas and other related products, including pressure control equipment and gas appliances

Gas connection — connection fee income and construction contracts for gas connection to the Group's pipelines

Segment results represent profit before taxation earned by each segment, excluding share of result of an associate, sundry income, central administration costs and directors' salaries. Segment assets represent all assets allocated to each segment, excluding interest in an associate and amounts due from immediate holding company and fellow subsidiaries. Segment liabilities represent all liabilities allocated to each segment, excluding amount due to immediate holding company and amounts due to fellow subsidiaries. This is the measure reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

The information of segment revenue, segment results, segment assets and segment liabilities is as follows:

For the year ended 31 December 2010

Segment revenue and results

	Sale and distribution of gas fuel and related products	**Gas connection**	**Subtotal**	**Inter-segment elimination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
External sales	1,139,172	388,635	1,527,807	—	1,527,807
Inter-segment sales*	11,190	90,316	101,506	(101,506)	—
Total	1,150,362	478,951	1,629,313	(101,506)	1,527,807
Result					
Segment results	45,241	325,058	370,299	(9,716)	360,583
Share of losses of an associate					(3,544)
Unallocated income					794
Unallocated expenses					(87,996)
Profit before taxation					269,837

* *Inter-segment transactions are conducted based on market prices.*

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Segment assets	1,619,583	226,667	1,846,250
Interest in an associate			26,194
Unallocated assets			3,912
			1,876,356
LIABILITIES			
Segment liabilities	375,767	492,342	868,109
Unallocated liabilities			2,283
			870,392

Other information

	Sale and distribution of gas fuel and related products *RMB'000*	Gas connection *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:				
Additions to non-current assets	251,864	4,912	—	256,776
Depreciation	53,083	2,831	—	55,914
Write down of inventories to net realisable value	525	—	—	525
Loss on property, plant and equipment written off	426	—	—	426
Net reversal of impairment loss on trade receivables	431	—	—	431
Release from prepaid lease payments	2,814	—	—	2,814
Interest income	2,836	1,141	—	3,977
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results or segment assets:				
Interest in an associate	—	—	26,194	26,194
Share of losses of an associate	—	—	(3,544)	(3,544)

Segment revenue and results (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Subtotal	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
External sales	948,358	309,803	1,258,161	—	1,258,161
Inter-segment sales*	11,077	29,462	40,539	(40,539)	—
Total	959,435	339,265	1,298,700	(40,539)	1,258,161
Result					
Segment results	74,715	248,089	322,804	(4,347)	318,457
Share of profits of an associate					4,764
Unallocated income					1,099
Unallocated expenses					(80,089)
Profit before taxation					244,231

* *Inter-segment transactions are conducted based on market prices.*

Segment assets and liabilities (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Segment assets	1,355,769	175,021	1,530,790
Interest in an associate			32,863
Unallocated assets			414
			1,564,067
LIABILITIES			
Segment liabilities	210,729	469,970	680,699
Unallocated liabilities			444
			681,143

Other information (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount included in the measure of segment results or segment assets:				
Additions to non-current assets	228,699	2,066	—	230,765
Depreciation	41,012	2,310	—	43,322
Impairment loss on property, plant and equipment	3,725	—	—	3,725
Write down of inventories to net realisable value	925	—	—	925
Loss on property, plant and equipment written off	6,183	—	—	6,183
Net reversal of impairment loss on trade receivables	45	—	—	45
Release from prepaid lease payments	2,288	—	—	2,288
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results or segment assets:				
Interest in an associate	—	—	32,863	32,863
Share of profits of an associate	—	—	4,764	4,764

At 1 January 2009

Segment assets and liabilities (restated)

	Sale and distribution of gas fuel and related products *RMB'000*	Gas connection *RMB'000*	Total *RMB'000*
ASSETS			
Segment assets	1,151,985	173,308	1,325,293
Interest in an associate			32,025
Unallocated assets			143
			1,357,461
LIABILITIES			
Segment liabilities	184,557	374,730	559,287

GEOGRAPHICAL INFORMATION

The Group's turnover and non-current assets (excluded deferred tax assets), based on location of customers and assets respectively, are all arisen in and located in PRC during both years.

INFORMATION ABOUT MAJOR CUSTOMERS

No single external customer contributed revenue from transactions amounting to 10% or more of the revenue of the Group during both years.

10. FINANCE COSTS

	2010 *RMB'000*	2009 *RMB'000*
Interests on bank borrowings wholly repayable within five years	—	1,662

11. TAXATION

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
The tax charge (credit) comprises:		
Current taxation		
PRC Enterprise Income Tax	78,108	65,202
Underprovision in prior year	—	240
	78,108	65,442
Deferred taxation (Note 26)		
Credit for the year	(15,170)	(1,929)
	62,938	63,513

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Profit before taxation	269,837	244,231
Tax at the applicable income tax rate of 25% (2009: 25%) (Note)	67,459	61,058
Tax effect of expenses not deductible for tax purposes	550	2,216
Tax effect of share of losses (profits) of an associate	886	(1,191)
Tax effect of deductible temporary differences previously not recognised	(6,666)	—
Tax effect of tax losses not recognised	709	1,190
Underprovision in prior year	—	240
Tax charge for the year	62,938	63,513

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 25% for the two years ended 31 December 2010 and 2009, of which the Group's operations are based.

12. PROFIT FOR THE YEAR

	2010	2009
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Staff costs		
Directors' emoluments (Note 13)	3,197	1,400
Other staff		
- Salaries and other benefits	129,084	105,564
- Retirement benefits schemes contributions	19,633	11,436
Total staff costs	151,914	118,400
Auditor's remuneration		
- Annual audit	1,400	1,450
- Special audit	—	1,018
	1,400	2,468
Depreciation of property, plant and equipment	55,914	43,322
Release from prepaid lease payments	2,814	2,288
Impairment loss on property, plant and equipment (included in other expenses and losses)	—	3,725
Write down of inventories to net realisable value	525	925
Loss on property, plant and equipment written off (included in other expenses and losses)	426	6,183
Operating lease rentals in respect of		
- rented premises	11,507	9,941
- equipment	2,384	2,901
and after crediting:		
Interest income	3,977	4,013
Net reversal of impairment loss on trade receivables	431	45

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors

The emoluments paid or payable to the directors are as follows:

Name of director		Fees	Salaries and other benefits	2010 Performance related incentive payments	Retirement benefit schemes contributions	Total
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Yan Guoqi		—	381	258	17	656
Li Jinlu		—	300	149	17	466
Li Hongwei		—	300	142	17	459
Song Jinhui	(a)	—	300	114	17	431
Zhang Wushan		—	303	117	17	437
Ding Ping		—	300	121	17	438
Liu Jianwen		60	—	—	—	60
Zhang Jianqing	(b)	60	—	—	—	60
Wang Xiuli	(b)	60	—	—	—	60
Wong Ping	(b)	70	—	—	—	70
Yu Jingsong	(b)	60	—	—	—	60
Yu Shulian	(c)	—	—	—	—	—
Zhang Yichun	(c)	—	—	—	—	—
		310	1,884	901	102	3,197

Name of director	Notes	Fees RMB'000	Salaries and other benefits RMB'000	2009 Performance related incentive payments RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
Yan Guoqi		—	179	255	6	440
Li Jinlu		—	198	146	5	349
Li Hongwei		—	179	139	4	322
Liu Jianwen		—	58	—	—	58
Zhang Jiangqing	(b)	45	—	—	—	45
Wang Xiuli	(b)	45	—	—	—	45
Wong Ping	(b)	70	—	—	—	70
Yu Jingsong	(b)	45	—	—	—	45
Yu Shulian	(c)	13	—	—	—	13
Zhang Yichun	(c)	13	—	—	—	13
		231	614	540	15	1,400

Notes:

(a) Mr. Song has tendered resignation to the board of directors of the Company as non-executive director of the Company. The resignation has taken effect upon the election of a new director of the Company, Mr. Li Yantong, at the general meeting of the Company held on 21 February 2011.

(b) Being independent non-executive directors of the Company.

(c) Mr. Zhang and Ms. Yu did not stand for re-election as independent non-executive directors in 2009 in order to comply with the requirements of the "Guiding Opinion on the Establishment of the System of Independent Directors for Listing Companies" issued by the China Securities Regulatory Commission of the PRC that the term of consecutive service of an independent non-executive director shall not be more than 6 years.

Performance related incentive payments were determined with reference to the Group's operating results, individual performances and comparable market statistics.

Employees

The five highest paid individuals of the Group included two (2009: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2009: two) highest paid employees of the Group are as follows:

	2010	**2009**
	RMB'000	*RMB'000*
		(Restated)
Salaries and other benefits	1,069	758
Performance related incentive payments	375	227
Retirement benefits schemes contributions	46	17
	1,490	1,002

The emoluments of the above employees are within the following band:

	2010	**2009**
	Number of employees	*Number of employees*
		(Restated)
Nil to RMB1,000,000	3	2

14. DIVIDENDS

	2010	**2009**
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Final dividend paid for 2009 of RMB0.1626 per ordinary share (2009: paid for 2008 of RMB0.104 per ordinary share)	20,349	13,016
Special dividend	61,574	100,120
	81,923	113,136

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: RMB0.1626 per share, RMB20,349,000 in aggregate).

Pursuant to the annual general meeting and class meeting of holders of H shares and domestic shares of the Company 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 as defined in Note 27) of the Company, amounting to RMB100,120,000 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.

Pursuant to the extraordinary general meeting held on 23 November 2010, the board of directors declared a special dividend of RMB0.492 per share of the Company, amounting to RMB61,574,000 in aggregate.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2010	**2009**
	RMB'000	*RMB'000*
		(Restated)
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	204,450	178,710

	2010	**2009**
Number of shares:		
Number of shares for the purpose of basic earnings per share	125,150,000	125,150,000

For the year ended 31 December 2009, the number of ordinary shares for the purpose of basic earnings per share had been adjusted retrospectively for the Share Consolidation as stated in Note 27.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Gas pipelines	Furniture and fixtures	Motor vehicles	Leasehold improvements	Construction in progress	Total
	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	24,734	36,813	982	72,779	876,301
Additions	345	3,699	113,657	1,713	7,621	436	101,170	228,641
Write-off	(358)	(5,125)	—	(1,010)	—	—	(6,183)	(12,676)
Transfers between categories	830	13,671	43,784	215	—	1,500	(60,000)	—
At 31 December 2009	51,933	273,169	586,394	25,652	44,434	2,918	107,766	1,092,266
Additions	—	1,808	—	6,315	4,812	2,738	241,103	256,776
Write-off	—	(473)	—	—	(1,649)	—	—	(2,122)
Transfers between categories	—	3,420	42,128	37	—	—	(45,585)	—
At 31 December 2010	51,933	277,924	628,522	32,004	47,597	5,656	303,284	1,346,920
DEPRECIATION AND IMPAIRMENT								
At 1 January 2009	5,742	70,218	106,287	11,545	16,177	217	—	210,186
Provided for the year	1,990	12,780	20,796	2,999	4,225	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	7,374	81,464	127,083	13,668	20,402	749	—	250,740
Provided for the year	1,881	19,911	23,926	4,411	4,778	1,007	—	55,914
Write-off	—	(155)	—	—	(1,541)	—	—	(1,696)
At 31 December 2010	9,255	101,220	151,009	18,079	23,639	1,756	—	304,958
CARRYING VALUES								
At 31 December 2010	42,678	176,704	477,513	13,925	23,958	3,900	303,284	1,041,962
At 31 December 2009	44,559	191,705	459,311	11,984	24,032	2,169	107,766	841,526
At 1 January 2009	45,374	190,706	322,666	13,189	20,636	765	72,779	666,115

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, as follows:

Buildings	25 to 40 years or over the relevant lease terms, if shorter
Plant, machinery and equipment	5 to 20 years
Gas pipelines	20 to 30 years
Furniture and fixtures	3 to 12 years
Motor vehicles	3⅓ to 10 years
Leasehold improvements	3 to 10 years or over the relevant lease terms, if shorter

The Group's buildings are situated outside Hong Kong on medium term leases.

17. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise of leasehold interest in land situated outside Hong Kong on medium-term leases.

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
Analysed for reporting purposes as:			
Non-current assets	109,868	112,584	113,949
Current assets	2,852	2,950	1,749
	112,720	115,534	115,698

At 31 December 2010, the Group was in process of applying for the land certificates with an aggregate carrying value of RMB2,639,000 (31 December 2009: RMB2,778,000 and 1 January 2009: RMB44,981,000).

18. INTEREST IN AN ASSOCIATE

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	32,025	32,025	32,025
Share of post-acquisition profits, net of dividend received	(5,831)	838	—
	26,194	32,863	32,025

Included in the cost of investment in an associate is goodwill of RMB2,963,000 (31 December 2009: RMB2,963,000 and 1 January 2009: RMB2,963,000) arising on acquisition.

Details of the Group's associate at the end of the reporting period are set out in Note 33.

The summarised financial information in respect of the Group's associate is set out below:

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	462,148	457,948	446,562
Total liabilities	365,428	336,528	339,348
Net assets	96,720	121,420	107,214
The Group's share of net assets of an associate	23,231	29,900	29,062
Income	292,212	206,995	
Expenses	305,339	189,352	
(Loss) profit for the year	(13,127)	17,643	
The Group's share of (losses) profits of an associate	(3,544)	4,764	

19. INVENTORIES

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Raw materials	5,125	4,220	2,918
Construction materials	12,347	10,926	7,564
Finished goods	4,048	3,221	4,978
	21,520	18,367	15,460

20. TRADE AND OTHER RECEIVABLES

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Trade receivables	170,000	163,147	107,235
Less: Allowance for doubtful debts	(1,262)	(1,768)	(2,309)
	168,738	161,379	104,926
Deposits and prepayments	57,567	31,696	17,620
Other receivables	13,940	3,846	3,703
	240,245	196,921	126,249

The Group generally allows credit periods ranging from 30 to 60 days to its trade customers, which may be extended for selected customers depending on their trade volume and settlement terms. The aged analysis of trade receivables, including notes receivables, net of allowance for doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	*RMB'000*	*RMB'000*
0 - 90 days	154,028	149,598	101,517
91 - 180 days	11,302	11,121	2,398
Over 180 days	3,408	660	1,011
	168,738	161,379	104,926

Included in the Group's trade receivables as at 31 December 2010 are receivables of RMB4,096,000 (31 December 2009: RMB4,003,000 and 1 January 2009: RMB2,954,000) which are past due at the end of the reporting period but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these receivables.

Aging of trade receivables which are past due but not impaired

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	*RMB'000*	*RMB'000*
0 - 90 days	371	3,457	2,017
91 - 180 days	317	139	207
Over 180 days	3,408	407	730
	4,096	4,003	2,954

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor from the date credit was initially granted. The concentration of credit risk is limited as the Group's customer base comprises of a large number of customers. Accordingly, the directors of the Company believe that there is no further provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

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

Included in the allowance for doubtful debts are individually impaired receivables due from certain debtors with an aggregate amount of RMB1,262,000 (31 December 2009: RMB1,768,000) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these receivables.

Movements in the allowance for doubtful debts

	2010	2009
	RMB'000	*RMB'000*
At 1 January	1,768	2,309
Amounts written off as uncollectible	(75)	(496)
Net reversal of impairment loss	(431)	(45)
At 31 December	1,262	1,768

21. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Contract costs incurred plus profits recognised	38,790	47,589	30,186
Less: Progress billings	(116,841)	(162,070)	(63,700)
	(78,051)	(114,481)	(33,514)
Analysis for reporting purposes as:			
Amounts due from customers for contract work	2,964	933	954
Amounts due to customers for contract work	(81,015)	(115,414)	(34,468)
	(78,051)	(114,481)	(33,514)

22. AMOUNTS DUE FROM/TO IMMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSITS/FIXED DEPOSITS HELD AT BANKS WITH MATURITY OVER THREE MONTHS/BANK BALANCES

The fixed deposits and bank balances carry interest rate at fixed rate ranging from 2.5%-2.75% (2009: 2.25%) per annum and market saving rate ranging from 0.36%-2.25% (2009: 0.36%-1.17%) per annum, respectively.

At 31 December 2010, bank deposits of nil (31 December 2009: RMB26,450,000 and 1 January 2009: 25,250,000) were pledged as a security for natural gas supplies from a supplier.

24. TRADE AND OTHER PAYABLES

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Trade payables	158,732	60,106	39,517
Receipt in advance	434,384	343,643	359,039
Other payables	116,285	103,368	45,601
Accruals	1,402	1,055	1,470
Payroll payables	52,825	27,297	20,929
	763,628	535,469	466,556

Other payables mainly include deposits received from customers for purchases of gas and payable for construction work.

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

	31.12.2010	**31.12.2009**	**1.1.2009**
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
0 - 90 days	127,133	50,554	32,109
91 - 180 days	21,954	4,380	2,498
Over 180 days	9,645	5,172	4,910
	158,732	60,106	39,517

The average credit period on purchases of goods ranges from 7 to 365 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

25. BANK BORROWINGS

At 1 January 2009, the bank borrowings were unsecured, interest bearing at 4.8%-5% per annum and repayable within one year.

26. DEFERRED ASSETS

The followings are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Accrued expenses	Unrealised intra-group profits	Impairment of assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	4,040	1,737	1,125	496	7,398
Credit (charge) for the year	1,655	320	(310)	264	1,929
At 31 December 2009	5,695	2,057	815	760	9,327
Credit (charge) for the year	6,312	9,645	(271)	(516)	15,170
At 31 December 2010	12,007	11,702	544	244	24,497

At 31 December 2010, the Group had unused tax losses of RMB4,058,000 (31 December 2009: RMB1,221,000 and 1 January 2009: nil) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses will expire within 5 years from the year of origination.

27. SHARE CAPITAL

	Number of shares		Nominal value	
	2010	2009	2010	2009
			RMB'000	*RMB'000*
Shares of RMB0.1 each at 1 January 2009 and RMB1 each at 31 December 2009 and 2010				
Registered:				
At 1 January	125,150,000	1,251,500,000	125,150	125,150
Share Consolidation (Note)	—	(1,126,350,000)	—	—
At 31 December	125,150,000	125,150,000	125,150	125,150
Issued and fully paid:				
At 1 January	125,150,000	1,251,500,000	125,150	125,150
Share Consolidation (Note)	—	(1,126,350,000)	—	—
At 31 December	125,150,000	125,150,000	125,150	125,150
Represented by:				
Domestic shares	70,084,000	70,084,000	70,084	70,084
H shares	55,066,000	55,066,000	55,066	55,066
	125,150,000	125,150,000	125,150	125,150

Note: Pursuant to the approval by the shareholders of the Company at the annual general meeting and class meeting of the holders of H shares and domestic shares of the Company dated 21 May 2009, the board of directors is authorised to effect the following terms: every ten issued ordinary shares of RMB0.10 each in the share capital of the Company be consolidated into one share of RMB1.00 each (the "Consolidated Share"), such Consolidated Shares shall rank pari passu in all respects with each other (the "Share Consolidation").

The domestic shares and H shares are both ordinary shares in the issued capital of the Company. The domestic shares are not currently listed on any stock exchange. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the domestic shares are to be paid by the Company in RMB.

Save for the foregoing and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the domestic shares and the H shares rank pari passu with each other in all aspects.

28. RETIREMENT BENEFITS SCHEMES

As stipulated by PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. 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 20% (2009: 20%) 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.

29. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under noncancellable operating leases in respect of land and buildings and pipeline equipment which fall due as follows:

	31.12.2010	**31.12.2009**
	RMB'000	*RMB'000*
Within one year	14,749	9,371
In the second to fifth year inclusive	24,828	5,460
After five years	5,421	6,776
	44,998	21,607

Leases are negotiated and rentals are fixed for term ranging from one to thirteen years (2009: three to thirteen years).

30. CAPITAL COMMITMENTS

	31.12.2010	**31.12.2009**
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	2,960	10,675
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	15,757	123,141
	18,717	133,816

31. RELATED PARTY TRANSACTIONS

The Group has early adopted the partial exemptions set out in paragraphs 25 to 27 of IAS 24 (Revised) "Related Party Disclosures" in advance of its effective date, with effect from 1 January

2010. The Group itself is part of a larger group of companies under Zhengzhou Gas Group until 27 August 2010 (date of acquisition of equity interest in the Company by CR Gas Group) and under CRNC since 27 August 2010. Both Zhengzhou Gas Group and CR Gas Group are controlled by the government of the PRC and the Group operates in an economic environment currently predominated by entities controlled by the PRC government.

TRANSACTIONS WITH RELATED PARTIES

In addition to the related party balances set out in the respective notes to the consolidated financial statements, the Group entered into the following transactions with related parties during the year:

	2010	**2009**
	RMB'000	*RMB'000*
Reimbursement of expenses to fellow subsidiary	114	—
Pipeline transmission fee paid to a fellow subsidiary	272	—
Rental expenses paid to immediate holding company (Note)	3,888	—
Rental expenses paid to former immediate holding company	—	10,274
Property management fee paid to a former fellow subsidiary	—	238
Trademark fee paid to former immediate holding company	—	195
Sales to a former fellow subsidiary	—	278

Note: During the year ended 31 December 2010, total rental expenses paid to immediate holding company is RMB10,478,000, in which RMB3,888,000 is paid for the period from 27 August 2010 to 31 December 2010.

TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTITIES

Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business, including purchase and sales of gas. A large portion of purchase of gas is from government-related entities.

COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2010	**2009**
	RMB'000	*RMB'000*
Short-term benefits	8,258	5,349
Post-employment benefits	330	99
	8,588	5,448

32. PARTICULARS OF SUBSIDIARIES

Name of company	Place of establishment	Nominal value of registered and paid-up capital	Attributable equity interest of the Group 2010 %	Attributable equity interest of the Group 2009 %	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd.	PRC	RMB40,000,000	100	100	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.	PRC	RMB5,000,000	51	51	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd.	PRC	RMB30,000,000	100	100	Sale of natural gas and gas appliances and construction of gas pipelines
Zhengzhou Airport District Gas Co., Ltd.	PRC	RMB10,000,000	100	100	Sale of natural gas and gas appliances and construction of gas pipelines
Henan Zhengran Jinxiang Vehicular Energy Co., Ltd.	PRC	RMB40,000,000	55	55	Development and application of vehicular energy, and the conversion and repair of gas powered cars

All the subsidiaries were established in the PRC in the form of domestic company and none of them had issued any debt securities at the end of the year.

33. PARTICULARS OF ASSOCIATE

Name of company	Place of establishment	Registered capital	Attributable equity interest of the Group 2010 %	Attributable equity interest of the Group 2009 %	Principal activities
Pingdingshan Gas Co., Ltd.	PRC	RMB95,590,600	27	27	Sale of natural gas, LPG and gas appliances and construction of gas pipelines

III. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF ZZ GAS FOR THE SIX MONTHS ENDED 30 JUNE 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	*RMB'000*	*RMB'000*
		(unaudited)	*(unaudited and restated)*
Turnover	5	972,835	757,444
Cost of sales		(708,209)	(517,346)
Gross profit		264,626	240,098
Other income		2,449	2,592
Selling and distribution expenses		(36,466)	(25,178)
Administrative expenses		(52,269)	(40,943)
Other expenses and losses		(430)	(1,222)
Share of profits of an associate		3,058	314
Profit before taxation		180,968	175,661
Taxation	6	(44,956)	(45,639)
Profit and total comprehensive income for the period	7	136,012	130,022
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		135,690	129,843
Non-controlling interests		322	179
		136,012	130,022
		RMB	*RMB*
		(unaudited)	*(unaudited and restated)*
Earnings per share	9		
Basic		1.084	1.037

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,082,585	1,041,962
Prepaid lease payments		108,435	109,868
Interests in an associate		29,252	26,194
Deferred tax assets		23,909	24,497
		1,244,181	1,202,521
CURRENT ASSETS			
Inventories		31,641	21,520
Trade and other receivables	11	202,877	240,245
Prepaid lease payments		2,852	2,852
Amounts due from customers for contract work		12,257	2,964
Amount due from immediate holding company		3,285	3,200
Amounts due from fellow subsidiaries		1,097	712
Fixed deposits held at banks with maturity over three months		45,000	45,000
Bank balances and cash		521,950	357,342
		820,959	673,835
CURRENT LIABILITIES			
Trade and other payables	12	823,712	763,628
Amounts due to customers for contract work		87,735	81,015
Amount due to immediate holding company		3,442	110
Amounts due to fellow subsidiaries		930	2,173
Taxation payable		7,345	23,466
		923,164	870,392
NET CURRENT LIABILITIES		(102,205)	(196,557)
NET ASSETS		1,141,976	1,005,964
Capital and reserves			
Share capital	13	125,150	125,150
Reserves		992,902	857,212
Equity attributable to owners of the Company		1,118,052	982,362
Non-controlling interests		23,924	23,602
		1,141,976	1,005,964

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Capital reserve	Retained profits	Total		
	RMB'000	*RMB'000*	*RMB'000* (Note a)	*RMB'000* (Note b)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011 (audited)	125,150	101,026	258,886	28,150	469,150	982,362	23,602	1,005,964
Profit and total comprehensive income for the period	—	—	—	—	135,690	135,690	322	136,012
At 30 June 2011 (unaudited)	125,150	101,026	258,886	28,150	604,840	1,118,052	23,924	1,141,976
At 1 January 2010 (audited)	125,150	101,026	219,317	28,150	386,192	859,835	23,089	882,924
Profit and total comprehensive income for the period	—	—	—	—	129,843	129,843	179	130,022
Transfers between categories	—	—	20,433	—	(20,433)	—	—	—
Dividends paid	—	—	—	—	(20,349)	(20,349)	—	(20,349)
At 30 June 2010 (unaudited and restated)	125,150	101,026	239,750	28,150	475,253	969,329	23,268	992,597

Notes:

(a) Other reserves comprise of statutory surplus reserve and general surplus reserve.

In accordance with the Company Law of the People's Republic of China (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 relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. In addition, appropriations to general surplus reserve are made out of profit after taxation of the Company and subsidiaries while the amount and allocation basis are decided by its board of directors annually. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve and general surplus reserve 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.

(b) Capital reserve arises from the acquisition of non-controlling interests in a subsidiary.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited and restated)*
NET CASH FROM OPERATING ACTIVITIES	275,344	220,404
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	(114,415)	(68,161)
Withdrawal of fixed deposits held at banks with maturity over three months	—	30,000
Withdrawal of pledged bank deposits	—	26,450
Placement of pledged bank deposits	—	(26,450)
Placement of fixed deposits held at banks within maturity over three months	—	(10,000)
Others investing cash flows (net)	1,590	4,942
NET CASH USED IN INVESTING ACTIVITIES	(112,825)	(43,219)
FINANCING ACTIVITIES		
Advances from immediate holding company	3,332	5,021
Repayment to fellow subsidiaries	(1,243)	(444)
Dividends paid	—	(20,349)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	2,089	(15,772)
NET INCREASE IN CASH AND CASH EQUIVALENTS	164,608	161,413
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	357,342	291,732
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	521,950	453,145

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2011

1. GENERAL

The Company was established in the PRC on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In August 2010, China Resources Gas Group Limited ("CR Gas Group"), a company incorporated in Bermuda with its shares listed on the Stock Exchange, acquired a substantial equity interest in the Company through its subsidiaries and became the parent of the Company, and China Resources National Corporation ("CRNC") became the ultimate holding company of the Company.

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

The interim results of the Group are unaudited and have been reviewed by the Company's Audit Committee.

2. PRIOR PERIOD ADJUSTMENTS

In the prior period, the Group recognised income from construction contracts for gas connection upon the completion of construction of pipelines for users and connection of such pipelines to the Group's existing gas pipeline network, which is concurrent with the "fire ignition ceremony". Upon the acquisition of an equity interest in the Company by CR Gas Group during the year ended 31 December 2010, the management of the Company reassessed the Group's accounting policy for revenue recognition in respect of construction contracts for gas connection and adopted the percentage of completion method in its annual consolidated financial statements for the year ended 31 December 2010 in order to be consistent with the accounting policy adopted by CR Gas Group.

(a) The effect of change in accounting policy on the condensed consolidated statement of comprehensive income during the six months ended 30 June 2010 is as follows:

	Six months ended 30 June 2010	**Effect of change in accounting policy**	**Six months ended 30 June 2010**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited and originally stated)		*(unaudited and restated)*
Turnover	730,780	26,664	757,444
Cost of sales	(507,167)	(10,179)	(517,346)
Gross profit	223,613	16,485	240,098
Other income	2,592	—	2,592
Selling and distribution expenses	(25,178)	—	(25,178)
Administrative expenses	(40,943)	—	(40,943)
Other expenses and losses	(1,222)	—	(1,222)
Share of profits of an associate	314	—	314
Profit before taxation	159,176	16,485	175,661
Taxation	(41,636)	(4,003)	(45,639)
Profit and total comprehensive for the period	117,540	12,482	130,022
Profit and total comprehensive income for the period attributable to:			
Owners of the Company	117,361	12,482	129,843
Non-controlling interests	179	—	179
	117,540	12,482	130,022

(b) The effect of change in accounting policy on the result for the six months ended 30 June 2011 by line items is as follows:

	RMB'000
Increase in turnover	20,327
Increase in costs of sales	(9,853)
Increase in taxation	(2,619)
Increase in profit and total comprehensive income for the period	7,855

(c) The effect of change in accounting policy described above on the Group's basic earnings per share for the six months ended 30 June 2011 and 2010 is as follows:

	2011	**2010**
	RMB	*RMB*
Figures before adjustments	1.021	0.938
Adjustments arising from change in accounting policy	0.063	0.099
Figures after adjustments	1.084	1.037

(d) The impact of the change in accounting policy on the condensed consolidated statement of financial position as at 1 January 2010 has been disclosed in the annual report of the Company for the year ended 31 December 2010.

3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately RMB102,205,000 as at 30 June 2011. Taking into account that the balance of trade and other payables as at 30 June 2011 included receipts in advance from customers of RMB466,293,000 and the internally generated funds, the directors of the Company are confident that the Group will be able to meet its financial obligations, including its obligations in relation to the receipts in advance from customers for gas connection projects, when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

4. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards and interpretations ("new or revised IFRSs").

The Group has applied IAS 24 "Related party disclosures" (as revised in 2009) in full in the current period. IAS 24 (as revised in 2009) has resulted in a revision on the following two aspects: (a) introduction of a partial exemption from the disclosure requirements for government-related entities and (b) revision of the definition of a related party.

In its annual consolidated financial statements for the year ended 31 December 2010, the Group early applied the partial exemption from the disclosure requirements for government-related entities. In the current interim period, the Group has applied for the first time the revised definition of a related party and the remaining parts of IAS 24 (as revised in 2009).

IAS 24 (as revised in 2009) requires retrospective application. The application of the amendment of IAS 24 (as revised in 2009) has had no effect on the amounts recognised or recorded and disclosed in the condensed consolidated financial statements for the current and prior periods.

The application of the other new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied any new and revised standards and interpretations that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised standards and interpretations but is not yet in a position to state whether these new and revised standards and interpretations would have a material impact on its results of operations and financial position.

5. TURNOVER AND SEGMENT INFORMATION

The Group has identified two operating and reportable segments — sale and distribution of gas fuel and related products and gas connection. The Group's chief operating decision maker uses such operating segment information to make strategic decisions.

The activities of these divisions are as follows:

Sale and distribution of gas fuel and related products — sale of natural gas and other related products, including pressure control equipment and gas appliances

Gas connection — connection fee income and construction contracts for gas connection to the Group's pipelines

Information regarding the above segments is reported below.

The following is an analysis of the Group's revenue and results by operating and reportable segments for the periods under review.

	Sale and distribution of gas fuel and related products	**Gas connection**	**Subtotal**	**Inter-segment elimination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2011					
Turnover					
External sales	731,244	241,591	972,835	—	972,835
Inter-segment sales*	29,007	29,227	58,234	(58,234)	—
Total	760,251	270,818	1,031,069	(58,234)	972,835
Result					
Segment results	43,428	186,982	230,410	(3,661)	226,749
Share of profits of an associate					3,058
Unallocated income					390
Unallocated expenses					(49,229)
Profit before taxation					180,968

	Sale and distribution of gas fuel and related products	Gas connection	Subtotal	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2010 (restated)					
Turnover					
External sales	553,797	203,647	757,444	—	757,444
Inter-segment sales*	7,702	41,714	49,416	(49,416)	—
	561,499	245,361	806,860	(49,416)	757,444
Result					
Segment results	54,389	163,744	218,133	(3,174)	214,959
Share of profits of an associate					314
Unallocated income					906
Unallocated expenses					(40,518)
Profit before taxation					175,661

* *Inter-segment transactions are conducted based on market prices*

The following is an analysis of the Group's assets by operating and reportable segments:

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Sale and distribution of gas fuel and related products	1,861,137	1,619,583
Gas connection	170,369	226,667
Segment assets	2,031,506	1,846,250
Interests in an associate	29,252	26,194
Unallocated assets	4,382	3,912
Total assets	2,065,140	1,876,356

6. TAXATION

	Six months ended 30 June 2011	Six months ended 30 June 2010
	RMB'000	*RMB'000* *(restated)*
Current tax		
PRC Enterprise Income Tax	44,368	47,051
Deferred taxation	588	(1,412)
	44,956	45,639

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June 2011	Six months ended 30 June 2010
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	29,741	24,631
Release of prepaid land lease payments	1,433	1,416
Loss on disposal of property, plant and equipment	—	243
Write down of inventories to the realisable value	352	544
Impairment loss on trade receivables	24	116
Interest income on bank deposits	(2,060)	(1,686)

8. DIVIDENDS

	Six months ended 30 June 2011	Six months ended 30 June 2010
	RMB'000	*RMB'000*
Dividends recognised as distribution during the period:		
Final dividend paid for 2010 of nil (2010: for 2009 of RMB0.1626 per ordinary share)	—	20,349

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2011.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
		(restated)
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	135,690	129,843

	2011	**2010**
Number of shares:		
Number of shares for the purpose of basic earnings per share	125,150,000	125,150,000

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment with total amount of RMB70,364,000 (2010: RMB68,161,000) including construction in progress amounting to RMB67,785,000 (2010: RMB34,649,000). Carrying value of property, plant and equipment disposed of by the Group during the six months ended 30 June 2011 was nil (2010: RMB374,000).

11. TRADE AND OTHER RECEIVABLES

The Group generally allows credit periods ranging from 30 to 60 days to its trade customers. The aged analysis of trade receivables, including notes receivable, net of allowance for doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
0 - 30 days	102,918	130,105
31 - 60 days	18,532	17,709
61 - 90 days	11,917	6,214
91 - 180 days	18,426	11,302
Over 180 days	1,936	3,408
	153,729	168,738

12. TRADE AND OTHER PAYABLES

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Trade payables	172,078	158,732
Receipt in advance from customers	466,293	434,384
Other payables	134,850	116,285
Accruals	15,821	1,402
Payroll payables	34,670	52,825
	823,712	763,628

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

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 - 90 days	64,101	127,133
91 - 180 days	63,778	21,954
Over 180 days	44,199	9,645
	172,078	158,732

The average credit period on purchases of goods ranges from 7 to 365 days.

13. SHARE CAPITAL

	Number of shares		Nominal value of shares	
	At 30 June 2011	At 31 December 2010	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Shares of RMB1 each				
Authorised:				
At beginning of the period/year and at end of the period/year	125,150,000	125,150,000	125,150	125,150
Issued and fully paid:				
At beginning of the period/year and at end of the period/year	125,150,000	125,150,000	125,150	125,150
Represented by:				
Domestic shares	70,084,000	70,084,000	70,084	70,084
H shares	55,066,000	55,066,000	55,066	55,066
	125,150,000	125,150,000	125,150	125,150

14. CAPITAL COMMITMENTS

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	3,016	2,960
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	158,501	15,757
	161,517	18,717

15. RELATED PARTY TRANSACTIONS

Transactions with related parties

In addition to the related party transactions set out in respective notes to the condensed consolidated financial statements, during the six months ended 30 June 2011 and 2010, the Group entered into the following transactions with related parties:

	Six months ended 30 June 2011	Six months ended 30 June 2010
	RMB'000	*RMB'000*
Rental expenses paid to immediate holding company *(Note)*	6,335	—
Property management fee paid to a former fellow subsidiary	—	476

Note: During the six months ended 30 June 2010, the Group paid rental expenses of RMB5,075,000 to immediate holding company before the acquisition of equity interest in the Company by CR Gas Group in August 2010.

Compensation of key management personnel of the Group

	Six months ended 30 June 2011 *RMB'000*	2010 *RMB'000*
Short-term benefits	2,332	2,621
Post-employment benefits	149	134
	2,481	2,755

Transactions/balances with the other state-controlled entities

Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the condensed consolidated financial statements, the Group also conducts businesses with entities directly or indirectly controlled by the PRC government in the ordinary course of business, including purchase and sales of gas. A large portion of purchase of gas is from government-related entities.

IV. INDEBTEDNESS STATEMENT

Apart from intra-group liabilities, the ZZ Gas Group did not have outstanding at the close of business on 30 September 2011 any borrowings, 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.

V. MATERIAL CHANGE

The directors of ZZ Gas confirm that as at the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of ZZ Gas Group since 31 December 2010, the date to which the latest published audited financial statements of ZZ Gas Group were made up.

I. FINANCIAL SUMMARY

The following summary of the financial information has been extracted from the audited consolidated financial statements of CR Gas for each of the three years ended 31 December 2008, 2009 and 2010 in the respective annual reports of CR Gas together with the unaudited condensed consolidated financial statements for the six months ended 30 June 2011 as extracted from its interim report of 2011. The auditors of CR Gas expressed unqualified opinions on those financial statements in their reports for each of the three years ended 31 December 2008, 2009 and 2010 respectively. There were no extraordinary or exceptional items for the three years ended 31 December 2008, 2009 and 2010 respectively.

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June 2011	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated) (Note)*
TURNOVER				
Continuing operations	5,511,125	8,326,747	4,110,151	2,525,582
Discontinued operations	—	—	—	841,531
	5,511,125	8,326,747	4,110,151	3,367,113
Cost of sales	(3,778,323)	(5,851,881)	(2,858,343)	(2,359,386)
Gross profit	1,732,802	2,474,866	1,251,808	1,007,727
Other income	125,368	209,909	164,853	102,225
Selling and distribution expenses	(465,311)	(544,574)	(278,877)	(219,056)
Administrative expenses	(430,174)	(800,613)	(460,659)	(397,669)
Other expenses	—	—	—	(56,067)
Finance costs	(37,899)	(79,733)	(40,358)	(31,211)
Share of results of an associate	50,188	15,524	7,187	3,387
Profit (loss) before taxation				
Continuing operations	974,974	1,275,379	621,980	424,078
Discontinued operations	—	—	21,974	(14,742)
	974,974	1,275,379	643,954	409,336
Taxation				
Continuing operations	(225,903)	(304,980)	(85,375)	(50,443)
Discontinued operations	—	—	—	(14,893)
	(225,903)	(304,980)	(85,375)	(65,336)

Note: The financial information is extracted from the audited consolidated financial statements of CR Gas for the year ended 31 December 2009, which has not been taken up restatement adjustments in relation to the effect of business combination of entities under common control as disclosed in the annual report of CR Gas for the year ended 31 December 2010.

	For the six months ended 30 June 2011	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated) (Note)*
PROFIT (LOSS) FOR THE PERIOD/YEAR				
Continuing operations	749,071	970,399	536,605	373,635
Discontinued operations	—	—	21,974	(29,635)
	749,071	970,399	558,579	344,000
Other comprehensive income for the period/year				
Exchange differences arising on translation of foreign operations	206,691	229,099	916	81,227
Fair value gain (loss) on available-for-sale investments	8,006	(2,160)	432	—
Share of other comprehensive income of associates	12,236	3,663	5	524
Other comprehensive income for the period	226,933	230,602	1,353	81,751
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR	976,004	1,201,001	559,932	425,751
Profit (loss) for the period/year attributable to:				
Owners of the Company				
Continuing operations	554,917	733,685	437,600	320,529
Discontinued operations	—	—	21,974	(23,561)
Owners of the Company	554,917	733,685	459,574	296,968
Non-controlling interests	194,154	236,714	99,005	47,032
	749,071	970,399	558,579	344,000
Total comprehensive income (expense) for the period/year attributable to:				
Owners of the Company				
Continuing operations	739,329	953,547	436,859	387,715
Discontinued operations	—	—	21,974	(23,561)
Owners of the Company	739,329	953,547	458,833	364,154
Non-controlling interests	236,675	247,454	101,099	61,597
	976,004	1,201,001	559,932	425,751

Note: The financial information is extracted from the audited consolidated financial statements of CR Gas for the year ended 31 December 2008, which has not been taken up restatement adjustments in relation to the effect of business combination of entities under common control as disclosed in the annual report of CR Gas for the year ended 31 December 2010.

	For the six months ended 30 June 2011	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated)* *(Note)*
DIVIDENDS				
Proposed interim dividend	39,845	31,491	28,288	—
Proposed final dividend	—	141,050	60,499	56,577
Proposed interim dividend (HK$)	0.020	0.020	0.020	—
Proposed final dividend (HK$)	—	0.080	0.045	0.040
	HK$	*HK$*	*HK$*	*HK$*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated)* *(Note)*
EARNINGS PER SHARE				
From continuing and discontinued operations				
Basic	0.31	0.51	0.34	0.62
Diluted	0.31	0.51	0.34	0.62
From continuing operations				
Basic	0.31	0.51	0.33	0.67
Diluted	0.31	0.51	0.33	0.67

Consolidated Statement of Financial Position

	For the six months ended 30 June 2011	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited and restated)*	*(audited and restated)*
NON-CURRENT ASSETS				
Property, plant and equipment	7,975,096	8,083,538	4,079,964	1,805,173
Prepaid lease payments	725,839	808,210	265,301	145,335
Investment properties	14,297	11,647	11,358	7,909
Interests in an associate	1,585,939	85,249	21,733	10,272
Available-for-sale investments	20,851	41,721	22,651	9,894
Goodwill	658,422	652,768	192,667	47,797
Operating rights	687,193	674,121	636,167	639,563
Deferred tax assets	112,407	122,015	51,579	1,312
Deposits for prepaid lease payments	25,152	7,820	44,273	—
Deposits	60,124	—	1,321,423	84,940
	11,865,320	10,487,089	6,647,116	2,752,195
CURRENT ASSETS				
Inventories	316,867	236,968	160,489	55,950
Trade and other receivables	1,718,140	1,545,626	668,394	352,616
Amounts due from customers for contract work	584,104	378,633	253,897	203,671
Prepaid lease payments	32,848	32,593	13,165	4,638
Amounts due from fellow subsidiaries	5,593	32,813	282,557	37,535
Pledged bank deposits	8,909	14,875	19,262	740
Bank balances and cash	5,598,166	6,521,335	2,671,838	1,420,268
	8,264,627	8,762,843	4,069,602	2,075,418
CURRENT LIABILITIES				
Trade and other payables	3,576,566	3,346,080	2,003,545	1,189,089
Amounts due to customers for contract work	2,009,312	1,531,631	747,670	459,387
Amounts due to fellow subsidiaries	354,954	399,301	22,646	261
Amount due from immediate holding company	—	—	—	17,039

	For the six months ended 30 June 2011 HK$'000 (unaudited)	For the year ended 31 December 2010 HK$'000 (audited)	For the year ended 31 December 2009 HK$'000 (audited and restated)	For the year ended 31 December 2008 HK$'000 (audited and restated)
Government grants	5,082	6,645	1,022	—
Bank and other borrowings	486,417	493,068	1,339,653	111,198
Taxation payable	123,326	154,272	61,620	17,850
	6,555,657	5,930,997	4,176,156	1,794,824
NET CURRENT ASSETS (LIABILITIES)	1,708,970	2,831,846	(106,554)	280,594
NET ASSETS	13,574,290	13,318,935	6,540,562	3,032,789
Capital and reserves				
Share capital	183,109	183,109	141,442	141,442
Reserves	6,060,165	5,510,338	2,283,471	2,231,887
Equity attributable to owners of the Company	6,243,274	5,693,447	2,424,913	2,373,329
Non-controlling interests	2,015,524	1,894,764	732,605	375,930
	8,258,798	7,588,211	3,157,518	2,749,259
NON-CURRENT LIABILITIES				
Government grants	32,635	57,895	13,349	—
Bank and other borrowings	4,760,059	5,132,770	1,391,800	39,494
Other long-term liabilities	192,231	124,287	115,092	100,935
Amount due to a fellow subsidiary	—	—	1,600,000	—
Deferred tax liabilities	330,567	415,772	262,803	143,101
	5,315,492	5,730,724	3,383,044	283,530
	13,574,290	13,318,935	6,540,562	3,032,789

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CR GAS FOR THE YEAR ENDED 31 DECEMBER 2010

Consolidated Statement of Comprehensive Income
For the year ended 31st December, 2010

	NOTES	**2010** *HK$'000*	**2009** *HK$'000* *(Restated)*
Turnover			
Continuing operations	8	8,326,747	4,110,151
Cost of sales		(5,851,881)	(2,858,343)
Gross profit		2,474,866	1,251,808
Other income		209,909	164,853
Selling and distribution expenses		(544,574)	(278,877)
Administrative expenses		(800,613)	(460,659)
		1,339,588	677,125
Finance costs	9	(79,733)	(40,358)
Share of results of associates		15,524	7,187
Profit before taxation			
Continuing operations		1,275,379	621,980
Discontinued operations	11	—	21,974
		1,275,379	643,954
Taxation	10		
Continuing operations		(304,980)	(85,375)
Profit for the year	12		
Continuing operations		970,399	536,605
Discontinued operations	11	—	21,974
		970,399	558,579
Other comprehensive income for the year			
Exchange differences arising on translation of foreign operations		229,099	916
Fair value (loss) gain on available-for-sale investments		(2,160)	432
Share of other comprehensive income of associates		3,663	5
		230,602	1,353
Total comprehensive income for the year		1,201,001	559,932

	NOTES	2010 HK$'000	2009 HK$'000 (Restated)
Profit for the year attributable to:			
Owners of the Company			
Continuing operations		733,685	437,600
Discontinued operations	11	—	21,974
		733,685	459,574
Non-controlling interests		236,714	99,005
		970,399	558,579
Total comprehensive income for the year attributable to:			
Owners of the Company			
Continuing operations		953,547	436,859
Discontinued operations		—	21,974
		953,547	458,833
Non-controlling interests		247,454	101,099
		1,201,001	559,932
		HK$	HK$ (Restated)
Earnings per share	15		
From continuing and discontinued operations			
Basic		0.51	0.34
Diluted		0.51	0.34
From continuing operations			
Basic		0.51	0.33
Diluted		0.51	0.33

Consolidated Statement of Financial Position
At 31st December, 2010

	NOTES	31.12.2010 HK$'000	31.12.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	16	7,810,391	4,079,964	1,805,173
Prepaid lease payments	17	759,063	265,301	145,335
Investment properties	18	11,647	11,358	7,909
Interest in associates	19	85,249	21,733	10,272
Available-for-sale investments	20	41,721	22,651	9,894
Goodwill	21	890,511	192,667	47,797
Operating rights	22	674,121	636,167	639,563
Deferred tax assets	32	122,015	51,579	1,312
Deposit for prepaid lease Payments		7,820	44,273	—
Deposits for investments		—	1,321,423	84,940
		10,402,538	6,647,116	2,752,195
Current assets				
Inventories	23	236,968	160,489	55,950
Trade and other receivables	24	1,545,626	668,394	352,616
Amounts due from customers for contract work	25	378,633	253,897	203,671
Prepaid lease payments	17	26,094	13,165	4,638
Amounts due from fellow Subsidiaries	26	32,813	282,557	37,535
Pledged bank deposits	27	14,875	19,262	740
Bank balances and cash	27	6,521,335	2,671,838	1,420,268
		8,756,344	4,069,602	2,075,418
Current liabilities				
Trade and other payables	28	3,346,080	2,003,545	1,189,089
Amounts due to customers for contract work	25	1,531,631	747,670	459,387
Amounts due to fellow subsidiaries	26	399,301	22,646	261
Amount due to an intermediate holding company	26	—	—	17,039
Government grants	29	6,645	1,022	—
Bank and other borrowings	30	493,068	1,339,653	111,198
Taxation payable		154,272	61,620	17,850
		5,930,997	4,176,156	1,794,824
Net current assets (liabilities)		2,825,347	(106,554)	280,594
		13,227,885	6,540,562	3,032,789

	NOTES	31.12.2010 HK$'000	31.12.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Capital and reserves				
Share capital	33	183,109	141,442	141,442
Reserves		5,501,486	2,283,471	2,231,887
Equity attributable to owners of the Company		5,684,595	2,424,913	2,373,329
Non-controlling interests		1,894,764	732,605	375,930
		7,579,359	3,157,518	2,749,259
Non-current liabilities				
Government grants	29	57,895	13,349	—
Bank and other borrowings	30	5,132,770	1,391,800	39,494
Other long-term liabilities	31	124,287	115,092	100,935
Amount due to a fellow subsidiary	26	—	1,600,000	—
Deferred tax liabilities	32	333,574	262,803	143,101
		5,648,526	3,383,044	283,530
		13,227,885	6,540,562	3,032,789

Consolidated Statement of Changes in Equity
For the year ended 31st December, 2010

	Attributable to owners of the Company												
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Shares held for share award scheme	Investment revaluation reserve	Other reserves	Merger reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (*Note a*)	*HK$'000* (*Note c*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2009, as previously stated	141,442	3,750,691	—	157,780	13,436	—	—	79,097	(2,554,519)	640,920	2,228,847	310,543	2,539,390
Effect of business combination of entities under common control (Note 2)	—	—	—	(2,351)	—	—	1,728	5,161	139,164	780	144,482	65,387	209,869
At 1st January, 2009, as restated	141,442	3,750,691	—	155,429	13,436	—	1,728	84,258	(2,415,355)	641,700	2,373,329	375,930	2,749,259
Profit for the year	—	—	—	—	—	—	—	—	—	459,574	459,574	99,005	558,579
Other comprehensive income for the year	—	—	—	(1,173)	—	—	432	—	—	—	(741)	2,094	1,353
Total comprehensive income for the year	—	—	—	(1,173)	—	—	432	—	—	459,574	458,833	101,099	559,932
Purchase of shares under share award scheme (Note 34(ii))	—	—	—	—	—	(253,999)	—	—	—	—	(253,999)	—	(253,999)
Consideration paid for acquiring subsidiaries under common control (Note b)	—	—	—	—	—	—	—	—	(1,959,297)	—	(1,959,297)	—	(1,959,297)
Share issued by a subsidiary under common control (Note 40(c))	—	—	—	—	—	—	—	—	475,073	—	475,073	—	475,073
Deemed disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(880)	(880)
Acquisition of subsidiaries held by jointly controlled entities (Note 37)	—	—	—	—	—	—	—	—	—	—	—	734	734
Acquisition of subsidiaries (Note 36)	—	—	—	—	—	—	—	—	—	—	—	180,640	180,640
Acquisition of additional interest in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(12,682)	(12,682)
Acquisition of jointly controlled entities (Note 37)	—	—	—	—	—	—	—	—	—	—	—	7,635	7,635
Discount on acquisition of jointly controlled entities (Note 37)	—	—	356,361	—	—	—	—	—	—	—	356,361	—	356,361
Arising from group reorganisation	—	—	—	—	—	—	—	—	1,078,477	—	1,078,477	—	1,078,477
Contribution from non-controlling interest of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	115,576	115,576
Transfers between categories	—	—	—	—	—	—	—	57,206	—	(57,206)	—	—	—
Dividends paid	—	—	—	—	—	—	—	—	—	(84,865)	(84,865)	—	(84,865)
Dividends paid to a fellow subsidiary which is a former shareholder of subsidiaries	—	—	—	—	—	—	—	—	—	(18,999)	(18,999)	(4,041)	(23,040)
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(31,406)	(31,406)
At 31st December, 2009, as restated	141,442	3,750,691	356,361	154,256	13,436	(253,999)	2,160	141,464	(2,821,102)	940,204	2,424,913	732,605	3,157,518

	Attributable to owners of the Company												
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Shares held for share award scheme	Investment revaluation reserve	Other reserves	Merger reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note a)*	*HK$'000* *(Note c)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year	—	—	—	—	—	—	—	—	—	733,685	733,685	236,714	970,399
Other comprehensive income for the year	—	—	—	222,022	—	—	(2,160)	—	—	—	219,862	10,740	230,602
Total comprehensive income for the year	—	—	—	222,022	—	—	(2,160)	—	—	733,685	953,547	247,454	1,201,001
Placing of shares	23,000	2,449,500	—	—	—	—	—	—	—	—	2,472,500	—	2,472,500
Issue of shares upon combination of entities under common control (Note 33(b))	18,665	2,202,490	—	—	—	—	—	—	(2,221,155)	—	—	—	—
Share issue expenses	—	(14,275)	—	—	—	—	—	—	—	—	(14,275)	—	(14,275)
Shares issued upon exercise of share options	2	194	—	—	—	—	—	—	—	—	196	—	196
Acquisition of subsidiaries (Note 36)	—	—	—	—	—	—	—	—	—	—	—	616,636	616,636
Acquisition of additional interest in subsidiaries	—	—	(74,032)	—	—	—	—	—	—	—	(74,032)	(1,640)	(75,672)
Acquisition of jointly controlled entities (Note 37)	—	—	—	—	—	—	—	—	—	—	—	62,463	62,463
Discount on acquisition of jointly controlled entities (Note 37)	—	—	19,490	—	—	—	—	—	—	—	19,490	—	19,490
Disposal of shares held for share award scheme	—	—	—	—	—	6,600	—	—	—	14,690	21,290	—	21,290
Contribution from non-controlling interest of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	254,525	254,525
Transfers between categories	—	—	—	—	—	—	—	86,202	—	(86,202)	—	—	—
Dividends paid	—	—	—	—	—	—	—	—	—	(91,990)	(91,990)	—	(91,990)
Dividends paid to a fellow subsidiary which is a former shareholder of subsidiaries	—	—	—	—	—	—	—	—	—	(27,044)	(27,044)	—	(27,044)
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(17,279)	(17,279)
At 31st December, 2010	183,109	8,388,600	301,819	376,278	13,436	(247,399)	—	227,666	(5,042,257)	1,483,343	5,684,595	1,894,764	7,579,359

Notes:

(a) Other reserves comprise general reserve, statutory surplus reserve, enterprise expansion fund, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in People's Republic of China (the "PRC").

General reserve is appropriated each year on the basis of 5% to 10% of the profit after taxation of certain subsidiaries as determined by their board of directors in accordance with the Articles of Association of the subsidiaries. This reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

(b) On 30th June, 2009, Top Steed Limited ("Top Steed") and its subsidiaries (the "Top Steed Group") acquired certain subsidiaries and jointly controlled entities, from China Resources Gas (Holdings) Limited ("CR Gas Holdings"), a fellow subsidiary of the Company, for a total consideration of HK$310,969,000. On 19th October, 2009, the Group acquired 100% equity interest in Top Steed from Powerfaith for a cash consideration of HK$1,600,000,000.

On 30th June, 2009, Mega Fair Limited ("Mega Fair") and its subsidiaries (the "Mega Fair Group") acquired a subsidiary from China Resources (Holdings) Company Limited ("CRH") for a total consideration of HK$48,328,000. On 25th October, 2010, the Group acquired 100% equity interest in Mega Fair from Powerfaith Enterprises Limited ("Powerfaith"), a fellow subsidiary of the Company, for a consideration of HK$2,221,155,000 which was settled by allotment and issue of 186,654,223 shares.

These are business combinations that involve entities under common control as explained in Note 2. These transactions, excluding the acquisition of Zibo China-Resources Gas Co., Ltd.* (淄博華潤燃氣有限公司), Jining China-Resources Gas Co., Ltd. (濟寧華潤燃氣有限公司), Kunshan China-Resources City Gas Co., Ltd. (昆山華潤城市燃氣有限公司) and Sichuan China-Resources Wantong Gas Co. Ltd* (四川華潤萬通燃氣股份有限公司), jointly controlled entities, from CR Gas Holdings and the acquisition of Zhenjiang China-Resources Gas Co., Ltd. (鎮江華潤燃氣有限公司) and Xiamen China Resources Gas Co., Ltd. (廈門華潤燃氣有限公司), jointly controlled entities, from CRH which are accounted for using acquisition method of accounting, are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting under Common Control Combination" ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The cash paid to Powerfaith, CR Gas Holdings and, CRH of HK$1,600,000,000, HK$310,969,000 and HK$48,328,000, respectively, during the year ended 31st December, 2009 and the shares issued to Powerfaith of HK$2,221,155,000 during the year ended 31st December, 2010 were included in merger reserve.

(c) Merger reserve as at 1st January, 2009 represented (i) the difference between the cash consideration paid by the Group of HK$3,814,800,000 and the amount of the issued capital and premium of CR Gas (BVI) of HK$1,050,000,000; (ii) the deemed contribution from CR Gas Holdings upon the acquisition of Datong China-Resources Gas Co., Ltd. (大同華潤燃氣有限公司) and Yangquan China-Resources Gas Co. Ltd (陽泉華潤燃氣有限公司) of HK$83,504,000; and (iii) the amount of share capital of Profit Dash Limited and Favor Sea Investments Limited and deemed contribution from CR Gas Holdings upon the acquisition of Qianjiang China-Resources Gas Co., Ltd* (潛江華潤燃氣有限公司), Xiangfan China Resources Gas Co. Ltd* (襄樊華潤燃氣有限公司) and Yicheng China-Resources Gas Co. Ltd* (宜城華潤燃氣有限公司) of HK$126,777,000; and (iv) the deemed contribution from CR Gas Holdings upon acquisition of Qidong China-Resources Gas Co., Ltd. (啟東華潤燃氣有限公司), Shifang China-Resources Gas Co. Ltd. (什邡華潤燃氣有限公司), Tengzhou China-Resources Gas Co. Ltd (滕州華潤燃氣有限公司) and Gucheng China-Resources Gas Co., Ltd* (谷城華潤燃氣有限公司) of HK$139,164,000.

During the year ended 31st December, 2009, the amount of HK$475,073,000 represented one additional share of US$1 each issued by Top Steed.

Merger reserve as at 31st December, 2010 represented (i) the difference between the cash consideration paid by the Group of HK$3,814,800,000 and the amount of the issued capital and premium of CR Gas (BVI) of HK$1,050,000,000; (ii) the difference between the cash consideration paid by the Group of HK$1,600,000,000 and the amount of the issued capital and premium of Top Steed of HK$475,073,000; (iii) deemed distribution to CR Gas Holdings of HK$100,688,000, calculated based on the difference between the cash consideration paid by Top Steed Group and the total amount of share capital of its subsidiaries incorporated in the British Virgin Islands; (iv) the difference between the shares issued by the Company of HK$2,221,155,000 and the amount of the issued capital and premium of Mega Fair of HK$1,217,641,000; and (v) deemed distribution to CR Gas Holdings of HK$48,328,000, calculated based on the difference between the cash consideration paid by the Mega Fair Group and the total amount of share capital of its subsidiaries incorporated in the British Virgin Islands.

Consolidated Statement of Cash Flows
For the year ended 31st December, 2010

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
OPERATING ACTIVITIES		
Profit before taxation	1,275,379	643,954
Adjustments for:		
Interest expense	79,733	40,358
Interest income	(51,715)	(23,661)
Government grants recognised	(39,529)	(96)
Share of results of associates	(15,524)	(7,187)
Dividend income from available-for-sale investments	(440)	(2,416)
Loss (gain) on disposal of property, plant and equipment	362	(49,040)
Gain on disposal of prepaid lease payments	—	(6,239)
Gain on disposal of available-for-sale investments	(280)	(12,068)
Impairment loss recognised on receivables	9,961	—
Release from prepaid lease payments	14,845	9,723
Amortisation of operating rights	28,665	23,817
Depreciation of property,plant and equipment	345,237	167,917
Depreciation of investment properties	624	436
Gain on deemed disposal of a subsidiary	—	(880)
Operating cash flows before movements in working capital	1,647,318	784,618
Decrease (increase) in inventories	41,916	(73,018)
Increase in trade and other receivables	(209,451)	(118,930)
(Increase) decrease in amounts due from customers for contract work	(90,594)	21,243
(Decrease) increase in trade and other payables	(281,434)	393,270
Increase in amounts due to customers for contract work	614,355	99,774
Cash generated from operations	1,722,110	1,106,957
PRC Enterprise Income Tax paid	(220,349)	(100,296)
NET CASH FROM OPERATING ACTIVITIES	1,501,761	1,006,661

	NOTES	2010 HK$'000	2009 HK$'000 (Restated)
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		93,793	65,704
Acquisition of jointly controlled entities	37	144,072	299,116
Repayment from fellow subsidiaries		97,925	55,432
Government grants received		77,979	14,467
Interest received		51,715	23,661
Decrease (increase) in pledged bank deposits		5,056	(15,967)
Dividend received from associates		2,902	3,880
Proceeds from disposal of prepaid lease payments		—	11,742
Proceeds from disposal of available-for-sale investments		453	10,453
Dividends received from available-for-sale investments		440	2,416
Payments and deposits for acquisition of property, plant and equipment		(1,706,280)	(675,465)
Prepaid lease payments made		(166,947)	(63,408)
Acquisition of subsidiaries	36	(54,425)	(266,925)
Payments for operating rights		(17,335)	(18,319)
Deposits for acquisition of prepaid lease payments		(7,820)	(44,273)
Investment in associates		(2,812)	—
Payments for acquisition of available-for-sale investments		(2,428)	(611)
Payments for acquisition of investment properties		(521)	—
Deposits for investments		—	(1,321,423)
Proceeds from disposal of investment properties		—	231
NET CASH USED IN INVESTING ACTIVITIES		(1,484,233)	(1,919,289)

	NOTES	2010 HK$'000	2009 HK$'000 (Restated)
FINANCING ACTIVITIES			
New bank and other borrowings raised		3,683,911	2,475,677
Placing of shares		2,472,500	—
Contribution from non-controlling interest of subsidiaries		254,525	115,576
Advances from fellow subsidiaries		249,625	82,683
Proceeds from disposal of shares held for share award scheme		21,290	—
Share issued upon exercise of share options		196	—
Repayment to a fellow subsidiary		(1,600,000)	—
Repayments of bank and other borrowings		(1,023,000)	(32,913)
Acquisition of additional interests in subsidiaries		(75,672)	(26,424)
Dividends paid		(91,990)	(84,865)
Interest paid on bank and other borrowings		(77,097)	(37,604)
Dividends paid to a fellow subsidiary which is a former shareholder of subsidiaries		(27,044)	(23,040)
Dividends paid to non-controlling interest of subsidiaries		(17,279)	(31,406)
Share issue expenses		(14,275)	—
Repayment of advances from immediate holding company		—	(21,178)
Purchase of shares under share award scheme	34(ii)	—	(253,999)
NET CASH FROM FINANCING ACTIVITIES		3,755,690	2,162,507
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,773,218	1,249,879
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,671,838	1,420,268
EFFECT OF FOREIGN E&CHANGE RATE CHANGES		76,279	1,691
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		6,521,335	2,671,838

Notes to the Consolidated Financial Statements
For the year ended 31st December, 2010

1. GENERAL

The Company is a listed public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's intermediate parent company is CRH, a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp. ("CRNC"), a company established in the PRC. The addresses of registered office and principal place of business of the Company are disclosed in the Corporate Information in the annual report.

The functional currency of the Company is Renminbi. The Company uses Hong Kong dollars as its presentation currency because the Company is a public company with its shares listed on the Stock Exchange.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 45, 46 and 47, respectively.

2. BASIS OF PREPARATION

During the year, the Company acquired 100% equity interests in Mega Fair on 25th October, 2010 for a consideration of HK$2,221,155,000 which was settled by allotment and issue of 186,654,223 shares of the Company. The consideration disclosed in the Company's circular dated 25th October, 2010 was HK$2,000,000,000, represented by 186,654,223 shares in the Company at HK$10.715 per share. The difference from the final consideration of HK$2,221,155,000 which is arrived at using the share price of HK$11.9 on completion date of the acquisition, was due to the fluctuation in share price of the Company during the period from date of circular and the date of completion of acquisition. In the previous financial year, the Company acquired 100% equity interests in Top Steed on 19th October, 2009 for a cash consideration of HK$1,600,000,000 (details are set out in the Company's circular dated 2nd October, 2009). The Group, Top Steed Group and Mega Fair Group are engaged in sales of liquefied gas and connection of gas pipelines in the PRC.

The Group, Top Steed Group and Mega Fair Group are ultimately controlled by CRNC before and after the group reorganisation, and that control is not transitory. The Group, Top Steed Group and Mega Fair Group are regarded as continuing entities as at the dates of business combinations and hence the acquisitions have been accounted for as combinations of entities under common control by applying the principles of merger accounting in accordance with AG 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. Accordingly, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the two years ended 31st December, 2009 and 2010 include the results of operations, changes in equity and cash flows of the companies now comprising the Group as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the two years ended 31st December, 2009 and 2010, or since their respective dates of incorporation or establishment where this is a shorter period, except for the jointly controlled entities acquired by Mega Fair Group during the two years ended 31st December, 2009 and 2010 as disclosed in Note 37, which are included in the consolidated financial statements since their respective dates of acquisitions. The consolidated statements of financial position of the Group as at 1st January, 2009, 31st December, 2009 and 31st December, 2010 have been prepared to present the assets and liabilities of the companies now comprising the Group as if current group structure had been in existence as at the respective dates, except for the jointly controlled entities acquired by Mega Fair Group during the two years ended 31st December, 2009 and 2010 as disclosed in Note 37, which are combined since their respective dates of acquisition.

Apart from the aforesaid business combination of entities under common control, the Group has reclassified a bank loan of HK$300,000,000 at 31st December, 2009, to conform with the requirement of HK INT 5 "Presentation of financing statements - Classification by the borrower of a term loan that contains a repayment on demand clause" as set out in Note 3. The Group has also retrospectively adjusted the provisional fair values of the assets and liabilities of a subsidiary and jointly controlled entities acquired during the year ended 31st December, 2009 to reflect the fair value adjustments made upon completion of the purchase accounting during the current year. Adjustments have been made retrospectively to property, plant and equipment, deferred tax liabilities, non-controlling interests, goodwill and discount on acquisition as set out in Notes 36 and 37.

(a) The effects of those restatements described above on the consolidated statement of comprehensive income during the year ended 31st December, 2009 are as follow:

	2009	**Effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities**	**Effect of business combination of entities under common control**	**Elimination**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)	*(Notes 36 and 37)*			*(Restated)*
Turnover					
Continuing operations	3,746,779	—	372,686	(9,314)	4,110,151
Cost of sales	(2,586,070)	(16,332)	(265,255)	9,314	(2,858,343)
Gross profit	1,160,709	(16,332)	107,431	—	1,251,808
Other income	140,694	—	24,159	—	164,853
Selling and distribution expenses	(231,969)	—	(46,908)	—	(278,877)
Administrative expenses	(409,501)	(2,068)	(49,090)	—	(460,659)
	659,933	(18,400)	35,592	—	677,125
Finance costs	(39,878)	—	(480)	—	(40,358)
Share of results of associates	7,187	—	—	—	7,187
Profit before taxation					
Continuing operations	605,268	(18,400)	35,112	—	621,980
Discontinued operations	21,974	—	—	—	21,974
	627,242	(18,400)	35,112	—	643,954

	2009 HK$'000 (Originally stated)	Effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities HK$'000 (Notes 36 and 37)	Effect of business combination of entities under common control HK$'000	Elimination HK$'000	2009 HK$'000 (Restated)
Taxation					
Continuing operations	(86,896)	4,600	(3,079)	—	(85,375)
Discontinued operations	—	—	—	—	—
	(86,896)	4,600	(3,079)	—	(85,375)
Profit for the year					
Continuing operations	518,372	(13,800)	32,033	—	536,605
Discontinued operations	21,974	—	—	—	21,974
	540,346	(13,800)	32,033	—	558,579
Other comprehensive income for the year					
Exchange differences arising on translation of foreign operations	(4,184)	—	5,100	—	916
Fair value gain on available-for-sale investments	326	—	106	—	432
Share of other comprehensive income of associates	5	—	—	—	5
	(3,853)	—	5,206	—	1,353
Total comprehensive income for the year	536,493	(13,800)	37,239	—	559,932
Profit for the year attributable to:					
Owners of the Company					
Continuing operations	421,599	(7,997)	23,998	—	437,600
Discontinued operations	21,974	—	—	—	21,974
	443,573	(7,997)	23,998	—	459,574
Non-controlling interests	96,773	(5,803)	8,035	—	99,005
	540,346	(13,800)	32,033	—	558,579
Total comprehensive income for the year attributable to:					
Owners of the Company					
Continuing operations	419,683	(7,997)	25,173	—	436,859
Discontinued operations	21,974	—	—	—	21,974
	441,657	(7,997)	25,173	—	458,833
Non-controlling interests	94,836	(5,803)	12,066	—	101,099
	536,493	(13,800)	37,239	—	559,932

(b) The effect of the finalisation of accounting for a subsidiary and jointly controlled entities described above on results by line items presented in the consolidated statement of comprehensive income during the year ended 31st December, 2010 is as follows:

	2010
	HK$'000
Increase in costs of sales	16,332
Increase in administrative expenses	2,068
Decrease in taxation	(4,600)
Decrease in profit for the year	13,800

(c) The effect of those restatements described above on the consolidated statement of financial position as at 1st January, 2009 is as follows:

	1.1.2009	**Effect of business combination of entities under common control**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
	(Originally stated)		*(Restated)*
Non-current assets			
Property, plant and equipment	1,641,992	163,181	1,805,173
Prepaid lease payments	129,942	15,393	145,335
Investment properties	7,909	—	7,909
Interest in associates	10,272	—	10,272
Available-for-sale investments	9,440	454	9,894
Goodwill	41,925	5,872	47,797
Operating rights	637,030	2,533	639,563
Deferred tax assets	1,312	—	1,312
Deposits for investments	84,940	—	84,940
	2,564,762	187,433	2,752,195

	1.1.2009 *HK$'000* *(Originally stated)*	Effect of business combination of entities under common control *HK$'000*	1.1.2009 *HK$'000* *(Restated)*
Current assets			
Inventories	51,498	4,452	55,950
Trade and other receivables	328,312	24,304	352,616
Amounts due from customers for contract work	193,920	9,751	203,671
Prepaid lease payments	3,828	810	4,638
Amounts due from fellow subsidiaries	37,335	200	37,535
Pledged bank deposits	740	—	740
Bank balances and cash	1,346,770	73,498	1,420,268
	1,962,403	113,015	2,075,418
Current liabilities			
Trade and other payables	1,175,172	13,917	1,189,089
Amounts due to customers for contract work	413,823	45,564	459,387
Amounts due to fellow subsidiaries	239	22	261
Amount due to an intermediate holding company	17,039	—	17,039
Bank and other borrowings	107,790	3,408	111,198
Taxation payable	17,808	42	17,850
	1,731,871	62,953	1,794,824
Net current assets	230,532	50,062	280,594
	2,795,294	237,495	3,032,789

	1.1.2009 *HK$'000* *(Originally stated)*	Effect of business combination of entities under common control *HK$'000*	1.1.2009 *HK$'000* *(Restated)*
Capital and reserves			
Share capital	141,442	—	141,442
Reserves	2,087,405	144,482	2,231,887
Equity attributable to owners of the Company	2,228,847	144,482	2,373,329
Non-controlling interests	310,543	65,387	375,930
	2,539,390	209,869	2,749,259
Non-current liabilities			
Bank and other borrowings	39,494	—	39,494
Other long-term liabilities	73,309	27,626	100,935
Deferred tax liabilities	143,101	—	143,101
	255,904	27,626	283,530
	2,795,294	237,495	3,032,789

(d) The effect of those restatements described above on the consolidated statement of financial position as at 31st December, 2009 is as follows:

	31.12.2009	Effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities	Effect of business combination of entities under common control	Elimination	Reclassification of a bank loan with repayment on demand clause	31.12.2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)	*(Notes 36 and 37)*				*(Restated)*
Non-current assets						
Property, plant and equipment	2,749,535	475,022	855,407	—	—	4,079,964
Prepaid lease payments	171,588	18,768	74,945	—	—	265,301
Investment properties	11,358	—	—	—	—	11,358
Interest in associates	17,732	—	4,001	—	—	21,733
Available-for-sale investments	18,545	—	4,106	—	—	22,651
Goodwill	352,088	(179,036)	19,615	—	—	192,667
Operating rights	632,061	—	4,106	—	—	636,167
Deferred tax assets	49,614	—	1,965	—	—	51,579
Deposit for prepaid lease payments	44,273	—	—	—	—	44,273
Deposits for investments	1,321,423	—	—	—	—	1,321,423
	5,368,217	314,754	964,145	—	—	6,647,116

	31.12.2009	**Effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities**	**Effect of business combination of entities under common control**	**Elimination**	**Reclassification of a bank loan with repayment on demand clause**	**31.12.2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)	*(Notes 36 and 37)*				*(Restated)*
Current assets						
Inventories	132,644	—	27,845	—	—	160,489
Trade and other receivables	565,521	—	102,873	—	—	668,394
Amounts due from customers for contract work	243,075	—	10,822	—	—	253,897
Prepaid lease payments	11,389	846	930	—	—	13,165
Amounts due from fellow subsidiaries	5,011	—	279,087	(1,541)	—	282,557
Pledged bank deposits	19,262	—	—	—	—	19,262
Bank balances and cash	2,226,689	—	445,149	—	—	2,671,838
	3,203,591	846	866,706	(1,541)	—	4,069,602

	31.12.2009	**Effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities**	**Effect of business combination of entities under common control**	**Elimination**	**Reclassification of a bank loan with repayment on demand clause**	**31.12.2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)	*(Notes 36 and 37)*				*(Restated)*
Current liabilities						
Trade and other payables	1,641,329	—	362,216	—	—	2,003,545
Amounts due to customers for contract work	711,091	—	36,579	—	—	747,670
Amounts due to fellow subsidiaries	22,646	—	1,541	(1,541)	—	22,646
Government grants	1,022	—	—	—	—	1,022
Bank and other borrowings	1,039,653	—	—	—	300,000	1,339,653
Taxation payable	58,689	—	2,931	—	—	61,620
	3,474,430	—	403,267	(1,541)	300,000	4,176,156
Net current liabilities	(270,839)	846	463,439	—	(300,000)	(106,554)
	5,097,378	315,600	1,427,584	—	(300,000)	6,540,562

	31.12.2009 HK$'000 (Originally stated)	Effect of the finalisation of accounting for acquisition of a subsidiary and jointly controlled entities HK$'000 (Notes 36 and 37)	Effect of business combination of entities under common control HK$'000	Elimination HK$'000	Reclassification of a bank loan with repayment on demand clause HK$'000	31.12.2009 HK$'000 (Restated)
Capital and reserves						
Share capital	141,442	—	—	—	—	141,442
Reserves	889,943	58,461	1,335,067	—	—	2,283,471
Equity attributable to owners of the Company	1,031,385	58,461	1,335,067	—	—	2,424,913
Non-controlling interests	536,189	133,480	62,936	—	—	732,605
	1,567,574	191,941	1,398,003	—	—	3,157,518
Non-current liabilities						
Government grants	13,349	—	—	—	—	13,349
Bank and other borrowings	1,691,800	—	—	—	(300,000)	1,391,800
Other long-term liabilities	86,122	—	28,970	—	—	115,092
Amount due to a fellow subsidiary	1,600,000	—	—	—	—	1,600,000
Deferred tax liabilities	138,533	123,659	611	—	—	262,803
	3,529,804	123,659	29,581	—	(300,000)	3,383,044
	5,097,378	315,600	1,427,584	—	(300,000)	6,540,562

(e) The effect of those restatements described above on the Group's basic and diluted earnings per share for the year ended 31st December, 2009 and 2010 is as follows:

	2010		**2009**	
	Impact on basic earnings per share	**Impact on diluted earnings per share**	**Impact on basic earnings per share**	**Impact on diluted earnings per share**
	HK$	*HK$*	*HK$*	*HK$*
From continuing and discontinued operations				
Figures before adjustments	0.42	0.42	0.33	0.33
Adjustments arising from finalisation of accounting for acquisition of a subsidiary and jointly controlled entities	(0.01)	(0.01)	(0.01)	(0.01)
Adjustments arising from business combination of entities under common control	0.10	0.10	0.02	0.02
Figures after adjustments	0.51	0.51	0.34	0.34
From continuing operations				
Figures before adjustments	0.42	0.42	0.32	0.32
Adjustments arising from finalisation of accounting for acquisition of a subsidiary and jointly controlled entities	(0.01)	(0.01)	(0.01)	(0.01)
Adjustments arising from business combination of entities under common control	0.10	0.10	0.02	0.02
Figures after adjustments	0.51	0.51	0.33	0.33

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards and interpretations issued by the HKICPA.

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 24 (Revised)	Related party disclosures in relation to the partial exemption in paragraphs 25 to 27 for government-related entities
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners
HK — INT 5	Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the adoption of the new and revised standards and interpretations in the current year had no material effect on the amounts reported in these consolidated financial statements.

HKAS 27 (as revised in 2008) "Consolidated and separate financial statements"

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1st January, 2010 in accordance with the relevant transitional provisions.

The application of the revised standard has affected the accounting for the Group's acquisition of additional interest in subsidiaries. The difference of HK$74,032,000 between the consideration paid amounting to HK$75,672,000 and the non-controlling interests adjusted amounting to HK$1,640,000 was recognised directly in equity, instead of goodwill. In addition, the cash consideration paid in the current year of HK$75,672,000 has been included in cash flows from financing activities.

Hong Kong Interpretation 5 "Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause" ("HK INT 5")

HK INT 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. HK INT 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, a bank loan that contains a repayment on demand clause with carrying amount of HK$300,000,000 has been reclassified from non-current liabilities to current liabilities as at 31st December, 2009. As at 31st December, 2010, this bank loan (that is repayable more than one year after the end of the reporting period but contains a repayment on demand clause) with carrying amount of HK$300,000,000 has been classified as current liabilities. The application of HK INT 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loan has been presented in the earliest time band in the maturity analysis for financial liabilities (see Note 7 for details).

HKAS 24 (Revised) "Related party disclosures"

HKAS 24 (Revised) "Related party disclosures" modifies the definition of a related party and simplifies related party disclosures for government-related entities. HKAS 24 (Revised) provides a partial exemption from the disclosure requirements for government-related entities. The Group has early partially adopted the paragraphs 25 to 27 of HKAS 24 (Revised) relating to partial exemption from the disclosure requirements for government-related entities in the current year in advance of its effective date.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective, except for the partial exemption from disclosure requirement for government-related entities in accordance with HKAS 24 (Revised).

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) — INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1st July 2010 or 1st January 2011 as appropriate.

2 Effective for annual periods beginning on or after 1st July 2010.

3 Effective for annual periods beginning on or after 1st July 2011.

4 Effective for annual periods beginning on or after 1st July 2013.

5 Effective for annual periods beginning on or after 1st July 2012.

6 Effective for annual periods beginning on or after 1st July 2011.

7 Effective for annual periods beginning on or after 1st February 2010.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments may be recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

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

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1st January, 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the

Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits, as appropriate). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" ("HKAS 39") or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1st January, 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations

Business combinations that took place on or after 1st January, 2010

Acquisitions of businesses that are not combinations of business under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with sharebased payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-bytransaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Acquisition of businesses that are not combinations of business under common control was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

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

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Merger accounting for business combinations involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the ultimate controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period and up to the date of disposal, as appropriate.

The comparative amounts in the consolidated financial statements are restated as if the entities or businesses had been combined at the previous reporting period or when they first came under common control, whichever is shorter and up to the date of disposal, as appropriate.

Goodwill

Goodwill arising on an acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in jointly controlled entities

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

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

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

Revenue from a construction contract for gas connection is recognised when the outcome of a construction contract for gas connection can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas connection are recognised using the percentage of completion method, measured by reference to the cost incurred during the year relative to the estimated total costs of the contract. When the outcome of a construction contract for gas connection cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Connection fee income is recognised upon the connection of pipelines of customers to the Group's existing gas pipelines.

Revenue from gas supply is recognised when gas is used by customers.

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

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component classified as an operating lease is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses and are classified as property, plant and equipment. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

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

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

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

Construction contracts

When the outcome of a construction contract for gas connection can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract for gas connection cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

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

Intangible assets

Intangible assets refer to the operating rights for city pipeline network.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss in the period when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets.

Loans and receivables

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

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, or heldto-maturity investments. The Group designated listed and unlisted equity securities as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period, except for available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less any identified impairment losses at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for the financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For investments in equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and acummulated in investment revaluation reserve.

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

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

Financial liabilities and equity

Financial liabilities, including trade and other payables, bank and other borrowings, amounts due to fellow subsidiaries, amount due to an intermediate holding company, long-term payables and other long-term liabilities, are measured at amortised cost, using the effective interest method subsequent to initial recognition.

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

Equity instruments

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

Derecognition

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As lessor

Rental income from operating leases is recognised in profit or loss a straight-line basis over the relevant lease term.

As lessee

Operating lease payments are recognised as an expense on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/statemanaged retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rates of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (translation reserve).

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

Equity-settled share-based payment transactions

Share options and equity incentive scheme granted to employees after 7th November, 2002 and vested on or after 1st January, 2005

For share option schemes, the fair value of services received, determined by reference to the fair value of share options granted at the grant date, is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

At the end of each reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in the profit or loss, with a corresponding adjustment to the share option reserve.

For share award schemes, the cost of acquisition of the Company's shares held for the share award scheme is recorded as treasury shares (shares held for share award scheme). The shares held for the share award scheme will be disposed of for cash which will be distributed to the employees.

When the shares held for share award scheme are disposed of and the resulting proceeds from disposal are distributed to the employees, the proceeds distributed to employees are recognised as expenses (staff costs), and the difference between the consideration received and the cost of the shares will be credited to retained profits.

Share options and equity incentive scheme granted to employees on or before 7th November, 2002, or granted after 7th November, 2002 and vested before 1st January, 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Impairment losses of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying the Group's accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

Application of principles of merger accounting

As mentioned in Note 2, combinations of entities under common control are accounted for by applying principles of merger accounting in accordance with AG 5 issued by the HKICPA. The management considers merger accounting reflects the economic substance of such combinations, not merely the legal form, in the absence of a standard or an interpretation that specifically deals with common control combinations, as the Group and the entities acquired by the Group under these combinations are regarded as combining entities as at the dates of business combinations.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. The key estimates and assumptions that may 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.

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment due to the change of commercial and technological environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.

The carrying amount of property, plant and equipment at 31st December, 2010 is HK$7,810,391,000 (31st December, 2009: HK$4,079,964,000 and 1st January, 2009: HK$1,805,173,000).

Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value in use calculations. These calculations and valuations require the use of judgement and estimates on future operating cash flows and discount rates adopted. In case where the recoverable amounts of property, plant and equipment assessed are less than expected, a material recognition of impairment of property, plant and equipment may arise, which would be recognised in profit or loss in the period in which such recognition takes place. No impairment loss was recognised for property, plant and equipment for both years.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the

Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2010, the carrying amount of goodwill is HK$890,511,000 (31st December, 2009: HK$192,667,000 and 1st January, 2009: HK$47,797,000). Details of the recoverable amount calculation are disclosed in Note 21.

Impairment of operating rights

At the end of the reporting period, management reconsidered the recoverability of its operating rights arising from acquisition of businesses/assets, in which the carrying amount at 31st December, 2010 is HK$674,121,000 (31st December, 2009: HK$636,167,000 and 1st January, 2009: HK$639,563,000). Recoverability analysis has been carried out by the management annually and details of the recoverable amount calculation are disclosed in Note 22. Any change in the business environment may lead to the change of expected future cashflows in the future. If the future recoverable amounts falls below the carrying amounts, additional impairment loss of operating rights is required.

Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are made on trade debtors whenever there is any objective evidence that the balances may not be collectible. The Group makes judgement in assessing the collectability based on observable data including creditworthiness and payment history of the customers (for details please refer to Note 24). When objective evidence for allowance exists, the amount of allowance is the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the original effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade debtors, net of allowance, at 31st December, 2010 is HK$499,609,000 (31st December, 2009: HK$136,279,000 and 1st January, 2009: HK$71,775,000).

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31st December, 2010, the carrying amount of inventories is HK$236,968,000 (31st December, 2009: HK$160,489,000 and 1st January, 2009: HK$55,950,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of bank and other borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements.

The capital structure of the Group consists of debts, which include bank and other borrowings, bank balances and equity attributable to owners of the Company, comprising issued capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the associated risk, and take appropriate actions to adjust the Group's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Financial assets			
Loans and receivables (including cash and cash equivalents)	7,429,310	3,280,612	1,625,742
Available-for-sale investments	41,721	22,651	9,894
Financial liabilities			
At amortised cost	7,867,116	5,275,510	621,498

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amounts due from/to fellow subsidiaries, pledged bank deposits, bank balances and cash, trade and other payables, amount due to an intermediate holding company, bank and other borrowings and other long-term liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than the functional currency of the respective group entities, which are mainly amounts due from/to fellow subsidiaries, pledged bank deposits, bank balances and cash, trade and other payables and bank and other borrowings, at the end of the reporting period are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
Assets		
United States dollars	175,531	34,529
Hong Kong dollars	1,788,948	316,891
	1,964,479	351,420
Liabilities		
Hong Kong dollars	4,992,500	4,023,000
Euro	17,385	20,050
	5,009,885	4,043,050

The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi ("RMB"), the functional currency of the group entities, against relevant foreign currencies. 5% is the sensitivity rate which represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% change in foreign currency rates. A positive (negative) number indicates an increase (decrease) in post-tax profit for the year when RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal but opposite impact on the profit for the year.

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
United States dollars		
Post-tax profit for the year	(8,777)	(1,726)
Hong Kong dollars		
Post-tax profit for the year	160,178	185,305
Euro		
Post-tax profit for the year	869	1,003

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

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate amount due to a fellow subsidiary and bank and other borrowings (see Notes 26 and 30 for details of these borrowings). The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings (see Note 30 for details of these borrowings). The management monitors interest rate exposure and will consider repay the fixed-rate borrowings when significant interest rate exposure is anticipated.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances (see Note 27 for details of these deposits). The management considers the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity period.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for interest bearing bank balances, amount due to a fellow subsidiary and bank and other borrowings. The analysis is prepared assuming those balances outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis point increase or decrease which represents the management's assessment of the reasonably possible change in interest rates is used.

If the interest rate on bank balances and pledged bank deposits carried at variable rates had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit for the year ended 31st December, 2010 would increase by approximately HK$32,681,000 (2009: HK$13,456,000). If the interest rate on floating-rate bank and other borrowings (including amount due to a fellow subsidiary) had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit for the year ended 31st December, 2010 would decrease by approximately HK$26,271,000 (2009: HK$21,024,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances with variable rates, floating-rate bank and other borrowings and amount due to a fellow subsidiary.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's borrowings denominated in Hong Kong dollars and People's Bank of China Base Rate arising from the Group's borrowings denominated in RMB and Euro.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 41. In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out searches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group considers that the credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

At 31st December, 2010, the Group has concentration of credit risk in relation to the receivables from fellow subsidiaries amounting to HK$32,813,000 (31st December, 2009: HK$282,557,000 and 1st January, 2009: HK$37,535,000). In order to minimise the credit risk, the management has reviewed the recoverable amount of each receivable from its fellow subsidiaries at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants, if any.

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

	Weighted average interest rate	On demand	Less than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2010							
Trade and other payables	—	823,028	894,662	—	—	1,717,690	1,717,690
Amounts due to fellow subsidiaries	—	399,301	—	—	—	399,301	399,301
Bank and other borrowings	2.00%	300,000	204,210	5,256,737	84,961	5,845,908	5,625,838
Other long-term liabilities	3.93%	—	9,598	52,338	115,621	177,557	124,287
Financial guarantee contracts (Note)	—	—	67,690	—	—	67,690	—
		1,522,329	1,176,160	5,309,075	200,582	8,208,146	7,867,116
At 31st December, 2009 (restated)							
Trade and other payables	—	308,207	498,112	—	—	806,319	806,319
Amounts due to fellow subsidiaries	1.71%	22,646	—	1,627,337	—	1,649,983	1,622,646
Bank and other borrowings	2.01%	300,000	1,092,942	1,402,803	16,651	2,812,396	2,731,453
Other long-term liabilities	3.93%	—	7,858	49,872	106,644	164,374	115,092
Financial guarantee contracts (Note)	—	—	65,419	—	—	65,419	—
		603,853	1,664,331	3,080,012	123,295	5,498,491	5,275,510

Note: The amounts for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount as stated in Note 41 if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities classified as available-for-sale investments (see Note 20). The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on shares listed on the Shanghai Stock Exchange. In addition, the management of the Group monitors the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the listed equity instruments had been 5% (2009: 5%) higher/lower, the investment valuation reserve will increase by HK$1,324,000 or the post-tax profit for the year will decrease by HK$1,324,000 (2009: investment valuation reserve will increase/ decrease by HK$587,000).

The Group's sensitivity to available-for-sale investments has not changed significantly from the prior year.

Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices for observable current market transactions as input.

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

8. TURNOVER AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group's operating segments under HKFRS 8 are as follows:

Sale and distribution of gas fuel and related products — sale of liquefied petroleum gas and natural gas for residential, commercial and industrial use

Gas connection — connection fee income and construction contracts for gas connection to the Group's pipelines

Segments results represent the profit before taxation earned by each segment, excluding sundry income, interest income, finance costs, central administration costs, release from prepaid lease payments, discount on acquisitions of subsidiaries and directors' salaries. This is the measure reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

The information of segment revenue, segment results, segment assets and segment liabilities are as follows:

For the year ended 31st December, 2010

Segment revenue and results

	Sale and distribution of gas fuel and related products	Gas connection	Total
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	6,367,889	1,958,858	8,326,747
Result			
Segment results	692,996	807,110	1,500,106
Finance costs			(79,733)
Unallocated income			198,741
Unallocated expenses			(343,735)
Profit before taxation			1,275,379

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Total
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	7,541,453	2,058,269	9,599,722
Deferred tax assets			122,015
Unallocated corporate assets (Note a)			9,437,145
			19,158,882
Liabilities			
Segment liabilities	962,520	2,907,974	3,870,494
Taxation payable			154,272
Deferred tax liabilities			333,574
Unallocated corporate liabilities (Note b)			7,221,183
			11,579,523

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets	1,628,107	—	96,029	1,724,136
Depreciation and amortisation	326,791	—	47,735	374,526
Release of prepaid lease payments	—	—	14,845	14,845
Impairment loss on trade receivables	9,961	—	—	9,961
Loss on disposal of property, plant and equipment	362	—	—	362

For the year ended 31st December, 2009

Segment revenue and results (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Total
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	3,095,802	1,014,349	4,110,151
Result			
Segment results	316,318	371,370	687,688
Finance costs			(40,358)
Unallocated income			90,055
Unallocated expenses			(115,405)
Profit before taxation			621,980

Segment assets and liabilities (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	4,295,792	971,004	5,266,796
Deferred tax assets			51,579
Unallocated corporate assets (Note a)			5,398,343
			10,716,718
Liabilities			
Segment liabilities	564,288	1,800,613	2,364,901
Taxation payable			61,620
Deferred tax liabilities			262,803
Unallocated corporate liabilities (Note b)			4,869,876
			7,559,200

At 1st January, 2009

Other information (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets	731,457	—	47,281	778,738
Depreciation and amortisation	170,098	—	22,072	192,170
Release of prepaid lease payments	—	—	9,723	9,723

Segment assets and liabilities (restated)

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	2,188,865	587,267	2,776,132
Deferred tax assets			1,312
Unallocated corporate assets (Note a)			2,050,169
			4,827,613
Liabilities			
Segment liabilities	212,912	1,087,706	1,300,618
Taxation payable			17,850
Deferred tax liabilities			143,101
Unallocated corporate liabilities (Note b)			616,785
			2,078,354

Geographical information

The Group's turnover and non-current assets (excluded financial instruments and deferred tax assets) are arisen in and located in the PRC during both years.

Information about major customers

No single external customer contributed revenue from transactions amounting to 10% or more of the revenue of the Group during both years.

Notes:

(a) Unallocated corporate assets represent goodwill arising on acquisition of subsidiaries and jointly controlled entities which are engaged in sale and distribution of gas fuel and related products and gas connection, investment properties, prepaid lease payments, interest in associates, deposit for acquisition of prepaid lease payments, deposits for investments, available-for-sale investments, other receivables, amounts due from fellow subsidiaries, pledged bank deposits and bank balances and cash.

(b) Unallocated corporate liabilities represent other payables, accrued expenses, amounts due to fellow subsidiaries/an intermediate holding company, bank and other borrowings and other long-term liabilities (excluding payable for acquisition of operating rights). The amounts due to fellow subsidiaries/an intermediate holding company and bank and other borrowings are classified as unallocated corporate liabilities because they are managed centrally by the treasury function of the Group.

9. FINANCE COSTS

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
Interests on:		
Bank and other borrowings wholly repayable within five years (including bank loan with repayment on demand clause)	51,356	31,128
Bank and other borrowings not wholly repayable within five years	1,300	1,414
Amount due to a fellow subsidiary	24,441	5,542
Other long-term liabilities	2,636	2,274
	79,733	40,358

10. TAXATION

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
The tax charge (credit) comprises:		
Current taxation		
PRC Enterprise Income Tax	296,698	131,707
!nderprovision in prior year	3,687	2,104
	300,385	133,811
Deferred taxation (Note 32)		
Charge (credit) for the year	4,595	(48,436)
	304,980	85,375

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year. The Company and its subsidiaries operating in Hong Kong do not have assessable profits, accordingly, no provision for Hong Kong Profits Tax has been provided in the consolidated financial statements.

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

Certain subsidiaries operating in the PRC are exempted from income tax applicable in the PRC for two years starting from the first profit making year after utilisation of the tax losses brought forward and were granted a 50% relief for the following three years.

Certain jointly controlled entities which are operating in the Western China have been granted tax concessions by the local tax bureau and are entitled to PRC Enterprise Income Tax at concessionary rate of 15%.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2010 No. 1, only the profits earned by foreign-investment enterprise prior to 1st January, 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Law and Article 91 of its Detailed Implementation Rules.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation	1,275,379	643,954
Tax at the applicable income tax rate of 25% (2009: 25%) (Note)	318,845	160,989
Tax effect of expenses not deductible for tax purposes	25,547	22,883
Tax effect of income not taxable for tax purposes	(6,067)	(13,092)
Tax effect of share of results of associates	3,881	1,797
Tax effect of tax losses not recognised	19,463	1,925
Utilisation of tax losses previously not recognised	(7,052)	(2,772)
Tax effect of deductible temporary differences not recognized	257	454
Effect of tax exemptions granted to subsidiaries operating in the PRC	(50,633)	(36,844)
Income tax at concessionary rates	(33,076)	(11,861)
Effect of different tax rates of subsidiaries	(6,667)	(19,326)
Withholding tax for undistributed profits of investments in the PRC	30,000	—
Underprovision in prior year	3,687	2,104
Others	6,795	(20,882)
Tax charge for the year	304,980	85,375

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 25% for the two years ended 31st December, 2010 and 2009, of which the Group's operations are substantially based.

11. DISCONTINUED OPERATIONS

Profit before taxation from discontinued operations during the year ended 31st December, 2009 consisted of gain on disposal of property, plant and equipment and prepaid lease payments of HK$11,521,000 and gain on disposal of available-for-sale investments of HK$10,453,000 in respect of the semiconductor operation which was discontinued during the year ended 31st December, 2009. The net cash inflow of the semiconductor operation for the year ended 31st December, 2009 was HK$32,195,000.

12. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Profit for the year from both continuing and discontinued operations has been arrived at after charging:		
Staff costs		
Directors' emoluments (Note 13)	12,418	2,738
Other staff		
- Salaries and other benefits	620,152	263,358
- Retirement benefits schemes contributions	78,762	43,064
Total staff costs	711,332	309,160
Auditor's remuneration	3,518	2,800
Depreciation of property, plant and equipment	345,237	167,917
Depreciation of investment properties	624	436
Amortisation of operating rights (included in administrative expenses)	28,665	23,817
Release of prepaid lease payments	14,845	9,723
Impairment loss on trade receivables	9,961	—
Operating lease rentals in respect of rented premises	28,383	16,580
Loss on disposal of property,plant and equipment	362	—
and after crediting:		
Dividend income from available-for-sale investments	440	2,416
Gain on deemed disposal of a subsidiary	—	880
Gain on disposal of prepaid lease payments	—	6,239
Gain on disposal of property,plant and equipment	—	49,040
Gain on disposal of available-for-sale investments	280	12,068
Government grants	39,529	96
Interest on bank deposits	51,715	23,661
Rental income from investment properties (net of negligible outgoings)	1,836	344

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors

The emoluments paid or payable to the directors are as follows:

		2010					
Name of Director		Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit schemes contributions	Total	2009 Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Ma Guoan		70	1,647	3,267	72	5,056	35
Wang Chuandong		70	1,300	2,635	72	4,077	35
Ong Thiam Kin, Ken		70	1,560	850	173	2,653	2,213
Wei Bin		70	—	—	—	70	35
Li Fuzuo		42	—	—	—	42	30
Du Wenmin	a	70	—	—	—	70	30
Wong Tak Sing	a	150	—	—	—	150	120
Luk Chi Cheong	a	150	—	—	—	150	120
Yang Chonghe, Howard		31	—	—	—	31	120
Yu Jian	b	119	—	—	—	119	—
		842	4,507	6,752	317	12,418	2,738

Notes:

(a) Being independent non-executive directors and members of the Audit Committee.

(b) Being independent non-executive director.

(c) Share-based payment expense is recognised based on the estimated fair value of the share options granted to directors at the date of grant. No such expense was recognised for both years.

Performance related incentive payments were determined with reference to the Group's operating results, individual performances and comparable market statistics.

Employees

The five highest paid individuals of the Group included three (2009: one) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2009: four) highest paid employees of the Group are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Salaries and other benefits	1,250	1,578
Performance related incentive payments	4,020	2,644
Retirement benefit schemes contributions	92	720
	5,362	4,942

The emoluments of the above employees are within the following bands:

	2010	**2009**
	Number of employees	*Number of employees*
Nil to HK$1,000,000	—	2
HK$1,000,001 to HK$1,500,000	—	—
HK$1,500,001 to HK$2,000,000	—	2
HK$2,000,001 to HK$2,500,000	—	—
HK$2,500,001 to HK$3,000,000	2	—

14. DIVIDENDS

	2010	**2009**
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Interim dividend of 2.00 HK cents per share paid for 2010 (2009: paid of 2.00 HK cents per share for 2009)	31,491	28,288
Final dividend paid of 4.50 HK cents per share for 2009 (2009: paid of 4.00 HK cents per share for 2008)	60,499	56,577
	91,990	84,865

The directors recommend the payment of a final dividend of 8 HK cents per share for the year ended 31st December, 2010 (2009: 4.50 HK cents per share).

15. EARNINGS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	733,685	459,574

	2010	2009
		(Restated)
Number of shares:		
Weighted average number of shares in issue less shares held for share award scheme for the purposes of basic earnings per share	1,445,155,924	1,340,743,441
Effect of dilutive potential shares Share options	50,718	—
Weighted average number of shares in issue less shares held for share award scheme for the purposes of diluted earnings per share	1,445,206,642	1,340,743,441

The computation of diluted earnings per share for the year ended 31st December, 2009 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the year.

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

	2010 *HK$'000*	2009 *HK$'000* *(Restated)*
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	733,685	459,574
Less: Profit for the year from discontinued operations attributable to owners of the Company	—	(21,974)
Earnings for the purposes of basic and diluted earnings per share from continuing operations	733,685	437,600

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

For discontinued operations

Basic and diluted earnings per share for the discontinued operations for the year ended 31st December, 2009 were HK$0.01 per share and HK$0.01 per share, respectively, based on the profit from the discontinued operations and the denominators presented above.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Plant, machinery and equipment	Gas pipelines	Furniture and fixtures	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST								
At 1st January, 2009 (restated)	178,126	190,047	1,224,948	35,257	7,483	78,413	354,477	2,068,751
Exchange adjustments	77	70	130	7	(2)	21	99	402
Additions	58,772	69,148	126,341	13,099	220	33,962	458,877	760,419
Acquisition of subsidiaries	11,093	3,528	583,984	545	—	2,423	25,679	627,252
Acquisition of jointly controlled entities	112,338	91,347	573,852	4,113	—	11,167	278,524	1,071,341
Disposals	(8,818)	(22,830)	(5,575)	(4,789)	(1,322)	(3,294)	—	(46,628)
Transfers between categories	68,224	26,844	438,379	419	—	341	(534,207)	—
At 31st December, 2009	419,812	358,154	2,942,059	48,651	6,379	123,033	583,449	4,481,537
Exchange adjustments	38,375	35,113	93,576	4,642	343	10,062	43,593	175,704
Additions	84,995	142,760	229,497	32,730	65	62,713	1,153,520	1,706,250
Acquisition of subsidiaries	143,294	222,321	588,778	14,467	—	32,587	226,495	1,227,942
Acquisition of jointly controlled entities	250,331	99,594	539,815	9,559	2,908	37,591	156,205	1,096,003
Disposals	(9,131)	(14,429)	(85,150)	(1,510)	—	(10,951)	—	(121,171)
Transfers between categories	205,291	50,143	430,751	2,829	—	4,749	(693,763)	—
At 31st December, 2010	1,132,967	893,656	4,689,326	111,368	9,695	259,784	1,469,499	8,566,295
DEPRECIATION AND IMPAIRMENT								
AT 1st January, 2009 (restated)	12,527	43,852	153,539	11,976	2,546	12,307	26,831	263,578
Exchange adjustments	8	19	1	5	—	9	—	42
Provided for the year	15,703	31,434	99,145	7,845	894	12,896	—	167,917
Eliminated on disposals	(2,883)	(20,429)	(606)	(4,683)	(306)	(1,057)	—	(29,964)
At 31st December, 2009	25,355	54,876	252,079	15,143	3,134	24,155	26,831	401,573
Exchange adjustments	5,624	6,547	18,233	2,243	128	3,335	—	36,110
Provided for the year	46,320	82,390	169,416	18,665	10	28,436	—	345,237
Eliminated on disposals	(4,767)	(7,321)	(5,858)	(1,239)	—	(7,831)	—	(27,016)
At 31st December, 2010	72,532	136,492	433,870	34,812	3,272	48,095	26,831	755,904
CARRYING VALUES								
At 31st December, 2010	1,060,435	757,164	4,255,456	76,556	6,423	211,689	1,442,668	7,810,391
At 31st December, 2009	394,457	303,278	2,689,980	33,508	3,245	98,878	556,618	4,079,964
At 1st January, 2009	165,599	146,195	1,071,409	23,281	4,937	66,106	327,646	1,805,173

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, as follows:

Leasehold properties	25 to 40 years or over the relevant lease terms, if shorter
Plant, machinery and equipment	5 to 20 years
Gas pipelines	20 to 30 years
Furniture and fixtures	3 to 12 years
Leasehold improvements	3 to 5 years or over the relevant lease terms, if shorter
Motor vehicles	3⅓ to 10 years

The Group's leasehold properties are situated on land:

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Outside Hong Kong on medium-term lease	1,060,435	394,457	160,881
In Hong Kong on medium-term lease	—	—	4,718
	1,060,435	394,457	165,599

At 31st December, 2010, property, plant and equipment with an aggregate carrying value of nil (31st December, 2009: HK$95,978,000 and 1st January, 2009: nil) are pledged to secure the bank borrowings granted to the Group (Note 30).

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise of land situated:

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Outside Hong Kong on medium-term lease	785,157	278,466	144,470
In Hong Kong on medium-term lease	—	—	5,503
	785,157	278,466	149,973
Analysed for reporting purposes as			
Non-current assets	759,063	265,301	145,335
Current assets	26,094	13,165	4,638
	785,157	278,466	149,973

18. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1st January, 2009	8,733
Exchange adjustments	2
Acquisition of jointly controlled entities	4,114
Disposals	(231)
At 31st December, 2009	12,618
Exchange adjustments	468
Additions	521
At 31st December, 2010	13,607
DEPRECIATION	
At 1st January, 2009	824
Provided for the year	436
At 31st December, 2009	1,260
Exchange adjustments	76
Provided for the year	624
At 31st December, 2010	1,960
CARRYING VALUES	
At 31st December, 2010	11,647
At 31st December, 2009	11,358
At 1st January, 2009	7,909

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using cost model and are classified and accounted for as investment properties. Depreciation is provided to write off the cost of investment properties using straight-line method over the remaining terms of the leases.

At 31st December, 2010 and 2009, all of the Group's investment properties are situated in the PRC with medium terms of leases.

19. INTERESTS IN ASSOCIATES

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Unlisted shares, at cost	57,105	13,356	5,207
Goodwill on acquisition of an associate	3,482	—	—
Share of post-acquisition profits and other comprehensive income, net of dividend received	24,662	8,377	5,065
	85,249	21,733	10,272

Details of the Group's associates at the end of the reporting period are set out in Note 46.

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

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Total assets	966,319	337,652	131,407
Total liabilities	(654,571)	(190,758)	(65,582)
Net assets	311,748	146,894	65,825
The Group's share of net assets of associates	81,767	21,733	10,272
Income	309,977	390,044	
Expenses	275,674	370,042	
Profit for the year	34,303	20,002	
Other comprehensive income	9,524	13	
The Group's share of profit and other comprehensive income of associates	19,187	7,192	

20. AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Listed shares in the PRC, at fair value	26,484	11,745	—
Unlisted equity investments:			
- in Hong Kong, at cost	—	—	9,334
- in the PRC, at cost	15,237	10,906	9,894
	41,721	22,651	19,228
Less: Impairment loss recognised	—	—	(9,334)
	41,721	22,651	9,894

The fair value measurements of the listed shares (Level 1 fair value measurements) are derived from quoted prices in an active market.

The unlisted equity investments are measured at cost less impairment losses at the end of the reporting period because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably.

21. GOODWILL

	HK$'000
CARRYING AMO!NT	
At 1st January, 2009 (restated)	47,797
Exchange adjustments	(620)
Acquisition of additional interest of a subsidiary	13,742
Acquisition of a subsidiary	275,610
Acquisition of jointly controlled entities	35,175
Adjustments to fair value of assets acquired in prior year (see below)	(197,037)
At 31st December, 2009	192,667
Exchange adjustments	1,170
Acquisition of subsidiaries	39,125
Acquisition of jointly controlled entities	657,549
At 31st December, 2010	890,511

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each subsidiary and jointly controlled entity represents a separate CGU for the purpose of goodwill impairment testing. As the subsidiaries and jointly controlled entities are engaged in both "sale and distribution of gas fuel and related products" and "gas connection" segments, the goodwill is not further allocated to each segment. At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of subsidiaries and jointly controlled entities as follows:

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
Jointly controlled entities		
Chongqing Gas Group Corp Ltd (重慶燃氣(集團)有限責任公司) ("Chongqing Gas")	491,537	—
Nanjing Jiangning China Resources Gas Co., Ltd (南京江寧華潤燃氣有限公司) ("Nanjing Jiangning CR Gas")	151,401	—
Subsidiaries		
Wuhan China Resources Gas Co., Ltd* (武漢華潤燃氣有限公司) ("Wuhan CR Gas")	131,348	130,642
Zhengzhou China Resources Gas Co., Ltd.* (鄭州華潤燃氣股份有限公司) ("Zhengzhou Gas")	30,202	—
Datong China-Resources Gas Co., Ltd. (大同華潤燃氣有限公司)	23,089	23,089
Linhai China Resources Gas Company Limited* (臨海華潤燃氣有限公司)	11,624	11,624
Others	51,310	27,312
	890,511	192,667

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by senior management for the next 5 years, which is the general development period for sales of liquefied gas and gas connection business and extrapolates cash flows for the period beyond the budget period based on the estimated growth rate of 4%-6% for the first 8 years and 0% for the remaining 7 years (2009: 0% for 15 years). The rate used to discount the forecast cash flows for the

CGUs is 7.8% (2009: 10.3%). In the opinion of the directors, no material impairment loss of goodwill on gas operation is identified at the end of the reporting period. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

The determination of goodwill arising from the acquisition of subsidiaries amounting to HK$39,125,000 and the acquisition of jointly controlled entities amounting to HK$643,019,000 is based on a provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

During the year ended 31st December, 2010, the identification and determination of fair values of the net identifiable assets acquired of a subsidiary and a jointly controlled entity in 2009 has been completed and the fair value of the property, plant and equipment of Wuhan CR Gas and Luzhou China Resources Xinglu Gas Co., Ltd (瀘州華潤興瀘燃氣有限公司) (“Luzhou CR Gas”) was greater than original estimate. The comparative figures of 2009 have been restated as if the initial accounting had been completed from the respective dates of acquisitions.

The fair value of property, plant and equipment and prepaid lease payments was increased by HK$407,699,000 and HK$16,727,000, respectively, and deferred tax liability was increased by HK$106,107,000 at the respective dates of acquisitions. There was a corresponding reduction in goodwill of HK$179,037,000. Non-controlling interest was increased by HK$139,282,000. The profit for 2009 was also decreased by HK$13,800,000 as a result of additional depreciation expenses (net of deferred taxation of HK$4,600,000).

22. OPERATING RIGHTS

	HK$'000
COST	
At 1st January, 2009 (restated)	715,870
Exchange adjustments	(357)
Additions	18,319
Acquisition of a jointly controlled entity	2,477
At 31st December, 2009	736,309
Exchange adjustments	10,479
Additions	17,335
Acquisition of a subsidiary	17,325
Acquisition of a jointly controlled entity	22,387
At 31st December, 2010	803,835
AMORTISATION	
At 1st January, 2009 (restated)	76,307
Exchange adjustments	18
Provided for the year	23,817
At 31st December, 2009	100,142
Exchange adjustments	907
Provided for the year	28,665
At 31st December, 2010	129,714
CARRYING AMOUNT	
At 31st December, 2010	674,121
At 31st December, 2009	636,167
At 1st January, 2009	639,563

The operating rights for city pipeline network are amortised over the estimated useful life of 10 to 50 years on a straight-line basis.

The Group tests for impairment of operating rights as part of the CGU of sale and distribution of gas fuel and related products as disclosed in Note 21.

23. INVENTORIES

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Construction materials	226,420	132,636	42,983
Finished goods	10,548	27,853	12,967
	236,968	160,489	55,950

24. TRADE AND OTHER RECEIVABLES

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Trade receivables	508,688	136,279	74,398
Less: Allowance for doubtful debts	(9,079)	—	(2,623)
	499,609	136,279	71,775
Other receivables, deposits and prepayments	1,046,017	532,115	280,841
	1,545,626	668,394	352,616

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, which may be extended to 180 days for selected customers depending on their trade volume and settlement terms. The aged analysis of trade receivables, including notes receivables, net of allowance for doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
0 - 90 days	417,451	120,177	59,337
91 - 180 days	50,446	7,455	5,966
Over 180 days	31,712	8,647	6,472
	499,609	136,279	71,775

Included in the Group's trade receivables as at 31st December, 2010 are amounts due from minority shareholders of subsidiaries amounting to HK$25,455,000 (31st December, 2009: HK$6,680,000 and 1st January, 2009: nil), which are aged within 90 days based on the invoice date and not yet past due.

Included in the Group's trade receivables as at 31st December, 2010 are receivables of HK$82,158,000 (31st December, 2009: HK$16,102,000 and 1st January, 2009: HK$12,438,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these receivables.

Aging of trade receivables which are past due but not impaired

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
91 - 180 days	50,446	7,455	5,966
Over 180 days	31,712	8,647	6,472
	82,158	16,102	12,438

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor from the date credit was initially granted. The concentration of credit risk is limited as the Group's customer base comprises of a large number of customers. Accordingly, the directors of the Company believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Included in the allowance for doubtful debts are individually impaired receivables due from certain debtors with an aggregate amount of HK$9,079,000 (31st December, 2009: nil and 1st January, 2009: HK$2,623,000) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these receivables.

Movements in the allowance for doubtful debts

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
At 1st January	—	2,623
Impairment loss recognised	9,961	—
Amounts written off as uncollectible	(882)	(2,623)
At 31st December	9,079	—

25. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Contract costs incurred plus profits recognised	503,583	337,683	292,308
Less: Progress billings	(1,656,581)	(831,456)	(548,024)
	(1,152,998)	(493,773)	(255,716)
Analysis for reporting purposes as:			
Amounts due from customers for contract work	378,633	253,897	203,671
Amounts due to customers for contract work	(1,531,631)	(747,670)	(459,387)
	(1,152,998)	(493,773)	(255,716)

26. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES AND AN INTERMEDIATE HOLDING COMPANY

Except for an amount due to a fellow subsidiary of HK$1,600,000,000 at 31st December, 2009 which was unsecured, interest bearing at HIBOR plus 1.2% per annum and repayable after one year, all other amounts are unsecured, interest free and repayable on demand.

27. BANK BALANCES/PLEDGED BANK DEPOSITS

The bank balances carry interest at market rates ranging from nil to 2.5% (2009: nil to 2.25%) per annum.

At 31st December, 2010, bank deposits of nil (31st December, 2009: nil and 1st January, 2009: HK$740,000) are pledged to banks for utility services and HK$14,875,000 (31st December, 2009: HK$19,262,000 and 1st January, 2009: nil) are pledged as security for trade payable to a supplier of natural gas. The pledged bank deposits carry interest at market rates ranging from 0.4% to 2.25% (2009: 0.7% to 1.4%) per annum.

28. TRADE AND OTHER PAYABLES

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

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
0 - 90 days	534,495	370,110	119,468
91 - 180 days	97,338	27,919	16,694
Over 180 days	264,249	100,083	14,170
	896,082	498,112	150,332

The average credit period on purchases of goods ranges from 7 to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Included in other payables as at 31st December, 2010 are receipts in advance from customers of HK$1,371,323,000 (31st December, 2009: HK$1,038,572,000 and 1st January, 2009: HK$628,319,000) of which the construction work on gas connection projects has not yet commenced. The receipts in advance include advances from minority shareholders of subsidiaries amounting to HK$17,423,000 (31st December, 2009: HK$186,000 and 1st January, 2009: nil).

29. GOVERNMENT GRANTS

At 31st December, 2010, government grants of HK$64,540,000 (31st December, 2009: HK$14,371,000 and 1st January, 2009: nil) mainly represent subsidies granted by PRC governmental authorities for the purpose of financing the acquisition of property, plant and equipment and construction of gas pipelines.

30. BANK AND OTHER BORROWINGS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Bank loans	5,442,998	2,691,034	76,105
Other loans	182,840	40,419	74,587
	5,625,838	2,731,453	150,692
Secured	—	57,923	—
Unsecured	5,625,838	2,673,530	150,692
	5,625,838	2,731,453	150,692
The Group's bank and other borrowings are repayable as follows:			
Within one year	193,068	1,039,653	
More than one year, but not exceeding two years	22,866	1,321,277	
More than two years, but not exceeding five years	5,045,725	56,445	
More than five years	64,179	14,078	
	5,325,838	2,431,453	
Carrying amount of bank loans that are repayable within more than one year but not exceeding two years from the end of reporting period but contain a repayment on demand clause (shown under current liabilities)	300,000	300,000	
	5,625,838	2,731,453	
Less: Amount due within one year shown under current liabilities	(493,068)	(1,339,653)	
Amount due after one year shown as non-current liabilities	5,132,770	1,391,800	

Details of the terms of the Group's bank and other borrowings are set out below:

	Effective interest rate per annum	**2010**	**2009**
		HK$'000	*HK$'000*
			(Restated)
Fixed rate borrowings:			
Secured RMB bank loans	6.12%	—	57,923
Unsecured RMB bank loans	4.62% - 5.4%	206,196	48,269
Unsecured RMB other loans	0.75% - 5%	165,456	20,369
Total fixed rate borrowings		371,652	126,561
Floating rate borrowings:			
Unsecured RMB bank loans at the People's Bank of China Base Rate	4.62% - 4.78%	244,301	161,842
Unsecured HKD bank loans at margin plus HIBOR	1.64%	4,992,500	2,423,000
Unsecured Euro other loans at 0.3% over the People's Bank of China Base Rate	1.8%	17,385	20,050
Total floating rate borrowings		5,254,186	2,604,892
Total borrowings		5,625,838	2,731,453

31. OTHER LONG-TERM LIABILITIES

Included in other long-term liabilities at 31st December, 2010 is an amount of HK$57,691,000 (31st December, 2009: HK$61,621,000 and 1st January, 2009: HK$59,172,000), representing non-current portion of payables for acquisition of operating rights for city pipeline network.

The payables for acquisition of operating rights for city pipeline network are repayable as follows:

	31.12.2010	**31.12.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Within one year	8,747	4,555	3,408
More than one year, but not exceeding two years	4,913	4,555	3,408
More than two years, but not exceeding five years	37,876	33,163	10,224
More than five years	14,902	23,903	45,540
	66,438	66,176	62,580
Less: Amount due within one year included in trade and other payables shown under current liabilities	(8,747)	(4,555)	(3,408)
Amount due after one year shown as non-current liabilities	57,691	61,621	59,172

The present values were based on cash flows discounted using effective interest rate of 5.9% (2009: 5.9%) per annum for a term of 30 years.

32. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Operating rights	Withholding tax on undistributed profits	Other temporary differences	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2009 (restated)	1,426	(143,215)	—	—	(141,789)
Exchange adjustments	2	40	—	—	42
Credit for the year	6,433	6,099	—	35,904	48,436
Acquisition of a subsidiary	(94,750)	—	—	197	(94,553)
Acquisition of jointly controlled entities	(32,115)	—	—	8,755	(23,360)
At 31st December, 2009	(119,004)	(137,076)	—	44,856	(211,224)
Exchange adjustments	(2,597)	(121)	—	1,822	(896)
Credit (charge) for the year	20,430	6,192	(30,000)	(1,217)	(4,595)
Acquisition of a subsidiary	—	—	—	2,257	2,257
Acquisition of jointly controlled entities	3,989	—	—	(1,090)	2,899
At 31st December, 2010	(97,182)	(131,005)	(30,000)	46,628	(211,559)

Note: Other temporary differences at 31st December, 2010 are mainly arisen from receipts in advance from customers on gas connection projects which are taxable on a cash basis.

Analysed for reporting purpose as:

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Deferred tax assets	122,015	51,579	1,312
Deferred tax liabilities	(333,574)	(262,803)	(143,101)
	(211,559)	(211,224)	(141,789)

At 31st December, 2010, the Group had unused tax losses of HK$130,735,000 (31st December, 2009: HK$53,291,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses at 31st December, 2010 and 2009 will expire within 5 years from the year of origination.

At 31st December, 2010, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$504,548,000 (2009: HK$649,031,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

33. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Nominal value**	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
			HK$'000	*HK$'000*
Shares of HK$0.10 each				
Authorised:				
At 1st January and 31st December	10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:				
At 1st January	1,414,416,710	1,414,416,710	141,442	141,442
Shares issued upon exercise of share options	24,000	—	2	—
Placing of shares (Note a)	230,000,000	—	23,000	—
Issue of shares upon combination of entities under common control (Note b)	186,654,223	—	18,665	—
At 31st December	1,831,094,933	1,414,416,710	183,109	141,442

The new shares issued during the year ended 31st December, 2010 rank pari passu in all respects with the existing shares in issue.

Notes:

(a) On 14th September, 2010, Splendid Time Investments Inc. ("Splendid Time"), the Company's immediate holding company, and the Company entered into a placing and subscription agreement with the placing agent pursuant to which the placing agent placed 230,000,000 existing shares at a price of HK$10.75 per share owned by Splendid Time to certain independent placees. Pursuant to the placing and subscription agreement, Splendid Time subscribed for 230,000,000 new shares equivalent to the number of the placing shares. The proceeds from the placing of shares, net of professional fees and out-of-pocket expenses, will be used principally for acquisition of more downstream city gas distribution businesses in the PRC.

(b) Pursuant to the sale and purchase agreement entered into on 13th September, 2010, the Group acquired 100% equity interest in Mega Fair from Powerfaith for a consideration of HK$2,221,155,000. The consideration was satisfied in full by the allotment and issue of 186,654,223 consideration shares in the Company. The consideration shares were issued on 25th October, 2010 at HK$11.9 per share.

34. SHARE-BASED PAYMENT TRANSACTIONS

(i) The Company's equity-settled share option schemes

On 26th November, 2001, the Company terminated the share option scheme adopted on 15th October, 1994 and adopted a new share option scheme (the "Scheme"). On 21st February, 2002, upon approval of the Company's shareholders, the Company amended the Scheme to widen the scope of participants that are eligible to participate in the Scheme. On 5th March, 2008, the Company terminated the Scheme.

The purpose of the Scheme was to promote dedication by its participants and to encourage its participants to perform their best in achieving the goals of the Group. The participants are any directors (or any persons proposed to be appointed as such) and employees of each member of the Group; any discretionary object of a discretionary trust established by any employees or directors of each member of the Group; any executives or employees of any business consultants, business partners, professionals and other advisers to each member of the Group (or any persons proposed to be appointed as such); any substantial shareholders of the member of the Group; any associates of the director or substantial shareholders of the Company; and any employees of the Company's substantial shareholders or any employees of such substantial shareholders' subsidiaries or associated companies, as absolutely determined by the Board.

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. An amount of HK$1 is payable on acceptance of the option within 28 days from its date of grant. The subscription price is the highest of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, (ii) a price being the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheet on the five business days immediately preceding the date of grant and (iii) the nominal value of a share. The Scheme is valid for 10 years from 26th November, 2001. No further options may be granted pursuant to the Scheme after 25th November, 2011.

Share options generally either become fully vested and exercisable within a period of 10 years immediately after the date of grant or become vested over a period of time up to a maximum of three years after the acceptance of a grant.

Options granted to a grantee become lapsed if the grantee ceased to be an eligible participant before the options become vested.

Details of the movements of share options granted under the Scheme are as follows:

Date of grant	Exercise price HK$	Outstanding at 1.1.2010	Exercised during the year	Outstanding at 31.12.2010
		Number of share options		
9.4.2002	8.20	210,000	(24,000)	186,000
13.1.2004	9.06	2,000	—	2,000
		212,000	(24,000)	188,000
Exercisable at the end of the year				188,000
Weighted average exercise price (HK$)		8.21	8.20	8.21

Date of grant	Exercise price HK$	Number of share options outstanding at 1.1.2009 and 31.12.2009
9.4.2002	8.20	210,000
13.1.2004	9.06	2,000
		212,000
Exercisable at the end of the year		212,000
Weighted average exercise price (HK$)		8.21

In respect of the share options exercised during the year ended 31st December, 2010, the weighted average share price at the date of exercise was HK$11.18. The options outstanding at the end of the year have a weighted average remaining contractual life of 1.3 years (2009: 2.3 years).

During the two years ended 31st December, 2010 and 2009, the Group has not recognised any expense relating to equitysettled share-based payment transactions in respect of the share options granted by the Company.

On 1st December, 2008, the Company adopted the restricted share award scheme ("Restricted Share Award Scheme") as an incentive to retain and encourage the employees for the continual operation and development of the Group.

(ii) Pursuant to the Restricted Share Award Scheme, existing shares of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the selected employees until such shares are vested with the selected employees. No restricted shares will be granted if the aggregate number of restricted shares awarded throughout the duration of the scheme to be in excess of the 5% of the issued share capital of the Company at the adoption date of the scheme. The maximum number of restricted shares which may be awarded to a selected employee under the Restricted Share Award Scheme shall not exceed 0.5% of the issued share capital of the Company from time to time.

On 16th March, 2010, the Company amended the Restricted Share Award Scheme such that cash instead of restricted shares will be awarded. The Company will utilise the proceeds generated from disposal of the restricted shares held by the trustee for the awards made under the Restricted Share Award Scheme.

No restricted shares were granted to eligible employee pursuant to the Restricted Share Award Scheme.

During the year ended 31st December, 2009, 70,000,000 shares were purchased by the trustee from the market at an average price of approximately HK$3.63 per share, with an aggregate amount of HK$253,999,000 (2010: nil).

During the year ended 31st December, 2010, 1,818,000 shares (2009: nil) were disposed of by the trustee to the market at an average price of approximately HK$11.71 per share. The proceeds from disposal of these shares amounted to HK$21,290,000. The whole amount of the proceeds was distributed to certain employees of the Group, with an equivalent expense recognised in the consolidated income statement as employee benefits during the year. The difference of HK$14,690,000 between the cost of the shares and the proceeds was credited to retained profits.

No restricted shares were granted to eligible employees pursuant to the Restricted Share Award Scheme.

35. RETIREMENT BENEFIT SCHEMES

Hong Kong

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group based on a specified percentage of the employee’s basic salary, depending on the length of service with the Group. Where there are employees who leave the ORSO Scheme prior to vesting, the contributions payable by the Group are reduced by the amount of forfeited contributions. No forfeited contributions were utilised in this manner in respect of the year (2009: nil).

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

At 31st December, 2010 and 2009, the amount of forfeited contributions available to reduce contributions payable in the future years is insignificant.

PRC

The employees of the Group in the PRC are members of statemanaged retirement benefit schemes operated by the local government in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

36. ACQUISITION OF SUBSIDIARIES

On 9th January, 2009, the Group acquired 51% equity interest in the registered capital of Wuhan CR Gas, which is engaged in sales of liquefied gas and connection of gas pipelines, from an independent third party for a cash consideration of RMB265,000,000 (equivalent to approximately HK$298,440,000). The transaction has been accounted for using the acquisition method. At the date of the acquisition, goodwill of HK$275,610,000 was determined provisionally based on the net identifiable assets of Wuhan CR Gas. During the year ended 31st December, 2010, the identification and determination of fair values of the net identifiable assets acquired has been completed. The following adjustments have been made to retrospectively adjust the provisional amounts recognised at the date of acquisition.

	Amounts recognized at the date of acquisition (provisional basis)	**Fair value adjustments**	**Fairvalues**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Net identifiable assets of the subsidiaries acquired:			
Property, plant and equipment	230,647	379,000	609,647
Prepaid lease payments	1,770	—	1,770
Deferred tax assets	197	—	197
Inventories	5,072	—	5,072
Trade and other receivables	64,224	—	64,224
Bank balances and cash	29,698	—	29,698
Trade and other payables	(131,560)	—	(131,560)
Amounts due to customers for contract work	(48,875)	—	(48,875)
Taxation payable	(1,822)	—	(1,822)
Bank and other borrowings	(103,367)	—	(103,367)
Other long-term liabilities	(1,218)	—	(1,218)
Deferred tax liabilities	—	(94,750)	(94,750)
	44,766	284,250	329,016

	HK$'000 (Restated)
Consideration transferred, satisfied by cash	298,440
Plus: Non-controlling interests (49% in Wuhan Gas)	161,218
Less: Net assets acquired	(329,016)
Goodwill arising on acquisition	130,642
Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Cash consideration paid	(298,440)
Bank balances and cash acquired	29,698
	(268,742)

The acquiree contributed HK$191,134,000 and HK$11,385,000 to the Group's turnover and profit for the period between the date of acquisition and 31st December, 2009.

On 3rd March, 2009 and 1st July, 2009, the Group acquired 70% and 95% equity interests in the registered capital of Nantong China Resources Gas Co., Ltd* (南通華潤燃氣有限公司) ("formerly know as Tongzhou China-Resources Gas Co. Ltd (通州華潤燃氣有限公司)") ("Nantong CR Gas") and Hengshui China-Resources Gas Co., Ltd* (衡水華潤燃氣有限公司) ("Hengshui CR Gas"), respectively, which are engaged in sales of liquefied gas and connection of gas pipelines, from independent third parties for total consideration of RMB64,900,000 (equivalent to approximately HK$73,684,000). The transactions have been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition HK$'000
Net identifiable assets of the subsidiaries acquired:	
Property, plant and equipment	17,605
Bank balances and cash	75,501
	93,106

	HK$'000
Consideration transferred, satisfied by cash	73,684
Plus: Non-controlling interests (30% in Nantong CR Gas and 5% in Hengshui CR Gas)	19,422
Less: Net assets acquired	(93,106)
	—
Analysis of net inflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Cash consideration paid	(73,684)
Bank balances and cash acquired	75,501
	1,817

The carrying amounts of the net identifiable assets of the acquires were approximate to their fair values at the respective dates of acquisitions.

The acquirees contributed HK$23,733,000 and losses of HK$2,877,000 to the Group's turnover and profit for the period between the respective dates of acquisitions and 31st December, 2009.

On 27th August, 2010, the Group acquired 43.18% equity interest in Zhengzhou Gas, which is engaged in sales of natural gas, pressure control equipment and gas appliances, construction of gas pipelines and provision of renovation services of gas pipelines, and 100% equity interest in Nanyang Zhengran Natural Gas Co., Ltd.* (南陽鄭燃燃氣有限公司) ("Nanyang Gas") from Zhengzhou Gas Group Co., Ltd., a government-related entity, for total consideration of RMB452,875,000 (equivalent to approximately HK$524,482,000). Upon the completion of acquisition of 43.18% equity interest in Zhengzhou Gas, China Resources Gas (China) Investment Limited ("CR Gas Investment"), a wholly-owned subsidiary of the Group, and the parties acting in concert with it are required to make a mandatory conditional cash offer for all the domestic shares and H shares in Zhengzhou Gas (the "Offer") in compliance with the Hong Kong Code on Takeovers and Mergers.

In September 2010, the Group received acceptances in respect of 3.94% equity interest in H shares and 9.75% equity interest in domestic shares of Zhengzhou Gas and the offer and acceptances of the Offer by the shareholders became unconditioned and is irrevocable. The transfer of 3.94% equity interest in H shares to CR Gas Investment has been completed by 31st December, 2010 for a cash consideration of RMB64,879,000 (equivalent to approximately HK$75,138,000) while the transfer of 9.75% equity interest in domestic shares will be made to a fellow subsidiary of the Company, which is outstanding and pending for approvals from the relevant PRC authorities.

Necessary actions have been taken by the Group and the fellow subsidiary to effect the transfer of the legal title of the 9.75% equity interest in domestic shares of Zhengzhou Gas. In the opinion of the directors of the Company, the fellow subsidiary has the beneficial interests in and rights over the voting power of the 9.75% equity interest in domestic shares of Zhengzhou Gas at 31st December, 2010 as the Offer and acceptances were already unconditional and binding on all relevant parties. In addition, pursuant to an agreement entered into between a wholly-owned subsidiary of the Group and the fellow subsidiary, the Group is able to exercise the voting power related to the 9.75% equity interest in domestic shares of Zhengzhou Gas. Hence, Zhengzhou Gas is controlled by the Group and is treated as a subsidiary of the Group for the purposes of the preparation of the Group's consolidated financial statements for the year ended 31st December, 2010.

The transactions have been accounted for using the acquisition method. The information for acquisition of Nangang Gas is disclosed together with Zhengzhou Gas as Nangang Gas is individually immaterial to the Group.

	Amounts recognised at the date of acquisition (provisional basis) *HK$'000*
Net identifiable assets of the subsidiaries acquired:	
Property, plant and equipment	1,227,942
Prepaid lease payments	226,242
Interest in associates	28,395
Operating rights	17,325
Deferred tax assets	30,562
Inventories	45,124
Trade and other receivables	263,665
Amounts due from customers for contract work	22,768
Tax recoverable	81
Bank balances and cash	545,195
Trade and other payables	(1,037,961)
Dividend payable	(71,402)
Taxation payable	(29,134)
Bank and other borrowings	(63,366)
Deferred tax liabilities	(28,305)
	1,177,131

	HK$'000
Consideration transferred, satisfied by cash	599,620
Plus: Non-controlling interests (52.88% in Zhengzhou Gas and 49% in a subsidiary held by Zhengzhou Gas)	616,636
Less: Net assets acquired	(1,177,131)
Goodwill arising on acquisition	39,125
Analysis of net inflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Cash consideration paid	(599,620)
Bank balances and cash acquired	545,195
	(54,425)

Management of the Group believes this acquisition will enable the Group to expand its geographic coverage and products, which will place both the Group and Zhengzhou Gas in a better position to exploit new opportunities and growth potential in the gas industry in the PRC.

The acquirees contributed HK$611,628,000 and HK$97,349,000 to the Group's turnover and profit for the period between the date of acquisition and 31st December, 2010.

Had the acquisition of Zhengzhou Gas and Nanyang Gas been completed on 1st January, 2010, total group revenue of the Group for the year would have been HK$9,633,998,000, and profit for the year would have been HK$1,101,992,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2010, nor is it intended to be a projection of future results. In determining the pro-forma profit of the Group had Zhengzhou Gas and Nanyang Gas been acquired at the beginning of the current year, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

The fair values of the assets and liabilities acquired and goodwill have been determined on provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

Goodwill arose in the acquisition of subsidiaries because the costs of the combinations included control premium. In addition, the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquirees. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

37. ACQUISITION OF JOINTLY CONTROLLED ENTITIES

On 30th June, 2009, Zibo China Resources Gas (Hong Kong) Limited, a wholly-owned subsidiary of the Group, acquired 46% equity interest in the registered capital of Zibo China-Resources Gas Co., Ltd.* (淄博華潤燃氣有限公司) ("Zibo CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from CR Gas Holdings for a consideration of HK$95,395,000. The remaining equity interests are not held by any entities under common control of CRNC. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	84,608
Inventories	3,254
Trade and other receivables	19,652
Amounts due from customers for contract work	510
Amounts due from fellow subsidiaries	98
Bank balances and cash	34,489
Trade and other payables	(9,208)
Amounts due to customers for contract work	(25,325)
Dividend payable to an intermediate holding company	(2,233)
Taxation payable	(1,000)
	104,845

	HK$'000
Consideration transferred (Note 40(b))	95,395
Plus: Non-controlling interests in subsidiaries held by Zibo CR Gas	78
Less: Net assets acquired	(104,845)
Discount arising on acquisition	(9,372)
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	34,489

The discount on acquisition arose from a bargain purchase from a fellow subsidiary, accordingly, the discount was accounted for as a deemed capital contribution and recognised in equity.

The acquiree contributed HK$74,405,000 and HK$5,798,000 to the Group's turnover and profit for the period between the date of acquisition and 31st December, 2009.

On 30th June, 2009, Profit Dash Limited, a wholly-owned subsidiary of the Group, acquired 45% equity interest in the registered capital of Zhenjiang China-Resources Gas Co., Ltd. (鎮江華潤燃氣有限公司) ("Zhenjiang CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from CRH, for a consideration of HK$67,398,000. The remaining equity interests are not held by any entities under common control of CRNC. The transaction has been accounted for using the acquisition method. At the date of the acquisition, discount on acquisition of HK$138,393,000 was determined provisionally based on the net identifiable assets of Zhenjiang CR Gas. During the year ended 31st December, 2010, the identification and determination of fair values of the net identifiable assets acquired has been completed. The following adjustments have been made to retrospectively adjust the provisional amounts recognised at the date of acquisition.

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis)	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:			
Property, plant and equipment	191,489	28,082	219,571
Prepaid lease payments	10,762	—	10,762
Operating rights	1,004	—	1,004
Interest in an associate	3,514	—	3,514
Available-for-sale investments	8,755	—	8,755
Deferred tax assets	8,929	—	8,929
Inventories	6,697	—	6,697
Trade and other receivables	50,472	—	50,472
Amounts due from customers for contract work	6,324	—	6,324
Pledged bank deposits	2,555	—	2,555
Bank balances and cash	42,808	—	42,808
Trade and other payables	(72,097)	—	(72,097)
Amounts due to customers for contract work	(23,641)	—	(23,641)
Taxation payable	(1,751)	—	(1,751)
Dividend payable to an intermediate holding company	(4,136)	—	(4,136)
Bank borrowings	(25,529)	—	(25,529)
Deferred tax liabilities	(364)	(7,020)	(7,384)
	205,791	21,062	226,853

	HK$'000
Consideration transferred (Note 40(b))	67,398
Less: Net assets acquired	(226,853)
Discount arising on acquisition	(159,455)
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	42,808

The discount on acquisition arose from a bargain purchase from an intermediate holding company, accordingly, the discount was accounted for as a deemed capital contribution and recognised in equity.

The acquiree contributed HK$138,274,000 and HK$23,328,000 to the Group's turnover and profit for the period between the date of acquisition and 31st December, 2009.

On 1st July, 2009, CR Gas Investment acquired 40% equity interest in the registered capital of Luzhou CR Gas, a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from an independent third party for a consideration of HK$111,803,000. The transaction has been accounted for using the acquisition method. At the date of the acquisition, goodwill of HK$34,395,000 was determined provisionally based on the net identifiable assets of Luzhou CR Gas and its subsidiaries. During the year ended 31st December, 2010, the identification and determination of fair values of the net identifiable assets acquired has been completed. The following adjustments have been made to retrospectively adjust the provisional amounts recognised at the date of acquisition.

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis)	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:			
Investment properties	4,114	—	4,114
Property, plant and equipment	40,237	28,699	68,936
Prepaid lease payments	3,819	16,727	20,546
Available-for-sale investments	358	—	358
Deferred tax assets	190	—	190
Inventories	3,097	—	3,097
Trade and other receivables	1,619	—	1,619
Amounts due from customers for contract work	55,062	—	55,062
Bank balances and cash	26,494	—	26,494
Trade and other payables	(24,231)	—	(24,231)
Amounts due to customers for contract work	(14,628)	—	(14,628)
Taxation payable	(4,601)	—	(4,601)
Dividend payable	(2,300)	—	(2,300)
Bank and other borrowings	(9,077)	—	(9,077)
Deferred tax liabilities	—	(11,357)	(11,357)
	80,153	34,069	114,222

	HK$'000
Consideration transferred, satisfied by cash	111,803
Plus: Non-controlling interests in subsidiaries held by Luzhou CR Gas	2,745
Less: Net assets acquired	(114,222)
Goodwill arising on acquisition	326
Analysis of net outflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Cash consideration paid	(111,803)
Bank balances and cash acquired	26,494
	(85,309)

The acquiree contributed HK$42,363,000 and HK$3,679,000 to the Group's turnover and profit for the period between the date of acquisition and 31st December, 2009.

On 1st January. 2009, Chengdu City Gas Co., Ltd. (成都城市燃氣有限責任公司) ("Chengdu Gas"), a jointly controlled entity of the Group, acquired 45% equity interest in the registered capital of Pixian Xinan Gas Co. Ltd* (郫縣新安燃氣有限責任公司) ("Xinan Gas") from independent third parties for a consideration of RMB3,375,000 (equivalent to approximately HK$3,833,000). As Chengdu Gas held over 50% voting rights on the board of directors of Xinan Gas and can exercise control over Xinan Gas on its financing and operating policies, Xinan Gas is considered to be a subsidiary of Chengdu Gas. The Group effectively shared 36% equity interests in Chengdu Gas using proportionate consolidation, accordingly, the Group acquired 36% of net assets of Xinan Gas at a consideration of HK$1,380,000. The transaction has been accounted for by using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	1,706
Prepaid lease payments	382
Inventories	2
Trade and other receivables	387
Bank balances and cash	663
Other payables	(1,806)
	1,334

	HK$'000
Consideration transferred, satisfied by cash	1,380
Plus: Non-controlling interests in subsidiaries held by Xinan Gas	734
Less: Net assets acquired	(1,334)
Goodwill arising on acquisition	780
Analysis of net outflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Cash consideration paid	(1,380)
Bank balances and cash acquired	663
	(717)

The carrying amount of the net identifiable assets of the acquiree was approximate to its fair value at the date of acquisition.

The acquiree contributed HK$116,000 to the Group's profit for the period between the date of acquisition and 31st December, 2009.

During the year ended 31st December, 2009, Shine Right Limited, a wholly-owned subsidiary of the Group, acquired 49% equity interest in the registered capital of Xiamen China Resources Gas Co., Ltd. (廈門華潤燃氣有限公司) ("Xiamen CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from CRH for a consideration of HK$512,171,000. The remaining equity interests are not held by any entities under common control of CRNC. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	605,030
Prepaid lease payments	26,815
Available-for-sale investments	178
Deferred tax assets	71
Inventories	3,548
Trade and other receivables	35,624
Amounts due from customers for contract work	9,540
Bank balances and cash	243,219
Trade and other payables	(164,384)
Amounts due to customers for contract work	(56,185)
Government grants	(703)
Deferred tax liabilities	(15,132)
	687,621

	HK$'000
Consideration transferred (Note 40(d))	512,171
Plus: Non-controlling interests in subsidiaries held by Xiamen CR Gas	1,456
Less: Net assets acquired	(687,621)
Discount arising on acquisition	(173,994)
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	243,219

The discount on acquisition arose from a bargain purchase from an intermediate holding company, accordingly, the discount was accounted for as a deemed capital contribution and recognised in equity.

The acquiree contributed HK$133,025,000 and HK$11,456,000 to the Group's turnover and profit for the period between the date of acquisition and 31st December, 2009.

During the year ended 31st December, 2009, Jining China Resources Gas (Hong Kong) Limited, a wholly-owned subsidiary of the Group, acquired 51% equity interest in the registered capital of Jining China - Resources Gas Co., Ltd. (濟寧華潤燃氣有限公司) ("Jining CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from CR Gas Holdings for a consideration of HK$156,408,000. The remaining equity interests are not held by any entities under common control of CRNC. The Group is able to exercise joint control over Jining CR Gas as all of the strategic financial and operating decisions require unanimous consent of the Group and the other joint venturer. Accordingly, Jining CR Gas is regarded as a jointly controlled entity of the Group. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	91,490
Prepaid lease payments	20,333
Available-for-sale investments	1,142
Deferred tax assets	1,323
Operating rights	1,473
Interest in an associate	4,001
Inventories	9,479
Trade and other receivables	24,814
Amounts due from customers for contract work	363
Bank balances and cash	64,626
Trade and other payables	(25,060)
Amounts due to customers for contract work	(19,781)
Taxation payable	(899)
	173,304

	HK$'000
Consideration transferred (Note 40(d))	156,408
Plus: Non-controlling interests in subsidiaries held by Jining CR Gas	3,356
Less: Net assets acquired	(173,304)
Discount arising on acquisition	(13,540)
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	64,626

The discount on acquisition arose from a bargain purchase from a fellow subsidiary, accordingly, the discount was accounted for as a deemed capital contribution and recognised in equity.

The acquiree did not have any contribution to the Group's turnover and profit for the year since the acquisition was completed at the end of the reporting period.

During the year ended 31st December, 2010, the Group obtained 25% equity interest in the registered capital of Chongqing Gas by capital injection amounting to USD170,300,000 (equivalent to approximately HK$1,321,423,000). Chongqing Gas is engaged in sales of liquefied gas and connection of gas pipelines. The Group is able to exercise joint control over Chongqing Gas as all of the strategic financial and operating decisions require unanimous consent of the Group and the other joint venturer. Accordingly, Chongqing Gas is regarded as a jointly controlled entity of the Group. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis)
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	540,425
Prepaid lease payments	38,721
Available-for-sale investments	19,212
Deferred tax assets	4,061
Inventories	35,756
Trade and other receivables	150,259
Amounts due from customers for contract work	2,557
Bank balances and cash	633,740
Trade and other payables	(275,895)
Amounts due to customers for contract work	(143,642)
Taxation payable	(19,106)
Bank and other borrowings	(89,185)
Government grants	(11,220)
Deferred tax liabilities	(2,331)
	883,352

	HK$'000
Consideration transferred, satisfied by deposits paid in 2009	1,321,423
Plus: Non-controlling interests in subsidiaries held by Chongqing Gas	53,547
Less: Net assets acquired	(883,352)
Goodwill arising on acquisition	491,618

Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	633,740

The acquiree contributed HK$1,038,702,000 to the Group's turnover and HK$64,889,000 to the Group's profit for the period between the date of acquisition and 31st December, 2010.

The fair values of the assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

Subsequent to the end of the reporting period, Chongqing Gas has become an associate of the Group. Details are set out in Note 44.

During the year ended 31st December, 2010, the Group acquired 50% equity interest in the registered capital of Yibin China Resources Gas Co. Ltd (宜賓華潤燃氣有限公司) ("Yibin CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from an independent third party for a cash consideration of RMB100,000,000 (equivalent to HK$113,780,000). The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group *HK$'000*
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	124,722
Interest in an associate	1,677
Available-for-sale investments	33
Inventories	11,702
Trade and other receivables	77,596
Bank balances and cash	16,510
Trade and other payables	(52,714)
Bank and other borrowings	(56,868)
Deferred tax liabilities	(2,821)
	119,837

	HK$'000
Consideration transferred, satisfied by cash	113,780
Plus: Non-controlling interests in subsidiaries held by Yibin CR Gas	6,057
Less: Net assets acquired	(119,837)
Goodwill arising on acquisition	—
Analysis of net outflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Cash consideration paid	(113,780)
Bank balances and cash acquired	16,510
	(97,270)

The acquiree contributed HK$156,211,000 to the Group's turnover and HK$12,135,000 to the Group's profit for the period between the date of acquisition and 31st December, 2010.

During the year ended 31st December, 2010, the Group acquired 49% equity interest in the registered capital of Nanjing Jiangning CR Gas, a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from an independent third party for a cash consideration of HK$686,543,000. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis) *HK$'000*
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	253,321
Taxation recoverable	37,140
Trade and other receivables	110,818
Bank balances and cash	154,187
Trade and other payables	(20,324)
	535,142

	HK$'000
Consideration transferred	686,543
Less: Net assets acquired	(535,142)
Goodwill arising on acquisition	151,401
Analysis of net outflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Cash consideration paid	(686,543)
Bank balances and cash acquired	154,187
	(532,356)

The acquiree contributed HK$55,735,000 to the Group's turnover and HK$3,167,000 to the Group's profit for the period between the date of acquisition and 31st December, 2010.

The fair values of the assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

During the year ended 31st December, 2010, the Group acquired 50% equity interest in the registered capital of Neijiang China Resources Gas Co., Ltd. (內江華潤燃氣有限公司) ("Neijiang CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from an independent third party for a cash consideration of RMB75,892,440 (equivalent to HK$86,716,000). The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	39,328
Prepaid lease payments	12,774
Interest in an associate	5,325
Inventories	2,976
Trade and other receivables	9,134
Bank balances and cash	47,487
Trade and other payables	(12,774)
Bank and other borrowings	(22,738)
	81,512

	HK$'000
Consideration transferred, satisfied by cash	86,716
Less: Net assets acquired	(81,512)
Goodwill arising on acquisition	5,204
Analysis of net outflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Cash consideration paid	(86,716)
Bank balances and cash acquired	47,487
	(39,229)

The acquiree contributed HK$28,891,000 to the Group's turnover and HK$1,520,000 to the Group's profit for the period between the date of acquisition and 31st December, 2010.

During the year ended 31st December, 2010, Kunshan China Resources Gas (Hong Kong) Limited, a wholly-owned subsidiary of the Group, acquired 49.9% equity interest in the registered capital of Kunshan China-Resources City Gas Co., Ltd. (昆山華潤城市燃氣有限公司), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from CR Gas Holdings for a consideration of HK$81,420,000. The remaining equity interests are not held by any entities under common control of CRNC. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis)
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	75,672
Prepaid lease payments	3,006
Deferred tax assets	685
Inventories	153
Trade and other receivables	6,439
Amounts due from customers for contract work	6,145
Bank balances and cash	53,912
Trade and other payables	(16,733)
Amounts due to customers for contract work	(27,809)
Taxation payable	(441)
Amount due to a fellow subsidiary	(119)
	100,910

	HK$'000
Consideration transferred (Note 40 (e))	81,420
Less: Net assets acquired	(100,910)
Discount arising on acquisition	(19,490)
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	53,912

The discount on acquisition arose from a bargain purchase from a fellow subsidiary, accordingly, the discount was accounted for as a deemed capital contribution and recognised in equity.

The acquiree contributed HK$81,405,000 to the Group's turnover and HK$10,146,000 to the Group's profit for the period between the date of acquisition and 31st December, 2010.

The fair values of the assets and liabilities acquired have been determined on a provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

During the year ended 31st December, 2010, Suining China Resources Gas (Hong Kong) Limited, a wholly-owned subsidiary of the Group, acquired 49.9% equity interest in the registered capital of Sichuan China-Resources Wantong Gas Co. Ltd* (四川華潤萬通燃氣股份有限公司) ("Suining CR Gas"), a jointly controlled entity which is engaged in sales of liquefied gas and connection of gas pipelines, from CR Gas Holdings for a consideration of HK$197,399,000. The remaining equity interests are not held by any entities under common control of CRNC. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition attributable to the Group
	HK$'000
Net identifiable assets of jointly controlled entity acquired attributable to the Group's interest:	
Property, plant and equipment	62,535
Prepaid lease payments	9,294
Operating rights	22,387
Interest in an associate	4,301
Deferred tax assets	3,305
Inventories	10,966
Trade and other receivables	16,618
Amounts due from a fellow subsidiary	89
Bank balances and cash	125,275
Trade and other payables	(39,313)
Amounts due to customers for contract work	(22,030)
Taxation payable	(1,179)
Bank and other borrowings	(1,316)
	190,932

	HK$'000
Consideration transferred (Note 40(e))	197,399
Plus: Non-controlling interests in subsidiaries held by Suining CR Gas	2,859
Less: Net assets acquired	(190,932)
Goodwill arising on acquisition	9,326
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:	
Bank balances and cash acquired	125,275

The acquiree contributed HK$154,777,000 to the Group's turnover and HK$20,583,000 to the Group's profit for the period between the date of acquisition and 31st December, 2010.

Goodwill arose in the acquisition of jointly controlled entities because the costs of the combinations included a control premium. In addition, the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquirees. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

38. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31.12.2010	**31.12.2009**
	HK$'000	*HK$'000*
		(Restated)
Within one year	21,371	6,372
In the second to fifth year inclusive	32,946	9,534
After five years	—	1,009
	54,317	16,915

Operating lease payments represent rentals payable by the Group for office and factory premises. Leases are negotiated and rentals are fixed for term ranging from one to five years (2009: one to six years).

The Group as lessor

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31.12.2010	**31.12.2009**
	HK$'000	*HK$'000*
		(Restated)
Within one year	3,987	1,464
In the second to fifth year inclusive	2,767	1,594
After five years	446	984
	7,200	4,042

The investment properties rented during the year have committed tenants for term ranging from one to twelve years (2009: one to twelve years). No contingent rent was arranged for the above operating lease arrangements.

39. CAPITAL COMMITMENTS

	31.12.2010	**31.12.2009**
	HK$'000	*HK$'000*
		(Restated)
Capital expenditure in respect of acquisition of property, plant and equipment/prepaid lease payments contracted but not provided for	181,006	89,968
Capital expenditure in respect of an investment contracted but not provided for	—	478,999
	181,006	568,967
Capital expenditure in respect of acquisition of property, plant and equipment/prepaid lease payments authorised but not contracted for	18,518	—

Included in the above, the Group's share of the capital commitments of the jointly controlled entities are as follows:

	31.12.2010	**31.12.2009**
	HK$'000	*HK$'000*
		(Restated)
Capital expenditure in respect of acquisition of property, plant and equipment/prepaid lease payments contracted but not provided for	98,925	37,222

40. MAJOR NON-CASH TRANSACTIONS

(a) In June 2009, the Top Steed Group acquired all subsidiaries of the Top Steed Group, which were incorporated in British Virgin Islands and Hong Kong and are holding the Top Steed Group's operating subsidiaries and jointly controlled entities, from CR Gas Holdings for a total consideration of HK$310,969,000. As a result of these acquisitions, the amount due to a fellow subsidiary was increased by HK$310,969,000.

(b) In June 2009, the Top Steed Group acquired two jointly controlled entities from a fellow subsidiary and an intermediate holding company for an aggregate consideration of HK$162,793,000. As a result of the above transactions, the amounts due to a fellow subsidiary/an intermediate holding company was increased by HK$162,793,000.

(c) On 30th June, 2009, Top Steed issued one ordinary share of US$1 to a fellow subsidiary for HK$475,073,000, settled by capitalisation of amount due to a fellow subsidiary to the same amount.

(d) During the year ended 31st December, 2009, the Mega Fair Group acquired two jointly controlled entities from an intermediate holding company and a fellow subsidiary for total consideration of HK$668,579,000. As a result of these transactions, the amount due to an intermediate holding company was increased by HK$512,171,000 and the amount due to a fellow subsidiary was increased by HK$156,408,000.

(e) During the year ended 31st December, 2010, the Mega Fair Group acquired two jointly controlled entities from a fellow subsidiary for total consideration of HK$278,819,000. As a result of these transactions, the amount due to a fellow subsidiary was increased by HK$278,819,000.

(f) During the year ended 31st December, 2010, the Group acquired 100% equity interest in Mega Fair from Powerfaith for a consideration of HK$2,221,155,000 which was settled by allotment and issue of 186,654,223 shares.

41. CONTINGENT LIABILITIES

As at 31st December, 2010, the Group's jointly controlled entity has given guarantees amounting to HK$188,029,000 (31st December, 2009: HK$181,718,000) to a bank in respect of banking facility granted to a state-controlled entity. The Group effectively shared 36% equity interests in that jointly controlled entity using proportionate consolidation, accordingly, the Group effectively shared 36% of contingent liabilities of HK$67,690,000 (31st December, 2009: HK$65,419,000). The fair values of the guarantees as at 31st December, 2010 and 2009 are not significant as it is remote for the default payment by state controlled entity and therefore no amount has been recognised in the consolidated statement of financial position as liabilities.

42. PLEDGE OF ASSETS

At 31st December, 2010, the Group pledged the following assets as securities for bank borrowings and trade payables to suppliers of natural gas as follows:

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
Property, plant and equipment	1,470	95,978
Trade receivables	412	—
Pledged bank deposits	12,010	19,262
	13,892	115,240

43. RELATED PARTY TRANSACTIONS

Transactions with related parties

In addition to the related party transactions set out in the respective notes to the consolidated financial statements, the Group entered into the following transactions with related parties during the year:

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
Purchases from minority shareholders of subsidiaries	399,192	138,033
Purchases from joint venturers	27,671	54,799
Sales to fellow subsidiaries	2,051	2,780
Sales to minority shareholders of subsidiaries	93,664	78,836
Interest expenses paid to a fellow subsidiary	24,441	5,542
Rental expenses paid to a fellow subsidiary	392	570
Consultancy fee paid to a fellow subsidiary	—	1,702
Reimbursement of administrative expenses to a fellow subsidiary	—	41,492
Reimbursement of administration expense from a fellow subsidiary	33,033	—

Transactions/balances with other state-controlled entities

The Group has early adopted the partial exemptions set out in paragraphs 25 to 27 of HKAS 24 (Revised) "Related Party Disclosures" in advance of its effective date from 1st January. 2010. The Group itself is part of a larger group of companies under CRNC which is controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled by the PRC government.

Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government in the ordinary course of business, including purchases and sales of gas. A large portion of purchases of gas is from governmentrelated entities.

Compensation of key management personnel of the Group

	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	12,125	2,565
Post-employment benefits	317	173
	12,442	2,738

44. EVENTS AFTER THE REPORTING PERIOD

On 20th February, 2011, in preparation of Chongqing Gas future initial public offering in the PRC, all the shareholders of Chongqing Gas, a jointly controlled entity of the Group, passed a resolution to amend its memorandum of association in which, among others, the terms requiring unanimous consent of the Group and the joint venturer on all of the strategic financial and operating decisions of Chongqing Gas had been removed. Accordingly, going forward the Group no longer jointly controlled but retained significant influence on Chongqing Gas, and Chongqing Gas since then is accounted for as an associate under equity accounting by the Group.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2010 %	Attributable equity interest of the Group 2009 %	Principal activities
China Resources Gas Limited	British Virgin Islands	Ordinary US$4	100	100	Investment holding
China Resources (Nanjing) Gas Co., Ltd. (南京華潤燃氣有限公司)[1]	PRC	RMB50,000,000	80.4	80.4	Sales of liquefied gas
Suzhou China-Resources Gas Co., Ltd.* (蘇州華潤燃氣有限公司)[1]	PRC	USD15,000,000	70	70	Sales of liquefied gas and connection of gas pipelines
Fuyang China-Resources Gas Co. Ltd* (富陽華潤燃氣有限公司)[1]	PRC	USD16,000,000	50	50	Sales of liquefied gas and connection of gas pipelines
Linhai China Resources Gas Company Limited* (臨海華潤燃氣有限公司)[2]	PRC	USD4,000,000	100	100	Sales of liquefied gas and connection of gas pipelines
Huaibei China Resources Gas Co., Ltd (淮北華潤燃氣有限公司)[1, 3]	PRC	USD11,000,000	54	54	Sales of liquefied gas and connection of gas pipelines

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2010 %	2009 %	Principal activities
Datong China-Resources Gas Co., Ltd. (大同華潤燃氣有限公司)[1]	PRC	RMB44,000,000	75	75	Sales of liquefied gas and connection of gas pipelines
Yangquan China-Resources Gas Co. Ltd (陽泉華潤燃氣有限公司)[1]	PRC	RMB50,000,000	75	75	Sales of liquefied gas and connection of gas pipelines
Xiangfan China Resources Gas Co. Ltd* (襄樊華潤燃氣有限公司)[1]	PRC	RMB70,000,000	71.43	71.43	Sales of liquefied gas and connection of gas pipelines
Yicheng China-Resources Gas Co. Ltd* (宜城華潤燃氣有限公司)[2]	PRC	RMB10,000,000	100	100	Sales of liquefied gas and connection of gas pipelines
Qianjiang China-Resources Gas Co., Ltd* (潛江華潤燃氣有限公司)[2]	PRC	RMB10,000,000	100	100	Sales of liquefied gas and connection of gas pipelines
Wuhan China Resources Gas Co., Ltd* (武漢華潤燃氣有限公司)[1]	PRC	RMB51,300,000	51	51	Sales of liquefied gas and connection of gas pipelines
Qidong China-Resources Gas Co., Ltd. (啟東華潤燃氣有限公司)[1]	PRC	US$7,788,900	100	100	Sales of liquefied gas and connection of gas pipelines
Shifang China-Resources Gas Co. Ltd. (什邡華潤燃氣有限公司)[1]	PRC	RMB29,890,600	51	51	Sales of liquefied gas and connection of gas pipelines
Tengzhou China-Resources Gas Co. Ltd (滕州華潤燃氣有限公司)[1]	PRC	RMB80,000,000	70	70	Sales of liquefied gas and connection of gas pipelines
Gucheng China-Resources Gas Co., Ltd* (谷城華潤燃氣有限公司)[1]	PRC	RMB5,000,000	100	100	Sales of liquefied gas and connection of gas pipelines
Ningbo Hangzhouwan China Resources Gas Co., Ltd (寧波杭州灣華潤燃氣有限公司)[1]	PRC	RMB50,000,000	100	100	Sales of liquefied gas and connection of gas pipelines
Zhengzhou China Resources Gas Co., Ltd.* (鄭州燃氣股有限公司)[4]	PRC	RMB125,150,000	47.12 (Note 36)	—	Sales of natural gas pressure control equipment and gas appliances and construction of gas pipelines

1 These companies were established in the PRC in the form of sinoforeign equity joint venture enterprise.

2 These companies were established in the PRC in the form of wholly foreign-owned enterprise.

3 These Group holds 54% equity interest in the subsidiary and shares profit at 57.11% according to the shareholders' agreement.

4 The Company was established in the PRC as a jointly stock limited company.

Except for China Resources Gas Limited which is directly held by the Company, all other above principal subsidiaries are indirectly held by the Company and are operating principally in their place of incorporation/establishment.

None of the subsidiaries had any debt securities outstanding at 31st December, 2010 or at any time during the year.

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

46. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of company	Place of establishment	Registered capital	Equity interest held by the jointly controlled entities/subsidiary		Attributable interest equity of the Group		Principal activities
			2010	2009	2010	2009	
			%	%			
Sichuan Lianfa Natural Gas Co., Ltd* (四川聯發天然氣有限責任公司)	PRC	RMB10,000,000	49	49	17.64	17.64	Sales of liquefied gas
Chengdu Ronghe Natural Gas Co., Ltd* (成都榮和天然氣有限責任公司)	PRC	RMB3,000,000	49	49	17.64	17.64	Sales of liquefied gas
Chengdu Century Yuantong Gas Co., Ltd* (成都世紀源通燃氣有限責任公司)	PRC	RMB10,000,000	45	45	16.2	16.2	Sales of natural gas and connection of gas pipelines
Zhenjiang Dongyuan Compressed Natural Gas Co., Ltd* (鎮江東源壓縮天然氣有限公司)	PRC	RMB16,500,000	25	25	11.25	11.25	Sale of liquefied gas

Name of company	Place of establishment	Registered capital	Equity interest held by the jointly controlled entities/subsidiary		Attributable interest equity of the Group		Principal activities
			2010	2009	2010	2009	
			%	%			
Pingding Shan Gas Co., Ltd* (平頂山燃氣有限責任公司)	PRC	RMB95,590,000	27	—	15.16	—	Sale of natural gas, LPG and gas appliances and construction gas pipelines

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

47. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of company	Place of establishment	Registered capital	Attributable equity interest of the Group		Principal activities
			2010	2009	
			%	%	
Chengdu City Gas Co., Ltd. (成都城市燃氣有限責任公司)	PRC	RMB800,000,000	36	36	Sales of liquefied gas and connection of gas pipelines
Wuxi China Resources Gas Co., Ltd. (無錫華潤燃氣有限公司)	PRC	USD29,980,000	50	50	Sales of liquefied gas and connection of gas pipelines
Luzhou China Resources Xinglu Gas Co, Ltd. (瀘州華潤興瀘燃氣有限公司)	PRC	RMB117,939,500	40	40	Sales of liquefied gas and connection of gas pipelines
Zhenjiang China-Resources Gas Co., Ltd. (鎮江華潤燃氣有限公司)[1]	PRC	RMB150,000,000	51	45	Sale of liquefied gas and connection of gas pipelines
Zibo China-Resources Gas Co., Ltd.* (淄博華潤燃氣有限公司)	PRC	RMB186,000,000	46	46	Sale of liquefied gas and connection of gas pipelines
Xiamen China Resources Gas Co., Ltd. (廈門華潤燃氣有限公司)	PRC	RMB1,000,000,000	49	49	Sale of liquefied gas and connection of gas pipelines

Name of company	Place of establishment	Registered capital	Attributable equity interest of the Group 2010 %	2009 %	Principal activities
Jining China-Resources Gas Co., Ltd. (濟寧華潤燃氣有限公司)[1]	PRC	RMB286,582,858	51	51	Sale of liquefied gas and connection of gas pipelines
Chongqing Gas Group Corp Ltd (重慶燃氣(集團)有限責任公司)	PRC	RMB1,216,116,082	25	—	Sale of liquefied gas and connection of gas pipelines
Yibin China Resources Gas Co. Ltd (宜賓華潤燃氣有限公司)	PRC	RMB200,000,000	50	—	Sale of liquefied gas and connection of gas pipelines
Nanjing Jiangning China Resources Gas Co., Ltd* (南京江寧華潤燃氣有限公司)	PRC	RMB951,000,000	49	—	Sale of liquefied gas and connection of gas pipelines
Neijiang China Resources Gas Co., Ltd. (內江華潤燃氣有限公司)	PRC	RMB126,487,400	50	—	Sale of liquefied gas and connection of gas pipelines
Kunshan China-Resources Gas Co., Ltd.* (昆山華潤燃氣有限公司)	PRC	RMB148,000,000	49.9	—	Sale of liquefied gas and connection of gas pipelines
Sichuan China-Resources Wantong Gas Co. Ltd* (四川華潤萬通燃氣股份有限公司)	PRC	RMB122,423,372	50	—	Sale of liquefied gas and connection of gas pipelines

1 The Group is able to exercise joint control over these companies as all of the strategic financial and operating decisions require unanimous consent of the Group and the joint venturers. Accordingly, these companies are regarded as jointly controlled entities of the Group.

The above jointly controlled entities are jointly controlled by the Group and the other significant shareholder under the respective shareholders' agreements. Therefore, they are classified as jointly controlled entities of the Group.

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors of the Company, result in particulars of excessive length.

The summarised financial information in respect of the interests in jointly controlled entities attributable to the Group is set out below:

	2010	**2009**
	HK$'000	*HK$'000*
Current assets	4,809,886	1,785,976
Non-current assets	3,302,938	2,671,169
Current liabilities	3,824,893	2,603,026
Non-current liabilities	431,709	281,120
Income recognised in profit or loss	4,696,329	1,870,282
Expenses recognised in profit or loss	4,131,637	1,542,039
Other comprehensive income	56,620	326

III. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF CR GAS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30th June, 2011

		Six months ended 30th June,	
		2011	**2010**
		HK$'000	*HK$'000*
	NOTES	*(unaudited)*	*(unaudited and restated)*
Turnover	4	5,511,125	3,273,507
Cost of sales		(3,778,323)	(2,266,903)
Gross profit		1,732,802	1,006,604
Other income		125,368	106,232
Selling and distribution expenses		(465,311)	(237,076)
Administrative expenses		(430,174)	(291,272)
Finance costs		(37,899)	(37,096)
Share of results of associates		50,188	3,304
Profit before taxation		974,974	550,696
Taxation	5	(225,903)	(131,174)
Profit for the period	6	749,071	419,522
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operations		206,691	77,408
Fair value gain (loss) on available-for-sale investments		8,006	(138)
Share of other comprehensive income of associates		12,236	213
Other comprehensive income for the period		226,933	77,483
Total comprehensive income for the period		976,004	497,005
Profit for the period attributable to:			
Owners of the Company		554,917	352,283
Non-controlling interests		194,154	67,239
		749,071	419,522

		Six months ended 30th June,	
		2011	**2010**
		HK$'000	*HK$'000*
	NOTES	*(unaudited)*	*(unaudited and restated)*
Total comprehensive income for the period attributable to:			
Owners of the Company		739,329	423,266
Non-controlling interests		236,675	73,739
		976,004	497,005
		HK$	*HK$*
Earnings per share	8		
- Basic		0.31	0.26
- Diluted		0.31	0.26

Condensed Consolidated Statement of Financial Position
At 30th June, 2011

	NOTES	At 30th June, 2011 HK$'000 (unaudited)	At 31st December, 2010 HK$'000 (audited and restated)
Non-current assets			
Property, plant and equipment	9	7,975,096	8,083,538
Prepaid lease payments		725,839	808,210
Investment properties		14,297	11,647
Interests in associates		1,585,939	85,249
Available-for-sale investments		20,851	41,721
Goodwill		658,422	652,768
Operating rights		687,193	674,121
Deferred tax assets		112,407	122,015
Deposits for prepaid lease payments		25,152	7,820
Deposits		60,124	—
		11,865,320	10,487,089
Current assets			
Inventories		316,867	236,968
Trade and other receivables	10	1,718,140	1,545,626
Amounts due from customers for contract work		584,104	378,633
Prepaid lease payments		32,848	32,593
Amounts due from fellow subsidiaries		5,593	32,813
Pledged bank deposits		8,909	14,875
Bank balances and cash		5,598,166	6,521,335
		8,264,627	8,762,843

	NOTES	At 30th June, 2011 HK$'000 (unaudited)	At 31st December, 2010 HK$'000 (audited and restated)
Current liabilities			
Trade and other payables	11	3,576,566	3,346,080
Amounts due to customers for contract work		2,009,312	1,531,631
Amounts due to fellow subsidiaries		354,954	399,301
Government grants		5,082	6,645
Bank and other borrowings	12	486,417	493,068
Taxation payable		123,326	154,272
		6,555,657	5,930,997
Net current assets		1,708,970	2,831,846
		13,574,290	13,318,935
Capital and reserves			
Share capital	13	183,109	183,109
Reserves		6,060,165	5,510,338
Equity attributable to owners of the Company		6,243,274	5,693,447
Non-controlling interests		2,015,524	1,894,764
		8,258,798	7,588,211
Non-current liabilities			
Government grants		32,635	57,895
Bank and other borrowings	12	4,760,059	5,132,770
Other long-term liabilities		192,231	124,287
Deferred tax liabilities		330,567	415,772
		5,315,492	5,730,724
		13,574,290	13,318,935

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30th June, 2011

	Attributable to owners of the Company													
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Shares held for share award scheme HK$'000	Investment revaluation reserve HK$'000	Other reserves HK$'000 (Note a)	Merger reserve HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1st January, 2011 (audited and as previously stated)	183,109	8,388,600	—	301,819	376,278	13,436	(247,399)	—	227,666	(5,042,257)	1,483,343	5,684,595	1,894,764	7,579,359
Effect of the !nalisation of accounting for acquisition of a jointly controlled entity (Note 2)	—	—	—	—	16,797	—	—	—	—	—	(7,945)	8,852	—	8,852
At 1st January, 2011 (restated)	183,109	8,388,600	—	301,819	393,075	13,436	(247,399)	—	227,666	(5,042,257)	1,475,398	5,693,447	1,894,764	7,588,211
Profit for the period	—	—	—	—	—	—	—	—	—	—	554,917	554,917	194,154	749,071
Exchange differences arising on translation of foreign operations	—	—	—	—	164,170	—	—	—	—	—	—	164,170	42,521	206,691
Fair value of gain on available-for-sale investments	—	—	—	—	—	—	—	8,006	—	—	—	8,006	—	8,006
Share of other comprehensive income of associates	—	—	—	—	12,236	—	—	—	—	—	—	12,236	—	12,236
Total comprehensive income for the period	—	—	—	—	176,406	—	—	8,006	—	—	554,917	739,329	236,675	976,004
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	43,551	43,551
Acquisition of additional interest in a subsidiary	—	—	—	(50,838)	—	—	—	—	—	—	—	(50,838)	(131,081)	(181,919)
Loss of joint control over a jointly controlled entity	—	—	—	—	(32,165)	—	—	—	(1,669)	—	33,834	—	(54,652)	(54,652)
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	26,267	26,267
Disposal of shares held for share award scheme	—	—	—	—	—	—	755	—	—	—	1,631	2,386	—	2,386
Dividends paid	—	—	—	—	—	—	—	—	—	—	(141,050)	(141,050)	—	(141,050)
Transfer between categories (Note c)	—	(7,388,600)	7,388,600	—	—	—	—	—	6,359	—	(6,359)	—	—	—
At 30th June, 2011 (unaudited)	183,109	1,000,000	7,388,600	250,981	537,316	13,436	(246,644)	8,006	232,356	(5,042,257)	1,918,371	6,243,274	2,015,524	8,258,798

	Attributable to owners of the Company													
	Share capital	Share premium	Contributed surplus	Capital reserve	Translation reserve	Share option reserve	Shares held for share award scheme	Investment revaluation reserve	Other reserves	Merger reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
									(Note a)	*(Note b)*				
At 1st January, 2010 (audited)	141,442	3,750,691	—	356,361	154,256	13,436	(253,999)	2,160	141,464	(2,821,102)	940,204	2,424,913	732,605	3,157,518
Profit for the period	—	—	—	—	—	—	—	—	—	—	352,283	352,283	67,239	419,522
Exchange differences arising on translation of foreign operations	—	—	—	—	70,908	—	—	—	—	—	—	70,908	6,500	77,408
Fair value loss on available-for-sale investments	—	—	—	—	—	—	—	(138)	—	—	—	(138)	—	(138)
Share of other comprehensive income of associates	—	—	—	—	213	—	—	—	—	—	—	213	—	213
Total comprehensive income for the period	—	—	—	—	71,121	—	—	(138)	—	—	352,283	423,266	73,739	497,005
Shares issued upon exercise of share options	—	48	—	—	—	—	—	—	—	—	—	48	—	48
Acquisition of jointly controlled entities	—	—	—	—	—	—	—	—	—	—	—	—	58,044	58,044
Contribution from non-controlling interest of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	12,974	12,974
Discount on acquisition of jointly controlled entities	—	—	—	19,490	—	—	—	—	—	—	—	19,490	—	19,490
Dividends paid	—	—	—	—	—	—	—	—	—	—	(60,499)	(60,499)	—	(60,499)
Dividends paid to a fellow subsidiary which is a former shareholder of subsidiaries	—	—	—	—	—	—	—	—	—	—	(34,694)	(34,694)	—	(34,694)
Dividends paid to non-controlling interest of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(11,540)	(11,540)
Transfer between categories	—	—	—	—	—	—	—	—	3,302	—	(3,302)	—	—	—
At 30th June, 2010 (unaudited)	141,442	3,750,739	—	375,851	225,377	13,436	(253,999)	2,022	144,766	(2,821,102)	1,193,992	2,772,524	865,822	3,638,346

Notes:

(a) Other reserves comprise general reserve, statutory surplus reserve, enterprise expansion fund, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in the People's Republic of China (the "PRC").

General reserve is appropriated each year on the basis of 5% to 10% of the profit after taxation of certain subsidiaries as determined by their board of directors in accordance with the Articles of Association of the subsidiaries. This reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

(b) Merger reserve represented the difference between (i) the cash consideration paid, deemed distribution to a fellow subsidiary and shares issued by the Company; and (ii) the amount of issued capital and premium of the combined entities under group reorganisations.

(c) Pursuant to the approval of a special resolution at the special general meeting on 30th May, 2011, the amount of HK$7,388,600,000 standing to the credit of share premium has been reduced and transferred to the contributed surplus.

Condensed Consolidated Statement of Cash Flows
For the six months ended 30th June, 2011

		Six months ended 30th June,	
		2011	**2010**
		HK$'000	*HK$'000*
	NOTES	*(unaudited)*	*(unaudited and restated)*
Net cash from operating activities		962,571	664,360
Investing activities			
Repayment from fellow subsidiaries		27,982	10,829
Proceeds from disposal of property, plant and equipment		6,801	1,810
Payments and deposits for acquisition of property, plant and equipment		(557,193)	(506,903)
Net cash outflow from loss of joint control over a jointly controlled entity	16	(530,484)	—
Net cash outflow from acquisition of a subsidiary	14	(153,845)	—
Deposits paid		(60,124)	(1,257,597)
Payments for operating rights		(22,692)	(2,567)
Prepaid lease payments made		(1,246)	(13,170)
Acquisition of a jointly controlled entity		—	714,740
Other investing cash flows (net)		12,255	20,479
Net cash used in investing activities		(1,278,546)	(1,032,379)
Financing activities			
New bank and other borrowings raised		161,374	2,903,500
Contribution from non-controlling interest of subsidiaries		26,267	12,974
Repayments of bank and other borrowings		(500,819)	(1,543,539)
Repayment to fellow subsidiaries		(53,977)	—
Net cash outflow from acquisition of additional interest in a subsidiary		(181,919)	—
Dividends paid		(141,050)	(60,499)
Dividends paid to non-controlling interest of subsidiaries		—	(11,540)
Dividends paid to a fellow subsidiary which is a former shareholder of subsidiaries		—	(34,694)
Other financing cash flows (net)		(35,513)	(36,281)

		Six months ended 30th June,	
		2011	**2010**
		HK$'000	*HK$'000*
	NOTES	*(unaudited)*	*(unaudited and restated)*
Net cash (used in) from financing activities		(725,637)	1,229,921
Net (decrease) increase in cash and cash equivalents		(1,041,612)	861,902
Cash and cash equivalents at beginning of the period		6,521,335	2,671,838
Effect of foreign exchange rate changes		118,443	35,599
Cash and cash equivalents at end of the period, representing bank balances and cash		5,598,166	3,569,339

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30th June, 2011

1. GENERAL

The Company is a listed public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's parent company is China Resources (Holdings) Company Limited ("CRH"), a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp. ("CRNC"), a company established in the PRC.

The Group is principally engaged in the sale and distribution of gas fuel and related products and gas connection operation in the PRC.

The interim results of the Group are unaudited and have been reviewed by the Company's Audit Committee.

2. BASIS OF PREPARATION

As part of the group reorganisation (the "Group Reorganisation"), on 25th October, 2010, the Company acquired 100% equity interests in Mega Fair Limited for a consideration of HK$2,221,155,000 which was settled by allotment and issue of 186,654,223 shares of the Company. Details of the Group Reorganisation are set out in the Company's circular dated 6th October, 2010.

The Group and Mega Fair and its subsidiaries (the "Mega Fair Group") are ultimately controlled by CRNC before and after the Group Reorganisation, and that control is not transitory. The Group and Mega Fair Group are regarded as continuing entities as at the date of business combination and hence the acquisition has been accounted for as a combination of entities under common control by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Accordingly, the comparative figures presented in the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group in respect of the six months ended 30th June, 2010 have been restated to include the results of operations, changes in equity and cash flows of the companies now comprising the Group as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the six months ended 30th June, 2010, or since their respective dates of incorporation or establishment where this is a shorter period, except for the jointly controlled entities acquired by Mega Fair Group during the six months ended 30th June, 2010, which are combined since their respective dates of acquisition.

Apart from the aforesaid business combination of entities under common control, the Group has retrospectively adjusted the provisional fair values of the assets and liabilities of a jointly controlled entity acquired during the six months ended 30th June, 2010 to reflect the fair value adjustments made upon completion of the purchase accounting during the period. Adjustments have been made retrospectively to property, plant and equipment, prepaid lease payments, goodwill and deferred tax liabilities as set out in note 15.

(a) The effect of those restatements described above on the condensed consolidated statement of comprehensive income during the six months ended 30th June, 2010 is as follows:

	Six months ended 30th June, 2010	Effect of business combination of entities under common control	Effect of the finalisation of accounting for acquisition of a jointly controlled entity	Elimination	Six month ended 30th June, 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(originally stated)		*(Note 15)*		*(unaudited and restated)*
Turnover	2,747,186	532,595	—	(6,274)	3,273,507
Cost of sales	(1,905,501)	(366,047)	(1,629)	6,274	(2,266,903)
Gross profit	841,685	166,548	(1,629)	—	1,006,604
Other income	101,458	4,774	—	—	106,232
Selling and distribution expenses	(184,088)	(52,988)	—	—	(237,076)
Administrative expenses	(244,042)	(46,204)	(1,026)	—	(291,272)
Finance costs	(36,829)	(267)	—	—	(37,096)
Share of results of associates	2,927	377	—	—	3,304
Profit before taxation	481,111	72,240	(2,655)	—	550,696
Taxation	(116,511)	(15,327)	664	—	(131,174)
Profit for the period	364,600	56,913	(1,991)	—	419,522
Other comprehensive income					
Exchange differences arising on translation of foreign operations	54,108	23,318	(18)	—	77,408
Fair value (loss) gain on available-for-sale investments	(545)	407	—	—	(138)
Share of other comprehensive income of associates	213	—	—	—	213
Other comprehensive income for the period	53,776	23,725	(18)	—	77,483
Total comprehensive income for the period	418,376	80,638	(2,009)	—	497,005

	Six months ended 30th June, 2010 HK$'000 *(originally stated)*	Effect of business combination of entities under common control HK$'000	Effect of the finalisation of accounting for acquisition of a jointly controlled entity HK$'000 *(Note 15)*	Elimination HK$'000	Six month ended 30th June, 2010 HK$'000 *(unaudited and restated)*
Profit for the period attributable to:					
Owners of the Company	304,592	49,682	(1,991)	—	352,283
Non-controlling interests	60,008	7,231	—	—	67,239
	364,600	56,913	(1,991)	—	419,522
Total comprehensive income for the period attributable to:					
Owners of the Company	352,756	72,519	(2,009)	—	423,266
Non-controlling interests	65,620	8,119	—	—	73,739
	418,376	80,638	(2,009)	—	497,005

(b) The effect of the fair value adjustments upon completion of accounting for the acquisition of a jointly controlled entity described above on the condensed consolidated statement of financial position as at 31st December, 2010 is as follows:

	At 31st December, 2010	**Effect of the finalisation of accounting for acquisition of a jointly controlled entity**	**At 31st December, 2010**
	HK$'000	*HK$'000*	*HK$'000*
	(originally stated)	*(Note 15)*	*(restated)*
Property, plant and equipment	7,810,391	273,147	8,083,538
Prepaid lease payments	785,157	55,646	840,803
Goodwill	890,511	(237,743)	652,768
Deferred tax liabilities	(333,574)	(82,198)	(415,772)
Total effects on net assets	9,152,485	8,852	9,161,337
Translation reserve	376,278	16,797	393,075
Retained profits	1,483,343	(7,945)	1,475,398
Total effects on equity	1,859,621	8,852	1,868,473

(c) The effect of those restatements described above on the Group's basic and diluted earnings per share for the six months ended 30th June, 2010 is as follows:

	Impact on basic earnings per share	**Impact on diluted earnings per share**
	HK$	*HK$*
Figures before adjustments	0.23	0.23
Adjustments arising from business combination of entities under common control	0.03	0.03
Adjustments arising from finalisation of accounting for acquisition of a jointly controlled entity	—	—
Figures after adjustments	0.26	0.26

(d) The impact of business combination of entities under common control on the condensed consolidated statement of financial position of the Group as at 1st January, 2010 has been disclosed in the annual report of the Company for the year ended 31st December, 2010.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain types of financial instruments which are measured at fair value.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards and interpretations ("new or revised HKFRSs") issued by the HKICPA. Except as described below, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2010.

HKAS 24 "Related party disclosures" (as revised in 2009)

The Group has applied HKAS 24 (as revised in 2009) in full in the current period. HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) introduction of a partial exemption from the disclosure requirements for government-related entities and (b) revision of the definition of a related party.

In its annual consolidated financial statements for the year ended 31st December, 2010, the Group had applied early the partial exemption from the disclosure requirements for government-related entities. In the current interim period, the Group has applied for the first time the revised definition of a related party and the remaining parts of HKAS 24 (as revised in 2009). Certain related party transactions with non-controlling shareholders of subsidiaries, which were previously disclosed in the Group's annual financial statements for the year ended 31st December, 2010, are no longer disclosed.

HKAS 24 (as revised in 2009) requires retrospective application. Other than disclosed above, the application of HKAS 24 (as revised in 2009) has had no material effect on the amounts recognised or recorded and disclosed in the condensed consolidated financial statements for the current and prior periods.

The application of the other new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets[1]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosures of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[3]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]

[1] Effective for annual periods beginning on or after 1st July, 2011

[2] Effective for annual periods beginning on or after 1st January, 2013

[3] Effective for annual periods beginning on or after 1st January, 2012

[4] Effective for annual periods beginning on or after 1st July, 2012

HKFRS 10 replaces the parts of HKAS 27 "Consolidation and separate financial statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements; (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas the Group currently accounts for its jointly controlled entities using the propor tionate method of accounting in accordance with HKAS 31. The application of HKFRS 11 might result in changes in the classification of the Group's joint arrangements and will change the accounting treatments. Specifically, the Group's jointly controlled entities that are currently accounted for using proportionate consolidation may be classified as joint operations or joint ventures, as appropriate. For joint arrangements that are classified as jointly controlled entities in accordance with HKAS 31 and are classified as joint ventures in accordance with HKFRS 11, they will have to be accounted for using the equity method of accounting.

The Group has already commenced an assessment of the impact of these new and revised standards and interpretation but is not yet in a position to state whether these new and revised standards and interpretations would have a material impact on its results of operations and financial position.

4. TURNOVER AND SEGMENT INFORMATION

The Group has identified two operating and reportable segments — sale and distribution of gas fuel and related products, and gas connection. The Group's chief operating decision maker uses such operating segment information to make strategic decisions.

The activities of these divisions are as follows:

Sale and distribution of gas fuel and related products — sale of liquefied petroleum gas and natural gas for residential, commercial and industrial use

Gas connection — construction contracts for gas connection to the Group's pipelines

Information regarding the above segments is reported below.

The following is an analysis of the Group's revenue and results by operating and reportable segments for the periods under review:

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Six months ended 30th June, 2011			
Segment revenue	4,551,785	959,340	5,511,125
Segment results	562,626	499,367	1,061,993
Share of results of associates			50,188
Unallocated income			100,786
Unallocated expenses			(200,094)
Finance costs			(37,899)
Profit before taxation			974,974
Six months ended 30th June, 2010 (restated)			
Segment revenue	2,607,956	665,551	3,273,507
Segment results	330,370	309,350	639,720
Share of results of associates			3,304
Unallocated income			97,261
Unallocated expenses			(152,493)
Finance costs			(37,096)
Profit before taxation			550,696

The following is an analysis of the Group's assets by operating and reportable segments:

	At 30th June, 2011	At 31st December, 2010
	HK$'000	*HK$'000*
		(restated)
Sale and distribution of gas fuel and related products	7,676,322	7,611,487
Gas connection	2,804,081	2,266,251
	10,480,403	9,877,738
Unallocated corporate assets	9,649,544	9,372,194
	20,129,947	19,249,932

5. TAXATION

	Six months ended 30th June, 2011	2010
	HK$'000	*HK$'000*
		(restated)
Current tax		
PRC Enterprise Income Tax	223,158	125,771
Deferred taxation	2,745	5,403
	225,903	131,174

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the six months ended 30th June, 2011 and 2010. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and subsidiaries operating in Hong Kong had no assessable profits for both periods.

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

Certain subsidiaries operating in the PRC are exempted from income tax applicable in the PRC for two years starting from the first profit making year after utilisation of the tax losses brought forward and were granted a 50% relief for the following three years.

Certain jointly controlled entities operating in the Western China have been granted tax concessions by the local tax bureau and are entitled to PRC Enterprise Income Tax at concessionary rate of 15%.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No. 1, only the profits earned by foreign-investment enterprises prior to 1st January, 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Law and Article 91 of its Detailed Implementation Rules.

6. PROFIT FOR THE PERIOD

	Six months ended 30th June,	
	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	188,365	131,178
Amortisation of operating rights (included in administrative expenses)	12,682	12,410
Release of prepaid land lease payments	8,946	5,990
Impairment loss on trade receivables	—	344
Loss on disposal of property, plant and equipment	215	135
Interest income on bank deposits	(32,748)	(17,418)

7. DIVIDENDS

In respect of the current interim period, the directors declared an interim dividend of 2.00 HK cents per share (2010: 2.00 HK cents per share) that will be paid to shareholders whose names appear on the register of members of the Company on 23rd September, 2011. This dividend was declared and approved after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

During the six months ended 30th June, 2011, a dividend of 8.00 HK cents per share (2010: 4.50 HK cents per share), totalling HK$141,050,000 (2010: HK$60,499,000), was paid by the Company to its shareholders as the final dividend for the year ended 31st December, 2010 (2010: 31st December, 2009).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30th June,	
	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	554,917	352,283

	Six months ended 30th June,	
	2011	**2010**
Number of shares:		
Weighted average number of shares in issue less shares held for share award scheme for the purpose of basic earnings per share	1,763,100,934	1,344,420,910
Effect of dilutive potential shares in respect of share options	49,032	50,982
Weighted average number of shares in issue less shares held for share award scheme for the purpose of diluted earnings per share	1,763,149,966	1,344,471,892

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2011, the Group spent HK$39,662,000 (2010: HK$62,287,000) on additions of gas pipelines and HK$449,808,000 (2010: HK$331,818,000) on construction in progress. Property, plant and equipment of carrying value of HK$264,842,000 (2010: nil) and HK$937,737,000 (2010: nil), were acquired from the acquisition of a subsidiary and were arisen from the loss of joint control over a jointly controlled entity, respectively.

10. TRADE AND OTHER RECEIVABLES

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, which may be extended to 180 days for selected customers depending on the trade volume and settlement terms. The aged analysis of trade receivables, including notes receivable, net of allowance for doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	At 30th June, 2011	At 31st December, 2010
	HK$'000	*HK$'000*
0 - 90 days	593,584	417,451
91 - 180 days	58,228	50,446
Over 180 days	58,696	31,712
	710,508	499,609

11. TRADE AND OTHER PAYABLES

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

	At 30th June, 2011	At 31st December, 2010
	HK$'000	*HK$'000*
0 - 90 days	705,819	534,495
91 - 180 days	117,904	97,338
Over 180 days	198,538	264,249
	1,022,261	896,082

The average credit period on purchases of goods ranges from 7 to 180 days.

Included in other payables as at 30th June, 2011 are receipts in advance from customers of HK$1,508,766,000 (2010: HK$1,371,323,000) of which the construction work on gas connection projects has not yet commenced.

12. BANK AND OTHER BORROWINGS

	At 30th June, 2011	At 31st December, 2010
	HK$'000	*HK$'000*
Bank loans, unsecured	5,159,061	5,442,998
Other loans, unsecured	87,415	182,840
	5,246,476	5,625,838
The Group's bank and other borrowings are repayable as follows:		
Within one year	186,417	193,068
More than one year, but not exceeding two years	278,296	22,866
More than two years, but not exceeding five years	4,471,407	5,045,725
More than five years	10,356	64,179
	4,946,476	5,325,838
Carrying amount of bank loans that are repayable more than one year but not exceeding two years from the end of reporting period but contain a repayment on demand clause (shown under current liabilities)	300,000	300,000
	5,246,476	5,625,838
Less: Amount due within one year shown under current liabilities	(486,417)	(493,068)
Amount due after one year shown as non-current liabilities	4,760,059	5,132,770

The effective annual interest rates on the Group's bank and other borrowings range from 0.75% to 6.80% (31st December, 2010: 0.75% to 6.12%) per annum.

13. SHARE CAPITAL

	Number of shares		Nominal value of shares	
	At 30th June, 2011	**At 31st December, 2010**	**At 30th June, 2011**	**At 31st December, 2010**
			HK$'000	*HK$'000*
Shares of HK$0.10 each				
Authorised:				
At beginning of the period/year and at end of the period/year	10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of the period/year	1,831,094,933	1,414,416,710	183,109	141,442
Shares issued upon exercise of share options	—	24,000	—	2
Placing of shares (Note a)	—	230,000,000	—	23,000
Issue of shares upon combination of entities under common control (Note b)	—	186,654,223	—	18,665
At end of the period/year	1,831,094,933	1,831,094,933	183,109	183,109

The new shares issued during the period/year rank pari passu in all respects with the existing shares in issue.

Notes:

(a) On 14th September, 2010, Splendid Time Investments Inc. ("Splendid Time") (name changed to CRH (Gas) Limited on 20th July, 2011), the Company's immediate holding company, and the Company entered into a placing and subscription agreement with the placing agent pursuant to which the placing agent placed 230,000,000 existing shares at a price of HK$10.75 per share owned by Splendid Time to certain independent placees. Pursuant to the placing and subscription agreement, Splendid Time subscribed for 230,000,000 new shares equivalent to the number of the placing shares. The proceeds from the placing of shares, net of professional fees and out-of-pocket expenses, will be used principally for acquisition of more downstream city gas distribution businesses in the PRC.

(b) Pursuant to the sale and purchase agreement entered into on 13th September, 2010, the Group acquired 100% equity interest in Mega Fair from Powerfaith Enterprises Limited ("Powerfaith"), a fellow subsidiary of the Company, for a consideration of HK$2,221,155,000. The consideration was satisfied in full by the allotment and issue of 186,654,223 consideration shares in the Company. The consideration shares were issued on 25th October, 2010 at HK$11.9 per share.

14. ACQUISITION OF A SUBSIDIARY

On 31st March, 2011, the Group acquired 100% equity interest in Flemming Limited ("Flemming"), which is an investment holding with subsidiaries engaged in the construction, infrastructure design and operating of city gas pipelines, gas facilities repair and maintenance, technical support, gas selling and distribution, construction of natural gas station production of liquefied natural gas, the provision of related requirements, apparatus and other ancillary services, from an independent third parties for a cash consideration of RMB352,950,000 (equivalent to HK$420,394,000), subject to finalisation of completion accounts. Details of the acquisition are set out in the Company's announcement on 16th March, 2011. The transaction has been accounted for using the acquisition method.

	Amounts recognised at the date of acquisition (provisional basis)
	HK$'000
Net identifiable assets of the subsidiaries acquired:	
Non-current assets	278,291
Current assets	102,009
Current liabilities	(160,731)
Non-current liabilities	(11,873)
	207,696

	HK$'000
Consideration transferred, satisfied by cash	210,197
Deferred consideration:	
- included in other payables in current liabilities	147,665
- included in other long-term liabilities (payable in 2014)	62,532
Plus: Non-controlling interests	43,551
Less: Net assets acquired	(207,696)
Goodwill arising on acquisition (provisional basis)	256,249
Analysis of net inflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Cash consideration paid	(210,197)
Bank balances and cash acquired	56,352
	(153,845)

The non-controlling interests recognised at the date of acquisition was measured by reference to the proportionate share of the value of the acquiree's identifiable net assets and amounted to HK$43,551,000.

The fair values of the assets and liabilities acquired, and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable intangible assets and valuation of the identifiable assets and liabilities.

15. ACQUISITION OF A JOINTLY CONTROLLED ENTITY

During the six months ended 30th June, 2010, the Group obtained 25% equity interest in Chongqing Gas Group Corporation Limited Chongqing Gas Group Corp Ltd (重慶燃氣(集團)有限責任公司) ("Chongqing Gas") by capital injection amounting to USD170,300,000 (equivalent to approximately HK$1,321,423,000). Chongqing Gas is engaged in sales of liquefied gas and connection of gas pipelines. The Group was able to exercise joint control over Chongqing Gas as all of the strategic financial and operating decisions require unanimous consent of the Group and the other joint venture. Accordingly, Chongqing Gas was regarded as a jointly controlled entity of the Group. At the date of acquisition, goodwill of HK$491,618,000 has determined provisionally based on the net identifiable assets of Chongqing Gas. During the six months ended 30th June, 2011, the identification and determination of fair values of the net identifiable assets acquired have been completed. The following adjustments have been made to retrospectively adjust the provisional amounts recognised at the date of acquisition.

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis)	**Fair value adjustments**	**Fair values upon completion of acquisition accounting**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	*(restated)*
Net identifiable assets of the jointly controlled entity acquired attributable to the Group's interest:			
Property, plant and equipment	540,425	272,779	813,204
Prepaid lease payments	38,721	55,571	94,292
Available-for-sale investments	19,212	—	19,212
Deferred tax assets	4,061	—	4,061
Inventories	35,756	—	35,756
Trade and other receivables	150,259	—	150,259

	Amounts recognised at the date of acquisition attributable to the Group (provisional basis)	Fair value adjustments	Fair values upon completion of acquisition accounting
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	*(restated)*
Amounts due from customers for contract work	2,557	—	2,557
Bank balances and cash	633,740	—	633,740
Trade and other payables	(275,895)	—	(275,895)
Amounts due to customers for contract work	(143,642)	—	(143,642)
Taxation payable	(19,106)	—	(19,106)
Bank and other borrowings	(89,185)	—	(89,185)
Government grants	(11,220)	—	(11,220)
Deferred tax liabilities	(2,331)	(82,088)	(84,419)
	883,352	246,262	1,129,614

	HK$'000
	(restated)
Consideration transferred, satisfied by deposits in 2009	1,321,423
Plus: Non-controlling interests in subsidiaries held by Chongqing Gas	53,547
Less: Net assets acquired	(1,129,614)
Goodwill arising on acquisition	245,356
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	633,740

During the six months ended 30th June, 2011, Chongqing Gas has become an associate of the Group. Details are set out in note 16.

16. LOSS OF JOINT CONTROL OVER A JOINTLY CONTROLLED ENTITY

For the purpose of the preparation of future initial public offering in the PRC, the shareholders of Chongqing Gas passed a resolution to amend its memorandum of association in February 2011 in which, among others, the terms requiring unanimous consent of the Group and the other joint venturer on all of strategic financial and operating decisions of Chongqing Gas has been removed. Accordingly, the Group no longer jointly controlled but retains significant influence over Chongqing Gas. The net assets of Chongqing Gas attributable to the Group's interest at the date of loss of joint control were as follows:

	HK$'000
An analysis of assets and liabilities of Chongqing Gas that were previously proportionately consolidated in the Group's financial statements are as follows:	
Property, plant and equipment	937,737
Prepaid lease payments	98,453
Available-for-sale investments	21,288
Deferred tax assets	5,583
Goodwill	253,874
Inventories	19,929
Trade and other receivables	149,620
Bank balances and cash	530,484
Trade and other payables	(324,710)
Taxation payable	(9,199)
Bank and other borrowings	(94,847)
Government grants	(21,113)
Deferred tax liabilities	(84,578)
	1,482,521
Result on loss of joint control over a jointly controlled entity:	
Fair value of retained interest in an associate (included in interest in associates)	1,427,869
Net assets previously proportionately consolidated	(1,482,521)
Non-controlling interests in subsidiaries held by Chongqing Gas	54,652
	—
Net cash outflow arising from loss of joint control:	
Bank balances and cash previously proportionately consolidated	(530,484)

17. CAPITAL COMMITMENTS

	At 30th June, 2011	At 31st December, 2010
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment/prepaid lease payments contracted but not provided for	120,155	181,006
Capital expenditure in respect of acquisition of property, plant and equipment/prepaid lease payments authorised but not contracted for	626,094	18,518

18. CONTINGENT LIABILITIES

As at 30th June, 2011, the Group's jointly controlled entity has given guarantees amounting to HK$192,395,000 (31st December, 2010: HK$188,029,000) to a bank in respect of banking facility granted to a state-controlled entity. The Group effectively shared 36% equity interests in that jointly controlled entity using proportionate consolidation, accordingly, the Group effectively shared 36% of contingent liabilities of HK$69,262,000 (31st December, 2010: HK$67,690,000). The fair values of the guarantees as at 30th June, 2011 and 31st December, 2010 are not significant as it is remote for the default payment by state controlled entity and therefore no amount has been recognised in the condensed consolidated statement of financial position as liabilities.

19. RELATED PARTY TRANSACTIONS

Transactions with related parties

During the six months ended 30th June, 2011 and 2010, the Group entered into the following transactions with related parties:

	Six months ended 30th June, 2011	Six months ended 30th June, 2010
	HK$'000	*HK$'000* *(restated)*
Purchases of goods from fellow subsidiaries	—	2,786
Purchase of goods from joint venturers	53,546	34,467
Rental expense paid to fellow subsidiaries	482	592
Rental income from fellow subsidiaries	—	114
Sales to fellow subsidiaries	4,588	1,886
Interest expenses paid to a fellow subsidiary	716	12,697
Service income from fellow subsidiaries	986	863

Compensation of key management personnel of the Group

	Six months ended 30th June,	
	2011	**2010**
	HK$'000	*HK$'000*
Short-term benefits	2,651	1,835
Post-employment benefits	156	135
	2,807	1,970

Transactions/balances with other state-controlled entities

The Group itself is part of a larger group of companies under CRNC which is controlled by the government of the PRC and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government.

Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the condensed consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business, including purchases and sales of gas. A large portion of purchases of gas is from government-related entities.

20. EVENT AFTER THE REPORTING PERIOD

On 22nd July, 2011, the Company entered into a sale and purchase agreement with China Resources Gas Holdings Limited ("CR Gas Holdings"), a fellow subsidiary of the Company, and Powerfaith. Pursuant to the agreement the Company has conditionally agreed to acquire the entire issued share capital of Wang Gao Limited ("Wang Gao"), an indirectly wholly owned subsidiary of CR Gas Holdings and a directly wholly owned subsidiary of Powerfaith, for a consideration of HK$1,710,000,000 which will be settled by allotment and issue of 161,174,785 shares of the Company. Wang Gao and its subsidiaries ("Wang Gao Group") currently operate a portfolio of city gas distribution businesses including natural gas pipelines and natural gas facilities repair and maintenance in the PRC. The acquisition has not been completed up to the date of approval of the report.

The Group and Wang Gao Group are ultimately controlled by CRNC before and after the group reorganisation, and that control is not transitory. Upon the completion of the acquisition, as the Group and Wang Gao Group are regarded as continuing entities as at the dates of business combinations and hence the acquisition will be accounted for as combinations of entities under common control by applying the principles of merger accounting in accordance with AG 5.

IV. INDEBTEDNESS STATEMENT

Borrowings

The borrowings of CR Gas Group as at 30 September 2011 are as follows:

	HK$'000
Bank and other borrowings	
Secured	28,207
Unsecured	5,336,370
	5,364,577
Amounts due to fellow subsidiaries	889
Consideration payable for acquisition of subsidiaries, subject to finalisation of completion accounts	216,431
Pledged assets	
Property, plant and equipment	140,096
Trade receivables	5,191
Pledged bank deposits	613
	145,900

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the CR Gas Group did not have outstanding at the close of business on 30 September 2011 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.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 September 2011.

V. MATERIAL CHANGE

The directors of CR Gas confirm that as at the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of CR Gas Group since 31 December 2010, the date to which the latest published audited financial statements of CR Gas Group were made up.

PART A

Set out below is a summary of the material amendments proposed to be made to the Articles of Association:

Article reference	Summary of original article	Summary of the proposed amendments
Article 7	The definition of "other senior management" includes, among others, board secretary, qualified accountant, chief economist, chief engineer, chief accountant and assistant to general manager.	The reference to "board secretary, qualified accountant, chief economist, chief engineer, chief accountant and assistant to general manager" to be replaced with "other senior management members defined by PRC laws".
Article 9	The provision of guarantees by ZZ Gas to any party is subject to approval by the board of directors (or, if the guarantee is more than RMB 30 million or if ZZ Gas's aggregate amount of external guarantee reaches RMB 100 million, approval of shareholders in general meeting), and is subject to the requirements of the Listing Rules. In any case, the aggregate amount of external guarantees by ZZ Gas cannot exceed 30% of ZZ Gas's total assets.	References to (i) compliance with the Listing Rules; and (ii) the requirement that the aggregate amount of external guarantees by ZZ Gas cannot exceed 30% of ZZ Gas's total assets to be removed.
Article 29	ZZ Gas is required to notify creditors within 10 days of resolving to reduce its capital, and to publish an announcement in a newspaper at least three times within 30 days of such resolution. A creditor has within 30 days of receiving notice, or within 90 days of the first announcement (if notice has not been received), to require ZZ Gas to repay its debts or to provide a guarantee.	The period of time after the first announcement within which a creditor can require repayment of debt by ZZ Gas or the provision of a guarantee to be shortened from 90 days to 45 days.

Article reference	Summary of original article	Summary of the proposed amendments
Article 33	Where ZZ Gas repurchases redeemable stock which it is entitled to do so (i) otherwise than in open trade; or (ii) by way of an offer, the price shall not exceed a certain price ceiling. If the repurchase is conducted by way of an offer, then, the offer must be made to all the shareholders on the same conditions.	This provision to be deleted.
Article 45	Transfers of shareholding in ZZ Gas will not be registered in the shareholder register for a period of 30 days prior to a shareholders' meeting or for a period of 5 days prior to the record date for dividend distributions.	The period of in which transfers will not be registered prior to a shareholders' meeting to be shortened from 30 days to 20 days.
Article 56	A "controlling shareholder" includes a person who, whether acting alone or acting in concert with others (i) can exercise or control the exercise of 30% or more of ZZ Gas's voting rights; and (ii) holds 30% or more of the issued and outstanding shares of ZZ Gas.	The percentage threshold in each of the scenarios set out in (i) and (ii) to be increased from 30% to 50%.
Article 60	This article provides that the board of directors is required to convene a special general meeting upon, among other things, requisition by two or more independent directors.	The requirement on the board of directors to convene a special general meeting upon the requisition of two or more independent directors to be removed.
Article 61	ZZ Gas is required to give notice to shareholders of a general meeting 45 days prior to the meeting. A shareholder intending to attend the general meeting is required to submit a written response to ZZ Gas 20 days prior to the meeting.	The notice period for general meetings to be shortened from 45 days to 20 days. An additional provision to be made for extraordinary general meetings which requires 15 days' notice to shareholders. A shareholder to be required to submit a written response of attendance to ZZ Gas five days prior to the meeting.

Article reference	Summary of original article	Summary of the proposed amendments
Article 64	(i) ZZ Gas shall, based on the written replies which it receives from shareholders before the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend amounts to more than one-half of ZZ Gas's total voting shares, ZZ Gas may hold the meeting; otherwise, ZZ Gas shall, within five days, notify the shareholders by way of public announcement of the matters to be considered, and the date and place of the meeting. ZZ Gas may then hold the meeting after publication of such announcement.	(i) These provisions to be deleted.
	(ii) A special meeting of shareholders shall not decide on matters not stated in the notice.	(ii) Reference to "special" to be deleted so that a shareholders' meeting shall not decide on matters not stated in the notice for the meeting.
Article 66	This article requires notice of general meeting to be given by way of an announcement published in one or more national newspapers specified by the securities regulatory authority on any day from 45 days to 50 days before the general meeting.	This provision to be deleted and notice of shareholder meetings may be given in accordance with PRC law.
Article 68	Shareholders may appoint proxies to attend and vote at general meetings. Proxies have the right, among other things, to vote by a show of hands or on a poll, but voting must be on a poll if there is more than one proxy.	This provision to be replaced with the right of proxies to vote by way of disclosed ballot.

Article reference	Summary of original article	Summary of the proposed amendments
Article 76	This article provides that voting in a general meeting shall be by a show of hands unless otherwise required by the Listing Rules or on the request of (i) the chairman of the meeting; (ii) at least two shareholders entitled to vote in person or proxies with voting rights; or (iii) one or more shareholders (including proxies) separately or jointly representing 10% or more of all shares carrying voting rights at the meeting.	This article to be deleted in its entirety.
Article 83	This article provides for the process by which an extraordinary general meeting or class meeting may be convened by two or more shareholders who in aggregate hold 10% or more of the voting power at such meeting.	This provision to be deleted.
Article 98	More than half of the board of directors shall comprise external (i.e. non-executive) directors and there shall be at least three independent non-executive directors.	This provision to be deleted.
Article 99	The number of senior officers of a controlling organisation of ZZ Gas serving as chairman, vice chairman or executive director of ZZ Gas cannot exceed two.	This provision to be deleted.

Article reference	Summary of original article	Summary of the proposed amendments
Article 100	This article provides that the board of directors shall be responsible for, among other things, (i) approving incentive plans for senior officers proposed by the nomination committee; (ii) upon recommendation by the chairman, and subject to the review and consideration of the nomination committee and the approval of the board of directors, engaging the general manager, financial supervisor, secretary of the board of directors and chief financial officer; and (iii) upon recommendation by the general manager, and subject to the review and consideration of the nomination committee and the approval of the board of directors, engaging the chief economist, chief accountant, chief engineer and assistant general managers.	References to "the nomination committee" (and their proposals, review and consideration), "secretary to board of directors" and "chief financial officer" to be deleted. References to "the chief economist, chief accountant, chief engineer and assistance general managers" to be replaced by "other senior management".
Article 103	This article sets out the duties of the various board committees and, where relevant, the requirements on their composition, including the independent non-executive directors committee.	This article to be deleted in its entirety.
Article 104	This article sets out the circumstances in which the chairman of the board of directors is required to hold an extraordinary meeting of the board within 10 working days.	The reference to "10 working days" to be changed to "10 days".
Article 105	This article provides that where the board of directors has not decided on the time and place for holding a board meeting, the board secretary shall give notice to the board and the supervisors of the time and place for holding the board meeting at least 15 days prior to the meeting.	The notice of 15 days to be changed to 10 days.

Article reference	Summary of original article	Summary of the proposed amendments
Article 124	More than half of the supervisory committee shall comprise external (i.e. non-executive) supervisors and there shall be more than two independent supervisors. Non-executive supervisors have the right to report independently on the good faith and due diligence of the management of ZZ Gas in a general meeting of shareholders.	This provision to be deleted.
Article 128	The quorum requirement for a meeting of the supervisory committee is two-thirds or more of its members. Resolutions of the supervisory committee shall be passed by a two-third majority of its members.	This quorum requirement to be removed. Resolutions to be passed by a simple majority of members of the supervisory committee.
Article 154	ZZ Gas is required to prepare financial statements in accordance with PRC GAAP and IFRS or the standards of the place where the shares of ZZ Gas are listed and to explain any material differences between the financial statements prepared in accordance with the two different accounting standards. The distributable profits of ZZ Gas shall be the lesser of the amount of distributable profits set out in the two financial statements.	This article to be amended so that ZZ Gas to be only required to prepare financial statements in accordance with PRC GAAP.
Article 155	ZZ Gas's interim results or financial information shall be prepared in accordance with PRC GAAP and IFRS or the standards of the place where the shares of ZZ Gas are listed.	This article to be deleted in its entirety.
Article 156	ZZ Gas is required under this article to publish an interim report and an annual report for each financial year.	References to preparation of interim reports to be removed (i.e. ZZ Gas to prepare only an annual report for each financial year).

Article reference	Summary of original article	Summary of the proposed amendments
Article 165	Unless shareholders resolve otherwise at general meeting, shareholders may in general meeting authorise the board of directors to distribute interim dividends. Unless otherwise required by law, interim dividends cannot exceed 50% of the distributable profits of ZZ Gas for that interim period.	This provision to be deleted.
Articles 189, 190	Where ZZ Gas resolves to implement a merger or a division, it shall notify creditors within 10 days of such resolution and shall publish a public notice in a newspaper at least three times within 30 days of such resolution.	The requirement to publish three public notices to be reduced to one.
Article 196	Creditors shall be notified within 10 days of the establishment of a liquidation committee, and a public notice shall be published in a newspaper at least three times within 60 days of such establishment.	The requirement to publish three public notices to be reduced to one.
Article 202	Shareholders may by way of ordinary resolution authorise the board of directors to, where there is an increase in the registered capital of ZZ Gas, amend the Articles of Association to reflect the actual registered capital of ZZ Gas.	This provision to be deleted.

Article reference	Summary of original article	Summary of the proposed amendments
Article 203	If amendments to the Articles of Association relate to the mandatory provisions, such amendments shall be subject to the approval of authorities authorised by the State Council and the China Securities Regulatory Commission. If the amendment relates to company registration matters, the changes in registration shall be conducted in accordance with the law.	This article to be deleted in its entirety.
Article 204	Disputes between H Shareholders and ZZ Gas or other officers of ZZ Gas or holders of Domestic Shares shall be resolved by arbitration.	This article to be deleted in its entirety.
Article 205	Unless otherwise specified in the Articles of Association, notices to H Shareholders shall be delivered or posted to the address set out in the H Share register.	This article to be deleted in its entirety.
Article 209	In the Articles of Association, references to "accounting firm" shall have the same meaning as "auditors".	This article to be deleted in its entirety.

In addition to the above, references in the Articles of Association arising out of, in connection with or incidental to ZZ Gas's status as a listed company and ZZ Gas as a company with H shares, including, for example, compliance with the Listing Rules and rules and regulations of the PRC applicable to listed issuers and provisions relating to different share classes, are proposed to be removed. For further details, please Part B of this Appendix IV which sets out a blackline of each article proposed to be amended against the original text of that article.

ZZ Gas Shareholders are advised to read carefully the amendments proposed to be made to the Articles of Association as set out in Part B of this Appendix IV.

PART B

Article 1

The Company is a joint stock company incorporated in accordance with the "Company Law of the People's Republic of China" (the "Company Law")~~, the "Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Stocks by Limited Stock Companies (the "Special Provisions")~~ and other relevant laws and administrative regulations.

Pursuant to the Approval in Respect of the Establishment of Zhengzhou Gas Company Limited (關於設立鄭州燃氣股份有限公司的批覆) (Yu Gu Pi Zi [2000] No.61豫股批字[2000]61號) issued by Henan Provincial Government of the PRC, the Company was established by means of promotion on 13 December 2000 and was registered with the Administration of Industry and Commerce of Henan Province and obtained its corporate legal person's business license on 18 December 2000 (registration number: Qi Gu Yu Zong Zi No. 003395).

Promoters of the Company include:

Zhengzhou Municipal Gas Company Limited (now known as Zhengzhou Gas Group Company Limited)

Legal representative	:	Chang Zongxian
Legal residence	:	No.352 Long Hai Road West, Zhengzhou City

Zhenghzou Investment Consultancy Company Limited (renamed as Zhengzhou Qiyuan Investment Consultancy Company Limited and Beijing Jinqiyuan Investment Management Co. Ltd.)

Legal representative	:	Li Keqing
Legal residence	:	Unit 316, Block 1, the Economy and Trade Building, Zhengzhou Economic and Technical Development Zone

Henan Auctioneer

Legal representative	:	Zhang Chaoyi
Legal residence	:	No.15 Wei Si Road, Zhengzhou City

Zhengzhou Xindazhong Industrial Development Co., Ltd.

Legal representative	:	Lin Juan
Legal residence	:	No.1, Hong Feng Lane, Zhengzhou High and New Technology Industrial Development Zone

Zhengzhou Sifang Construction and Decoration Co., Ltd.

Legal representative	:	Gao Mingshun
Legal residence	:	Dongqing Street, Zhengzhou High and New Technology Industrial Development Zone

Article 6

The Articles of Association is approved by special resolution of the Shareholder General Meeting and came into force after H shares of the Company was delisted from ~~listed on~~ the Main Board of the Stock Exchange of Hong Kong (the "Hong Kong Stock Exchange").

As of the effective date of the Articles of Association, the Articles of Association becomes a document legally binding in regularizing the organization and behaviour of the Company and the rights and obligations among shareholders and between shareholders and the Company.

Article 7

These Articles of Association shall be binding upon the Company, its shareholders, directors, supervisors, general manager, deputy general manager and other senior managements of the Company, who shall have the right to make any claims and propositions regarding the Company's affairs based on the Articles of Association.

Other senior management include the Company's chief financial officer (financial controller), ~~board secretary, qualified accountant, chief economist, chief engineer, chief accountant, assistant to general manager~~ and other senior management members defined by PRC laws.

Shareholders may institute legal proceedings against the Company pursuant to these Articles of Association; the Company may institute legal proceedings against its shareholders pursuant to these Articles of Association; shareholders may, pursuant to these Articles of Association, institute legal proceedings against other shareholders; and shareholders may, pursuant to these Articles of Association, institute legal proceedings against directors, supervisors, general manager, vice general manager and other senior management of the Company.

The legal proceedings referred to in the preceding paragraph include court proceedings and arbitration proceedings.

Article 9

The Company is an independent legal person and all its activities shall be subject to laws and regulations of the PRC ~~and jurisdictions in which overseas listed foreign shares are listed~~. The Company shall protect shareholders' legitimate rights and benefits.

The Company's entire capital is divided into shares of equal value and shareholders shall be liable to the Company to the extent of the shares held by them. The Company is liable for the debts of the Company with all its assets.

Subject to compliance with the laws and administrative regulations of the PRC, the Company has the rights to raise and borrow funds.

The Company's rights to raise funds include (but are not limited to) the issuance of shares, non-public issuance, placings, issuance of convertible bonds or bonds, the charge or mortgage of part or all the ownership or use right of the Company's assets and other rights permitted by PRC laws and administrative regulations, and the provision of different forms of guarantee to the debts of any third party (including but not limited to subsidiaries or associates of the Company) in any circumstances. However, when the Company exercises such right, it shall not harm or abolish rights of other ~~classes~~ shareholders.

Any Investment in other enterprises or provision of guarantees to any party by the Company shall be in compliance with this article.

Proposed provision by the Company of guarantees in the amount of less than RMB 30 million to any party shall be reviewed and approved by the Board ~~and the Company shall comply with the disclosure and approval requirements under the Hong Kong Listing Rules, if any~~. Proposed provision by the Company of guarantees in the amount of RMB 30 million or more to any party or provision of further guarantees to any party after the total external guarantees reached RMB 100 million shall be passed at the shareholder's general meeting ~~and the Company shall comply with the disclosure and approval requirements under the Hong Kong Listing Rules, if any, provided that the Company's total external guarantees shall in no event exceed 30% of its total assets~~.

Proposed provision of any guarantee by the Company to any shareholder or actual controller of the Company must be approved by the resolution of the shareholders in general meeting ~~and the Company shall comply with the disclosure and approval requirements under the Hong Kong Listing Rules, if any~~. Any shareholder referred to in the preceding clause or any shareholder controlled by the actual controller referred to in the preceding clause shall not vote on such matters. Any such matter shall be decided by a majority of the voting rights held by other shareholders attending the meeting.

Any investment plan prepared by the Company shall be submitted to the shareholders' general meeting for approval. In respect of any investment project within the approved plan, the Board has the right to formulate implementation rules to determine authorization and approval systems for specific expenses. In respect of any external investment of less than RMB 200 million outside the approved plan, review and approval by the Board shall be required ~~and the Company shall comply with the disclosure and approval requirements under the Hong Kong Listing Rules, if any~~. In respect of external investment of RMB 200 million or above, approval by shareholders at shareholder's general meeting shall be required ~~and the Company shall comply with the disclosure and approval requirements under the Hong Kong Listing Rules, if any~~.

Article 10

The Articles of Association are formulated in accordance with "Company Law"~~, "Mandatory Provisions"~~ and other relevant laws and regulations of the PRC.

Article 16

The shares issued by the Company to domestic investors who subscribe for them in RMB are called domestic shares. The shares issued by the Company to foreign investors who subscribe for them in foreign currencies are called foreign shares. ~~Foreign shares which are listed overseas are called overseas listed foreign shares.~~

The aforementioned "foreign currencies" means the lawful currencies of countries or regions outside the PRC which are recognized by the PRC foreign exchange authority and which can be used to pay the share purchase price to the Company.

~~The shares issued by the Company to domestic investors who subscribe them in RMB are called domestic shares. The overseas listed foreign shares issued by the Company for overseas listing in Hong Kong are called H shares. H shares are shares approved to be listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). They are denominated in RMB and subscribed for and traded in Hong Kong dollars.~~

~~H shares can also be listed and traded in stock exchanges in the USA in the form of American Depositary receipts. Both domestic shareholders and H-share shareholders are ordinary Shareholders, entitled to the same rights and assuming the same obligations.~~

Article 17

~~With the approval by the approving departments of the State Council, the Company can issue 75,090,000 ordinary shares, and 75,090,000 shares are issued to the founders when the Company was established. Upon approval of the institution in charge of securities of the State Council, the above shares are split into 750,900,000 as one share is split into 10 shares, representing 100% of the aggregate authorised issued ordinary shares.~~

Article 18

~~The Company issued 500,600,000 H shares through IPO after its establishment; meanwhile, 50,060,000 state-owned shares of the founders were disposed of.~~

The shareholding structure of the Company: 125,150,000 ordinary shares~~, of which the founders hold 68,671,510 shares, the other domestic shareholders hold 1,412,490 shares, and H-share shareholders hold 55,066,000 shares~~.

Article 19

~~As for the proposals for the issuance of the H shares and domestic shares of the Company approved by the securities regulatory authorities of the State Council, the Company's Board of Directors may implement a divided-issuance arrangement.~~

~~The H-share and domestic-share issue plan of the Company in accordance with the provision of the previous paragraph can be implemented within 15 months since the approval of China Securities Regulatory Commission.~~

Article 20

~~If the Company issues H-share and domestic-share within the total shares confirmed by the issue plan, it shall raise fund in full once for all; if it cannot raise fund in full once for all, it can also raise by times if approved by institution in charge under the State Council.~~

Article 23

Unless otherwise stipulated in the relevant laws and administrative regulations, paid-up shares in the Company shall be freely transferable ~~(except as permitted by the Hong Kong Stock Exchange)~~ without any lien.

~~Domestic-share and H-share~~ Shares of the Company can only be traded, donated, inherited and pledged in accordance with the requirements of the PRC laws and the Articles of Association.

Transfer or movement of shares of the Company shall ~~be registered with the share registrar of the designated by the Company and~~ follow ~~transfer~~ formalities in accordance with the Company Law and other relevant regulations.

The Company will not accept shares of the Company as security.

Article 25

~~The issuance and transfer of all H-share shall be registered with the members of registers for H-share shareholders which kept in Hong Kong in accordance with Article 41 of the existing Articles of Association.~~

Article 26

~~The Company shall ensure that the following statements are included in the share certificates of all H shares and shall direct and procure the relevant registrar to reject registration of any person as the holder of the shares of the Company subscribed for or purchased or transferred, unless and until such person has presented the share certificate(s) in respect of such shares indicating the following statements together with a duly signed instrument for the purpose:~~

~~(1)~~ ~~that the subscriber agrees with the Company and each of the shareholders of the Company and the Company agrees with each of the shareholders of the Company that they will observe and comply with the Company Law, the relevant laws and administrative regulations and the Articles of the Association;~~

~~(2)~~ ~~that the subscriber agrees with the Company and each of the shareholders, Directors, Supervisors and officers of the Company, and the Company, acting on behalf of itself and each of the Directors, Supervisors and officers of the Company, agrees with each of the shareholders of the Company that they will refer to arbitration all disputes and claims arising from the Articles of Association, or from any rights or obligations under the~~

~~Company Law or other relevant laws and administrative regulations in accordance with the provisions of the Articles of Association, and that any proceeding to arbitration shall deem as authorizing that a public hearing be held and the arbitration decision be published in public announcement;~~

~~(3)~~ ~~that the subscriber agrees with the Company and each of the shareholders of the Company that the shares of the Company may be freely transferable by their holders;~~

~~that the subscriber authorises the Company to act on its behalf to enter into a service contract with each of the Directors and officers of the Company, whereby such Directors and officers undertakes to observe and comply with the provisions of the Articles of Association in respect of their responsibility to the shareholders.~~

Article 27

The Company shall be entitled to cease sending dividend warrants by post:

(I) if such warrants have been left uncashed on 2 consecutive occasions; or

(II) after the first occasion on which such a warrant is returned undelivered.

The Company shall be entitled to sell the shares of a member who is untraceable if:

(I) during a period of 12 years at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and

(II) on expiry of the 12 years the Company gives notice of its intention to sell the shares with the approval of the securities regulatory authorities of the State Council ~~and notifies the Hong Kong Stock Exchange of such intention~~.

Chapter IV Reduction of Capital and Repurchase of Shares

Article 28

~~Article 12~~ According to the provisions of the Company's Articles of Association, the Company may reduce its registered capital.

Article 29

The Company must prepare a balance sheet and an inventory of assets when it reduces its registered capital.

The Company shall notify its creditors within ten (10) days of the date of the Company's resolution for reduction of capital and shall publish an announcement in a newspaper at lease three (3) times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receipt of the notice from the Company or, in the case of a creditor who does not receive such notice, within ~~ninety (90)~~ forty-five (45) days of the date of the first announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debt.

The Company's registered capital may not, after the reduction in capital, be less than the minimum amount prescribed by law.

Article 31

The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the PRC:

(I) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;

(II) by means of an off-market agreement. ~~by repurchasing shares through public dealing on a stock exchange;~~

~~(III) by repurchasing shares outside of the stock exchange by means of an off-market agreement.~~

Article 32

The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in the Company's Articles of Association) before it can repurchase shares ~~outside of the stock exchange~~ by means of an off-market agreement. The Company may, by obtaining the prior approval of the shareholders in a general meeting (in the same manner), release, vary or waive its rights under an agreement which has been so entered into.

An agreement for the repurchase shares referred to in the preceding paragraph includes (without limitation) an agreement to become liable to repurchase shares or an agreement to have the right to repurchase shares.

The Company may not assign an agreement for the repurchase of its shares or any right contained in such an agreement.

Article 33

~~Where the Company repurchases the redeemable stock which it is entitled to do so otherwise in open-trade or by way of an offer, the price shall not exceed a certain price ceiling. If the repurchase is conducted in the form of an offer, then, the offer must be made to all the shareholders on the same conditions.~~

Where the Company repurchases the shares in accordance with law, transfer or cancel the shares within the period required by Article [30] of the Articles of Association, relevant laws and administrative regulations and shall apply to the original registry for registration of the alteration of the registered capital and make relevant announcements.

The total par value of the cancelled shares shall be deducted from the registered capital of the Company.

Article 38

The Company's share certificates are in registered forms.

The share certificates of the Company shall contain the following particulars:

(I) name of the Company;

(II) registration date of the Company;

(III) class, par value and the number of the shares that each share certificate represents;

(IV) serial number of the share certificates~~;~~.

~~(V) other particulars required by the stock exchange(s) where the shares are listed.~~

~~The share certificate of the Company shall, aside from matters required by the Company Law and the Special Regulations, also contain other matters required to be stated therein by the stock exchange(s) on which the Company's shares are listed.~~

Article 39

Share certificates of the Company shall be signed by the Chairman of the Company's board of directors. ~~Where the stock exchange(s) on which the Company's shares are listed require other senior officer(s) of the Company to sign on the share certificates, the share certificates shall also be signed by such senior officer(s).~~

The share certificates shall take effect after being sealed or imprinted with the seal of the Company. The share certificate shall only be sealed with the Company's seal under the authorisation of the board of directors. The signatures of the Chairman of the board of directors or ~~other senior officer(s)~~ of the Company may be printed in mechanical form.

Article 40

The Company shall keep a register of shareholders containing the following particulars:

(I) the name (title) and address (residence), the occupation or nature of each shareholder;

(II) the ~~class and~~ quantity of shares held by each shareholder;

(III) the amount paid-up on or agreed to be paid-up on the shares held by each shareholder;

(IV) the serial number(s) of the shares held by each shareholder;

(V) the date on which each person was entered in the register as a shareholder;

(VI) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.

Article 41

~~The Company may, in accordance with the mutual understanding and agreements made between the securities authority of the State Council and overseas securities regulatory organisations, maintain the register of shareholders of H Shares overseas and appoint overseas agent(s) to manage such register of shareholders. The original register of shareholders for holders of H Shares shall be maintained in Hong Kong.~~

~~A duplicate register of shareholders for the holders of H Shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders for the holders of H Shares at all times.~~

~~If there is any inconsistency between the original and the duplicate register of shareholders for the holders of H Shares, the original shall prevail.~~

Article 42

The Company shall have a complete register of shareholders.

~~The register of shareholders shall comprise the following parts:~~

~~(I) the register of shareholders which is maintained at the Company's residence (other than those registers described in sub-paragraphs (II) and (III) of this Article);~~

~~(II) the register of shareholders in respect of the holders of H Shares of the Company which is maintained in the same place as the overseas stock exchange on which the shares are listed; and~~

~~(III) the register of shareholders which are maintained in such other place as the board of directors may consider necessary for the purposes of the listing of the Company's shares.~~

Article 43

~~Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.~~

~~Amendments or rectification of the register of shareholders shall be made in accordance with the laws of the place where the register of shareholders is maintained.~~

Article 44

~~All transfers of H shares shall adopt written transfer documents of ordinary or common forms or any other forms acceptable to the board of directors, which documents may be executed in manuscript without seal. If shareholder is a recognized clearing house (or its nominee) within the meaning of any applicable rules established in HK from time to time, it may use machine imprinted signatures on transfer forms.~~

~~All fully-paid H shares of the Company shall be freely transferable in accordance with the Articles of Association, however, unless the following conditions are satisfied, the board of directors is entitled to refuse to register any transfer documents, without providing any reasons:~~

~~(1) payment of a fee of HK$2.5, or the maximum fee required by the board of directors from time to time, but no more than that prescribed by the Hong Kong Listing Rules, for each of the transfer document, to the Company, for the registration of any transfer documents and any other documents relating to or affecting the title to any shares;~~

~~(2) the transfer documents are only in respect of the H shares;~~

~~(3) stamp duty is duly paid in respect of the transfer documents;~~

~~(4) provision of the relevant share certificate and other proof of the transferor's title to transfer shares as reasonably requested by the board of directors;~~

~~(5) if the shares of the Company are proposed to be transferred to joint holders, the number of the joint holders shall not exceed 4;~~

~~(6) the relevant shares shall be free from all liens.~~

If the Company refuses to register any transfer of shares, the Company shall provide to the transferor and the transferee of the shares a notification of refusal in relation to registration of shares within 2 months from the date of duly application for registration.

The shares held by the promoters cannot be transferred within one year since the establishment of the Company. ~~Shares issued before the Company's public share issue cannot be transferred within one year since the date when the Company's shares are traded on stock exchange.~~

The directors, supervisors, members of the senior management shall report the Company of the shares held by them and the change of such shareholding; every year during the term of their office, they shall not transfer shares exceeding 25% of the total number of shares they held; the shares they held are not transferable within 1 year from the listing of the shares of the Company. They, within 6 months from their resignation or termination of their office, shall not transfer the shares of the Company they held.

Article 45

No revision of the register of shareholders shall be registered on account of a share transfer within ~~30~~ 20 days before the shareholders' meeting or within 5 days before the record date for dividend distribution as decided upon by the Company.

Article 48

Any person who is a registered shareholder or claims to be entitled to have his name (title) to be entered in the register of the shareholders in respect of shares of the Company may, if his share certificate (the "original share certificate") relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares").

An application by a shareholder~~ of Domestic-Invested Shares~~, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with Article 144 of the Company Law.

~~An application by a holder of H Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of shareholders of holders of H Shares is maintained, the rules of the stock exchange or other relevant regulations.~~

~~The issue of a replacement share certificate to a holder of H Shares, who has lost his share certificate, shall comply with the following requirements:~~

~~(1)~~ ~~The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration stating the ground upon which the application is made and the circumstances and evidence of the loss, and declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.~~

~~(2)~~ ~~The Company must not have received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it may issue a replacement share certificate to the applicant.~~

~~(3)~~ ~~The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty (30) days within a period of ninety (90) days in such newspaper as prescribed by the Board of Directors.~~

~~(4)~~ ~~The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the notice to be published, and may publish the notice upon receipt of confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be exhibited in the premises of the stock exchange for a period of ninety (90) days.~~

~~In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the notice to be published.~~

~~(5) If, by the expiration of the 90-day period referred to the paragraphs (3) and (4) of this Article, the Company has not received any challenge from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.~~

~~(6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and record the cancellation of the original share certificate and the issuance of a replacement share certificate in the register of shareholders accordingly.~~

~~(7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant, and the Company shall be entitled to refuse to take any action before reasonable security is provided by the applicant.~~

Article 51

A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders.

A shareholder shall enjoy rights and assume obligations according to the ~~class and~~ amount of shares held by him. Shareholders ~~who hold shares of the same class~~ shall enjoy the same rights and assume the same obligations.

As for joint shareholders, if any of the joint shareholders dies, only the surviving joint shareholders shall be deemed by the Company as owners of the relevant shares, but the Board may, for the purpose of amending the shareholders' register, require the surviving joint shareholders to provide a death certificate as it deems appropriate. Of the joint holders of any shares, only the foremost joint shareholder in the shareholders' register shall have the right to take possession of the relevant share certificates, receive notices from the Company, and attend and exercise the voting rights at general meetings, and any notice served to the said person shall be deemed as having been served to all the joint holders of the relevant shares.

Article 52

The ordinary shareholders of the Company shall enjoy the following rights:

(1) the right to receive dividends and other distributions in proportion to the number of shares held;

(2) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;

(3) the right of supervisory management over the Company's business operations and the right to present proposals or to raise queries;

(4) the right to transfer, bestow or pledge shares held by themselves in accordance with law, administrative regulation, and provisions of the Articles of Association;

(5) the right to obtain relevant information in accordance with provisions of the Articles of Association, including:

(I) the right to obtain a copy of the Articles of Association, subject to payment of costs;

(II) the right to inspect and copy, subject to payment of a reasonable fee:

(i) all parts of the register of shareholders;

(ii) personal particulars of directors, supervisors, general manager, deputy general manager and other senior officers of the Company, including:

(a) present and former name and alias;

(b) principal address (place of residence);

(c) nationality;

(d) primary and all other part-time occupations and duties;

(e) identification documents and numbers thereof;

(f) financial report.

(iii) the state of the Company's share capital;

(iv) reports showing the aggregate par value, highest and lowest price paid in respect of ~~each class of~~ shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;

(v) minutes of shareholders' general meetings, resolutions of Board meetings and Supervisory Committee meetings;

(vi) corporate bond counterfoils and financial accounting report.

(6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;

(7) 1. If a resolution passed at the Company's general meeting or Board meeting violates laws or administrative regulations, the shareholders shall have the right to submit a petition to the people's court to render the same as invalid. If the procedures for convening, or the method of voting at, a shareholders' general meeting or Board meeting violate laws, administrative regulations or the Articles of Association, or the contents of a resolution violates the Articles of Association, shareholders shall be entitled to submit a petition to the people's court to rescind such resolutions within sixty (60) days from the date on which such resolution is adopted.

2. Where the Company incurs losses as a result of Directors' and senior management members' violation of laws, administrative regulations or the Articles of Association in the course of performing their duties with the Company, shareholders individually or jointly holding 1% or more of the Company's shares for more than 180 consecutive days shall be entitled to request in writing the Supervisory Committee to initiate proceedings in the court. Where the Company incurs losses as a result of the Supervisory Committee's violation of any provision of laws, administrative regulations or the Articles of Association in the course of performing its duties with the Company, the shareholders shall be entitled to make a request in writing to the Board to initiate proceedings in the court. In the event that the Supervisory Committee or the Board refuses to initiate proceedings after receiving the written request of shareholders stated in the foregoing paragraph, or fails to initiate such proceedings within thirty (30) days from the date on which such request is received, or in case of emergency where failure to initiate such proceedings immediately will result in irreparable damage to the Company's interests, shareholders described in the preceding paragraph shall have the right to initiate proceedings in the court directly in their own names in the interest of the Company. Shareholders described in the first paragraph of this Article may also initiate proceedings in the people's court in accordance with the preceding two paragraphs in the event that the lawful interests of the Company are infringed upon by any third parties.

3. Shareholders may initiate proceedings in the people's court in the event that a director or a senior management member has violated laws, administrative regulations or the Articles of Association, thereby infringing the interests of shareholders.

(8) other rights conferred by law, administrative regulation and the Articles of Association.

The Company shall not, by reason only of the failure of persons who directly or indirectly have interests in the Company's shares to disclose their interests prior to the exercise of the rights attached to the shares, freeze or impair by other means the rights attached to the shares.

Article 53

Shareholders demanding inspection of the relevant information or copies of the materials mentioned in the preceding provision shall provide to the Company written documents evidencing the ~~class and~~ number of shares of the Company they hold. Upon verification of the shareholder's identity, the Company shall provide such information at the shareholder's request.

Article 55

In addition to the obligations imposed by law and administrative regulation~~ or the listing rules of the stock exchange on which the Company's shares are listed~~, a controlling shareholder (as defined in the following article) shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company:

(1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;

(2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets by any method, including (without limitation) opportunities which are beneficial to the Company;

(3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) the rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with the Articles of Association).

Article 56

For the purpose of the foregoing article, a "controlling shareholder" refers to a person who satisfies one of the following conditions:

(1) he alone or acting in concert with others has the power to elect more than half of the board;

(2) he alone or acting in concert with others has the power to exercise or to control the exercise of ~~thirty~~ fifty per cent. (~~30~~ 50%) or more of the voting rights in the Company;

(3) he alone or acting in concert with others holds ~~thirty~~ fifty per cent. (~~30~~ 50%) or more of the issued and outstanding shares of the Company;

(4) he alone or acting in concert with others in any other manner de facto controls the Company.

Article 60

Shareholders' general meetings shall be divided into annual meetings and special general meetings. Shareholders' general meetings shall be convened by the Board of Directors. Annual general meetings shall be held once every year and within six (6) months from the end of the preceding fiscal year.

The Board of Directors shall convene a special general meeting within two (2) months of the occurrence of any one of the following events:

(1) where the number of the directors is less than the number stipulated in the Company Law or two-thirds of the number specified by the Company's Articles of Association;

(2) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;

(3) where shareholder(s) holding 10% or more (excluding proxy voting rights) of the Company's issued and outstanding voting shares request(s) in writing for the convening of a special general meeting;

(4) wherever the Board of Directors deems necessary or the Supervisory Committee so requests.~~;~~

~~(5) two or more Independent Directors propose to hold such a meeting.~~

Article 61

A notice in writing shall be issued ~~45~~ 20 days prior to the general meeting of shareholders to be held by the Company to notify all the registered shareholders of the matters to be considered and date and the venue of the meeting; as to the extraordinary general meeting, it shall be informed to each shareholder on the register of shareholders 15 days before its convening. A meeting place will be provided for the general meeting of shareholders to be held in the form of site meeting. The Company will not provide network or other forms. The shareholders intend to attend the general meeting of shareholders shall submit their responses to the participation in writing to the Company ~~20~~5 days prior to the meeting.

Article 64

~~The Company shall, based on the written replies which it receives from shareholders at least twenty (20) days before the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amounts to more than one-half of the Company's total voting shares, the Company may hold the meeting; if not, the Company shall, within five (5) days, notify the shareholders by way of public announcement of the matters to be considered, and the date and place of the meeting, The Company may then hold the meeting after publication of such announcement.~~

A shareholders'~~ special~~ meeting shall not decide on the matters not stated in the notice for the meeting.

Article 65

A notice of the general meeting shall meet the following requirements:

(1) it shall be in written form;

(2) it shall specify the place, date and time of the meeting;

(3) it shall state the date of registration of equity entitlements for shareholders having the right to attend the general meeting;

(4) it shall specify the name and phone number of contact person of the meeting;

(5) it shall set out the matters to be considered at the meeting;

(6) it shall provide shareholders with such information and explanation as are necessary for them to make informed decisions in connection with the matters to be discussed. This principle shall include (but not be limited to) where the Company proposes to merge, repurchase its shares, restructure share capital or undergo other reorganization. The specific conditions and contracts (if any) of the proposed transactions must be provided and the reasons and effects of the same must be properly explained;

(7) if any director, supervisor, general manager, deputy manager and other senior management members have material interests in the matters subject to discussion, the nature and extent of such material interests shall be disclosed, and if the effect of the proposed matters on such director, supervisor, general manager, deputy manager and other senior management members in their capacity as shareholders is different from that of other shareholders ~~of the same class~~, the differences shall also be specified;

(8) it shall contain the full text of any special resolution to be proposed and approved at the meeting;

(9) it shall contain a clear statement that a shareholder who has the right to attend and vote at the meeting shall have the right to appoint one or more proxies to attend and vote at the meeting on his behalf and that such proxies need not be shareholders;

(10) it shall state the date and place for the service of the proxy forms for the meeting;

Article 66

Notice of a shareholders' general meeting shall be served on each shareholder, whether or not entitled to vote thereat, by personal delivery or prepaid mail to the shareholder at his address, as shown in the register of shareholders. ~~For holders of domestic shares,~~ <u>If the PRC laws permit,</u> notice of the shareholders' general meetings may be given by public announcement.

~~The public announcement referred to in the preceding paragraph shall be published in one or more national newspapers specified by the securities regulatory authority on any day from forty-five to fifty days prior to the meeting. Once the announcement has been published, all holders of domestic shares shall be deemed to have received notice of the relevant meeting. Such public announcements shall be published in Chinese and in English in compliance with relevant provisions in under Article 207 of the Articles of Association.~~

Article 68

Any shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (whether such person is a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall be entitled to exercise the following rights pursuant to the authorizations from that shareholder:

(1) the shareholder's right to speak at the meeting;

(2) the right to demand or join in demand for a poll;

(3) to have the right to vote by way of disclosed ballot ~~show of hands or on a poll, but where the number of shareholders' proxies is more than one, such proxies may only vote on a poll~~.

If the shareholder is a certified settlement office as defined by the relevant ordinance established from time to time in Hong Kong (hereinafter the "certified settlement office"), the shareholder can authorize one or more suitable personages in its believing to be its representative in any general meetings or the general meetings of any kinds. However, if more than one person is authorized, the number and kinds of shares of each of them involved in the authorization shall be clearly recorded in the letter of authorization. The person via such authorization may exercise the right on behalf of the certified settlement office (or its agent) as if he were an individual shareholder of the Company.

Article 74

Resolutions of the general meeting are divided into ordinary resolutions and special resolutions. The ordinary resolutions of a general meeting shall be passed by Shareholders (including proxies) present in person at the meeting with more than one-half of the voting shares. The special resolutions of a general meeting shall be passed by Shareholders (including proxies) present in person at the meeting with more than two-thirds of the voting shares.

Shareholders who attend the meeting (including their proxies) shall make an affirmative vote or a dissenting vote on each resolution subject to voting. Any abstention votes or abstaining from voting by the Shareholder or his proxy shall not be counted as valid votes when the Company is counting the voting results of such resolution.

~~If any shareholder is required to abstain from voting or may vote only for or only against a matter according to the Hong Kong Listing Rules, any vote by such shareholder or his proxy in violation of the relevant rules or restrictions referred to above shall not be counted in the voting results.~~

Article 76

~~At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll (before or after any vote by show of hands) is demanded by the following persons or otherwise required by the listing rules of the stock exchange on which the Company's shares are listed :~~

~~(I) the Chairman of the meeting;~~

~~(II) at least two Shareholders entitled to vote in person or proxies with voting rights;~~

~~(III) one or more Shareholders (including proxies) separately or jointly representing more than 10% (including 10%) of all shares carrying voting rights at the meeting.~~

~~Unless a poll is so demanded, a declaration by the Chairman of the meeting that a resolution has been carried on a show of hands, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor or against such resolution at the meeting.~~

~~The demand for a poll may be withdrawn by the person who makes such demand.~~

Article 77

~~A poll demanded on such matters as the election of Chairman or the adjournment of the meeting, shall be taken forthwith. A poll demanded on any other matters shall be taken at such time as the Chairman may decide, and the meeting may proceed to discuss other matters, while the results of the poll shall still be deemed to be a resolution of that meeting.~~

Article 80

For connected transactions to be considered at the general meeting, connected Shareholders shall abstain from voting on such connected transactions, in such case the number of shares represented by them carrying voting rights shall not be counted towards the total number of shares with valid voting rights. ~~Announcements on the resolutions passed at the general meeting shall fully disclose the results of the voting of unconnected Shareholders on the transactions.~~ Should there be special circumstances under which the connected shareholders cannot avoid voting, the Company should ~~obtain approval from authorized departments~~ obtain approval by the resolutions of unconnected shareholders at the general meeting before proceeding to voting through normal procedures, thus enabling the connected shareholder to be exempt from abstaining from voting, and detailed clarifications should be made in ~~the announcement of~~ the resolution of the general meeting.

Article 83

~~The extraordinary general meeting or class meetings shall be convened by the shareholders in accordance with the following procedures:~~

~~(I) Two or more shareholders who in aggregate hold more than 10% (including 10%) of the shares with voting power at such meeting may sign one or more written request in the same format and content to the Board of Directors for the convening of the extraordinary general meeting or class meetings and clarify the theme of such meeting. Upon the receipt of such request, the Board of Directors shall convene the extraordinary general meeting or class meetings as soon as possible. The number of shares held as mentioned above shall be based on the date of the submission of the request of the shareholders.~~

~~(II) If the Board of Directors has failed to issue the notice of meeting within 30 days of the submission of such written request, the shareholders submitting such request may convene such meeting on their own within four months after the receipt by the Board of Directors of such request, and the rules of procedures of such meeting shall be substantially the same as those of the of shareholders' general meetings convened by the Board of Directors.~~

~~The cost incurred by the shareholders as a result of the failure of the Board of Directors to convene such meeting as requested above shall be borne by the Company and deducted from the amount payable to Directors who neglect their duties.~~

At the general meetings, save for information in relation commercial confidentiality of the Company, the Board of Directors and Supervisory Committee shall be responsible for replying or clarifying the questions or suggestions of the shareholders.

Article 90

~~Shareholders holding shares of different classification are defined as 'class shareholders'.~~

~~Class shareholders enjoy the rights and have the obligations as specified by laws, administrative regulations, and the Articles of Association.~~

Article 91

~~Any variation or abrogation of the rights of any class of Shareholders proposed by the Company may only come into effect upon the adoption of a special resolution at a general meeting and approval by the affected Shareholders of that class at a separate meeting held as required by the requirements of Article 93 to Article 97 of the Articles of Association.~~

Article 92

~~The following circumstances shall be deemed to be variation or abrogation of the rights of Shareholders of a certain class:~~

~~(I) to increase or decrease the number of shares of a particular class, or increase or decrease the number of shares of another class having rights on voting, distribution or other privileges equal or superior to those of the shares of such class;~~

~~(II) to effect an exchange of all or part of shares of such class into shares of another classes, or to effect an exchange or grant a right of exchange of all or part of the shares of another classes into shares of such class;~~

~~(III) to remove or reduce rights to accrued dividends or cumulative dividends attached to shares of such class, and to obtain rights to accrued dividend or cumulative dividends that are generated from shares of such class;~~

~~(IV) to reduce or remove the rights to a dividend preference or a liquidation preference to distribution of property attached to shares of such class;~~

~~(V) to add, remove or reduce the rights to conversion, options, voting, transfer, pre-emptive rights to placement and acquire securities of the Company attached to shares of such class;~~

~~(VI) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;~~

~~(VII) to create a new class of shares having rights on voting, distribution or other privileges equal or superior to those of the shares of such class;~~

~~(VIII) to restrict the transfer or ownership of the shares of such class or add to such restrictions;~~

~~(IX) to issue subscription rights or share conversion rights for shares of such class or another class;~~

~~(X) to increase the rights and privileges of shares of another class;~~

~~(XI) to restructure the Company where the proposed restructuring scheme will result in different classes of Shareholders bearing a disproportionate burden of obligations of such restructuring;~~

~~(XII) to vary or abrogate the terms provided in this chapter.~~

Article 93

~~Shareholders of the affected class, whether or not having the right to vote at the general meeting, shall nevertheless have the right to vote at class meetings on matters concerning in clause (II) to (VIII) and (XI) to (XII) of Article 92, but interested Shareholders shall not be entitled to vote at class meetings.~~

~~The interested Shareholders mentioned in the preceding paragraph shall have the following meanings:~~

~~(I) in the case of a repurchase of the Company's own shares by offers to all Shareholders pro rata or a public dealing on a stock exchange in accordance with Article 31 the Articles of Association, "interested Shareholders" shall refer to the controlling shareholders as defined in Article 56 of the Articles of Association;~~

~~(II) in the case of a repurchase of its own shares by an off-market agreement in accordance with Article 31 of the Articles of Association, "interested Shareholders" shall refer to the Shareholders to which the proposed agreement relates;~~

~~(III) in the case of a restructuring plan of the Company, "interested Shareholders" shall refer to Shareholders within a class who bear liabilities less than the proportionate burden imposed on other Shareholders of that class or who have interests different from those held by Shareholders of the same class.~~

Article 94

~~A resolution of the class meeting shall be passed by equities representing more than two-thirds of voting rights of Shareholders present in the meeting in accordance with Article 93.~~

Article 95

~~Written notice of a class meeting convened by the Company shall be dispatched 45 days prior to the date of the class meeting to all Shareholders of such class whose names appear on the register of members, specifying the matters to be considered and the date and place of the meeting. Shareholders who intend to attend the meeting shall serve on the Company written replies of their intention to attend 20 days prior to the date of the meeting.~~

~~If the number of voting shares at such meeting held by Shareholders who intend to attend such meeting reaches more than one-half of the total number of voting shares of this class at such meeting, the Company may hold such class meeting; if this cannot be attained, the Company shall further notify the Shareholders by way of announcement within 5 days thereof specifying the matters to be considered and the date and place of the meeting. After such announcement has been given, the Company may then hold the class meeting.~~

Article 96

~~Notices of the class meeting only need to be served on Shareholders entitled to vote thereat.~~

~~The procedures for holding the class meeting shall be similar to those for holding the general meeting as far as possible, and the provisions in the Articles of Association relating to the procedures for a general meeting shall apply to the class meeting.~~

Article 97

~~Save for Shareholders of shares of other classes, the holders of domestic shares and holders of H shares are deemed to be different classes of Shareholders.~~

~~The special procedures for voting by class Shareholders shall not apply in the following circumstances:~~

~~(I)~~ ~~where the Company issues, upon approval by a special resolution at a general meeting, domestic shares and H shares once every 12 months, either separately or concurrently, and the respective numbers of domestic shares and H shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic shares and overseas-listed foreign shares;~~

~~(II)~~ ~~where the Company's plan to issue domestic shares and H shares at the time of incorporation is carried out within 15 months from the date of approval by the Securities Regulatory Commission of China.~~

Article 98

The Company establishes the board of directors which is responsible for the general meeting of shareholders.

The board of directors is composed of 11 members, with one chairman of board and two deputy chairmen of board.

The board of directors is independent from the controlling organizations (the companies, enterprises and institutions with legal person qualifications and controlling the shares of the Company, the same hereinafter).

~~The external directors (not holding any positions within the Company, the same hereinafter) shall make up more than half of the members of the board of directors and among which shall have more than three independent directors (independent from the Company shareholders and not holding any positions within the Company, the same hereinafter).~~

Article 99

Directors shall be elected at the general meeting for a term of three years. Upon the expiry of the term, a Director shall be eligible for re-election.

A Director may not be removed by the general meeting without any reason prior to the expiry of his/her term.

A written notice stating the intention to nominate a candidate for Directors and the nominee's consent to be nominated shall be delivered to the Company not less than seven (7) days before the general meeting, and the period granted by the Company for lodging the above notice and documents by the relevant nominator (such period shall commence from the date after the issue of the notice of the general meeting) shall not be less than seven (7) days.

The Chairman and the vice Chairman shall be elected and removed by more than half of all Directors. The term of office for the Chairman and the vice Chairman shall be three years and he shall be eligible for re-election.

Subject to the requirements of the relevant laws and administrative regulations, the general meeting may by an ordinary resolution remove a Director before the expiration of his term of office but without prejudice to any claim for damages under any contract.

~~The number of senior officers of a controlling organization who hold a position as a Chairman, vice Chairman or executive Director of the Company shall not be more than two.~~

A Director shall not be required to hold any shares of the Company.

Article 100

The Board of Directors shall be responsible to the general meeting and shall have the following powers and duties:

(I) to be responsible for convening a general meeting and to report on its work to the general meeting;

(II) to implement resolutions of the general meeting;

(III) to determine the business plans and investment proposals of the Company;

(IV) to prepare the annual financial budgets and final accounts of the Company;

(V) to formulate plans for profit distribution and plans for making up losses for the Company;

(VI) to formulate the Company's proposals for the increase in and reduction of registered capital and the issue of bonds of the Company;

(VII) to formulate plans for merger, division, dissolution and change of corporate form for the Company;

(VIII) to decide on the internal management structure of the Company;

(IX) to employ or dismiss the general manager, deputy general manager and senior officers and to determine their remuneration (including wages and bonus) and welfare matters; to approve the incentive plan for the senior officers~~ proposed by the Remuneration Committee~~; to approve the incentive plan for the employees proposed by the management; subject to ~~the review and consideration of the Nomination Committee~~ and the approval of the Board of Directors by way of resolution, to engage the general manager, general financial officer (in charge of financial matters of the Company), ~~secretary of the Board of Directors, chief financial officer (and meet the requirements of the Stock Exchange in regard of a qualified accountant)~~ in accordance with the nominations from the Chairman; and subject to ~~the review and consideration of the Nomination Committee~~ and the approve of the Board of Directors by way of resolution, to engage the deputy general manager~~, chief economist, chief accountant, chief engineer, assistant general managers~~ <u>and other senior officers</u> in accordance with the nominations from the general manager. Engagement or dismiss of the above-mentioned persons shall be carried out by the Board of Directors with their position files and engagement letters signed and issued by the Chairman.

(X) to appoint or replace the members of the Board of Directors and the Supervisory Committee of its subsidiary and to appoint, replace or recommend the shareholders' proxies, Directors and Supervisors of its subsidiaries which are controlled or invested by the Company;

(XI) to consider and approve the incentive plans for the senior and middle management and the entire employees;

(XII) to set up the basic management systems of the Company;

(XIII) to formulate proposals for amendments of the Articles of Association;

(XIV) subject to compliance with the relevant laws, regulations and the Articles of Association, to exercise the Company's rights for financing and borrowing and to decide on the pledge, leasing, contracting or transfer of important assets of the Company, and to authorise the general manager and deputy general manager to exercise the rights as referred herein within a certain scope;

(XV) to make proposals to the general meeting on appointing or replacing of the Company's audits;

(XVI) other powers conferred by the the Articles of Association or the general meeting.

Except Directors' resolutions in respect of the matters specified in items (VI), (VII) and (XIII) above which shall be passed by more than two-thirds of the Directors, Directors' resolutions in respect of all other matters above may be passed by more than one half of the Directors.

Article 103

~~The Board of Directors of the Company shall establish several special committees.~~

~~The functions and duties of the special committees of the Board of Directors of the Company shall be determined according to the relevant State provisions and the resolutions of the Board of Directors of the Company and implemented through resolutions at the general meeting of the Company.~~

~~(I) The major duties and responsibilities of the Strategy Committee are:~~

~~1. to formulate the long-term development strategy of the Company;~~

~~2. to supervise and inspect the major investment decisions of the Company.~~

~~(II) The major duties and responsibilities of the Audit Committee are:~~

~~1. to inspect the accounting policies, financial position and financial reporting procedures of the Company;~~

~~2. to recommend and engage an accounting firm and to communicate with the external auditor of the Company in respect of the reporting procedures of the Company;~~

~~3. to inspect the internal control system and internal auditing functions;~~

~~4. to evaluate the internal control of the Company;~~

~~5. to inspect and supervise the existing or potential risks of the Company (including financial risk, security risk, investment risk, senior management compliance risk);~~

~~6. to review whether the company complies with the laws and other statutory duties;~~

~~7. to inspect and supervise the code of conduct of the Company;~~

~~8. other functions and powers conferred by the Board of Directors.~~

~~(III) The major duties and responsibilities of the Nomination Committee are:~~

~~1. to analysis of the composition of the Board of Directors and specific the requirements for Directors and put forward proposals in terms of the size and composition of the Board of Directors;~~

~~2. to formulate the standards and procedures for the election of Director;~~

~~3. to broadly find qualified candidates for Directors and senior management of the Company and to nominate the candidates for Directors and senior management of the Company to the Board of Directors;~~

~~4. to review candidates for Directors nominated by the Shareholders and Supervisory Committee;~~

~~5. To determine the candidates for Directors and submitted to the general meeting for poll voting.~~

~~(IV) The major duties and responsibilities of the Remuneration Committee are:~~

~~1. to formulate the standard for assessing the performance of Directors, supervisors and members of senior management and to conduct such assessment;~~

~~2. to formulate and review the remuneration policy and scheme for Directors, supervisors, and the senior management~~

~~(V) The duties and responsibilities of the Technology Innovation Committee are:~~

~~1. to establish a technology innovation system, with a view to make the Company became the mainstay in regard of technology innovation;~~

~~2.~~ ~~to actively cooperate with research institutions and universities in respect of the development and application promotion of new gas technologies;~~

~~3.~~ ~~to promote the Company's information building, and to improve and realize gas technology upgrading by virtue of the information network technology;~~

~~4.~~ ~~to promote the technology achievements of gas application to become actual productive of the Company so as to improve the Company's core competitiveness.~~

~~(VI)~~ ~~The duties and responsibilities of the Independent Board Committee are:~~

~~1.~~ ~~to review transactions where conflicts of interest may arise between the Company and its connected persons, including Zhengzhou Gas Group Company Limited and/or its associates (as defined in the Hong Kong Listing Rules), and to make decisions on behalf of the Board of Directors in relation to the proposed transactions between the Company and Zhengzhou Gas Group Company Limited and/or its associates which may give rise to a conflict of interest among them.~~

~~2.~~ ~~to make decisions on behalf of the Board of Directors in relation to the exercise of the pre-emptive investment right granted to the Company by Zhengzhou Gas Group Company Limited pursuant to the agreement setting out non-competing commitment and pre-emptive investment right~~

~~3.~~ ~~The members of the Independent Board Committee shall include all the existing independent non-executive directors of the Company and shall be at least three persons in number. Any meeting led by the Independent Board Committee shall include at least three members. Not less than two thirds of the members are required for the consideration and approval of the proposed transactions where conflicting interest may arise or the resolution in relation to the exercise of the pre-emptive investment right granted to the Company by Zhengzhou Gas Group Company Limited pursuant to the agreement setting out non-competing commitment and pre-emptive investment right.~~

Article 104

The Board of Directors shall hold at least two meetings every year, which shall be led by the Chairman of the Board of Directors and all Directors shall be informed 14 days before the meeting is held.

For one of cases listed below, the Chairman shall hold an extraordinary meeting of Board of Directors within 10 ~~working~~ days:

(I) When it is proposed by the shareholder representing 1/10 and above right to vote;

(II) When it is proposed jointly by 1/3 and above shareholders;

(III) When it is proposed by the Supervisor Committee;

(IV) When it is proposed by the general manager.~~;~~

The reasonable expenses incurred by the Directors for attending board meeting shall be borne by the Company. Such expenses include traveling expenses incurred by the Directors for traveling from his place to the meeting venue (if a Director's place is different from the meeting venue), food and board expenses during the meeting period, rental for the meeting venue and transport expenses for traveling to the meeting venue.

Article 105

Regular and special Board meetings shall be noticed by way as follows:

(1) If the Board has specified the time and place of the regular Board meeting in advance, no service of notice is required.

(2) If the Board has not specified the time and place of the board meeting in advance, the Chairman of the Board shall shall ask the Secretary to the Company Board, at least ~~fifteen (15)~~ ten (10) days beforehand, inform the all the Directors and Supervisors the time and the place of the Board meeting by way of telegraph, telex, fax, courier, registered mail or by specially designated person.

(3) If there is a need to hold a Board meeting in case of emergency, the Chairman of the Board shall ask the Secretary to the Company Board to, not less than seven (7) days and not more than ten (10) days prior to the day when the special Board meeting is held, inform all the Directors and supervisors the time and the place of the Board meeting by way of telegraph, telex, fax, courier, registered mail or by specially designated person.

(4) The notice shall be written in Chinese and if necessary, the English version can be attached, including the agenda for the meeting. Any Director may waive the right of receiving the notice of Board meeting.

Article 108

Meetings of the Board of Directors shall be held only if more than half of the Directors (including any alternate Director appointed pursuant to Article [109] of the Articles of Association) are present.

Each Director shall have one vote. Unless otherwise provided for in the Articles of Association, a resolution of the Board of Directors must be passed by more than half of all of the Directors. Where there is an equality of votes cast both for and against a resolution, the Chairman of the Board of Directors shall have a casting vote.

When a quarter of Directors believe that the information of matters to be resolved is insufficient or unspecific, they may jointly propose to adjourn the meeting of the Board of Directors or part of the matters to be resolved and the Board of Directors shall adopt the proposition.

Where a Director or his associate ~~(as defined in the Hong Kong Listing Rules)~~ has any interest in the subject matter of the meeting, such Director shall withdraw from the meeting and shall not be counted in the quorum thereof.

Article 110

In respect of any matter which needs to be passed at an extraordinary meeting of the Board of Directors, where the Board of Directors has already dispatched a written notice in regard of the matters to be resolved at such meeting and the number of Directors who have signified their consent thereto reaches the number set out in Article [108] of this chapter, a valid resolution shall be deemed to be passed and there is no need to hold a meeting of the Board of Directors.

Article 113

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities include:

(I) to ensure that the Company has complete organizational documents and records;

(II) to ensure the Company prepares and submits the required reports and documents to the relevant authorities according to law;

(III) to ensure that the register of shareholders is duly kept, and to ensure that persons who have the right to obtain the Company's relevant records and documents can promptly obtain these records and documents;

(IV) to be responsible for matters relating to information disclosure of the Company, and to ensure that information disclosure of the Company is responsive, accurate, lawful, true and complete; and

(V) all other obligations under the Articles of Association ~~and the listing rules of the stock exchanges where the Company is listed~~.

Article 114

Major responsibilities of the secretary to the Board include:

(I) to assist Directors in dealing with the day-to-day affairs of the Board, continuously provide the Directors with, remind the Directors of and ensure the Directors to be well informed of the regulations, policies and requirements of ~~domestic and foreign~~ regulatory organizations concerning corporate operation, and to assist Directors in practically complying with the ~~domestic and foreign~~ appliable laws, regulations, the Articles of Association and other relevant regulations when performing their functions and powers;

(II) to be responsible for the organization and preparation of the relevant documents for the Board meetings and the general meetings, to make proper minutes of the meetings, to ensure that the decision(s) at the meetings are in conformity with the legal procedures, and to keep abreast of the implementation of the resolutions passed at Board meetings;

(III) to be responsible for organization and coordination of information disclosure, to coordinate the investor relations and to enhance the transparency of the Company;

(IV) to participate in and organize the capital market financing;

(V) to deal with the relationships with the intermediaries, regulatory authorities and the media for a favourable public relations.

Article 115

The terms of reference of the Board Secretary are:

(I) to organise and prepare for the board meetings and shareholders' meetings, to prepare documents for such meetings, to make relevant arrangements for the meetings, to be responsible for taking minutes of the meeting, to ensure the accuracy of the minutes, to keep documents and minutes of the meeting and to actively learn about the implementation of relevant resolutions; to report and make recommendations to the board of directors on important implementation issues;

(II) to ensure that important decisions of our Board of Directors will be implemented in strict compliance with the required procedures; at the request of our Board of Directors, to participate in, and organise the consultation and analysis of matters to be decided by our Board of Directors and provide relevant advice and recommendations thereon; to carry out the day-to-day work of our Board of Directors and its relevant committees upon authorization;

(III) to act as the contact person of the Company with securities regulatory authorities, to be responsible for the organisation and preparation and timely submission of documents required by the regulatory authorities, to be responsible for undertaking and organising completion of the tasks entrusted by the regulatory authorities;

(IV) to be responsible for coordinating and organizing the Company's information disclosure matters, setting up a sound information disclosure system, participating in all meetings of the Company in relation to information disclosure, to timely gain knowledge of important business decisions and relevant information of the Company;

(V) to be responsible for keeping confidential price-sensitive information and formulating effective confidentiality rules and measures; in the event of the disclosure of any price-sensitive information for whatever reason, to take necessary remedial measures, make prompt explanation and clarification of such matters ~~and notify the regulatory authority at the place of relevant overseas listing and the CSRC~~;

(VI) to be responsible for the coordination and organisation of market promotions, to coordinate visits to the Company, to deal with investor relationships, to maintain contact with investors, intermediaries and the media, to be responsible for coordinating and answering questions raised by the public, to ensure that investors can promptly obtain the information disclosed by the Company, to organise and prepare for marketing and promotion activities within and outside China, to draw up summary reports on market promotion activities and important visits to the Company ~~and organise the reporting of the same to the CSRC~~;

(VII) to be responsible for administering and keeping the Company's register of members, register of the directors, records of shareholdings of major shareholders and directors and list of the holders of the outstanding debentures of the Company in issue; to be permitted to keep the company seal and to establish comprehensive measures for the management of the company seal;

(VIII) to assist our Directors and the Manager in implementing applicable ~~domestic and foreign~~ laws, regulations, our Articles of Association and other relevant regulations in exercising their powers; after becoming aware that any resolutions made or likely to be made by the Company are in breach of relevant regulations, to promptly give a reminder of such circumstances~~, and to have the right to report such facts to the CSRC and other regulatory authorities~~;

(IX) to coordinate the provision of necessary information to facilitate the Company's supervisory committee and other auditing institutions in performing their supervisory duties, and to assist in the investigations concerning the matters of whether the Company's financial controller, Directors and Manager have performed their fiduciary duties;

(X) to responsible for drawing up the Rules and Procedures of the Board.

(XI) to perform other functions and powers conferred by our Board of Directors ~~and as required in the overseas jurisdiction where the Company is listed~~.

Article 116

Neither the general manager (excluding the deputy manager) nor the financial supervisor of the Company may act as the secretary of the Board of Directors. A director or other senior officer of the Company may act as the secretary of the Board of Directors. An accountant of the accounting firm retained by the Company shall not act as the secretary of the Board of Directors.

Where the office of secretary is held concurrently by a director, and an act is required to be conducted by a director and a secretary separately, the person who holds the offices of director and secretary may not perform such act in a dual capacity.

~~The Company shall establish a office for the secretary in comply with the requirement of the HK stock exchange, to handle relevant issues.~~

Article 124

The Supervisory Committee consist of two shareholder representatives, three staff representatives and two independent supervisors. The shareholder representative supervisors shall be elected and removed by the general meeting, the staff representative supervisor shall be elected and removed by the staff of the Company on democratic basis. The independent supervisors shall be elected and removed by the general meeting.

~~The number of external supervisors (i.e., supervisors who do not hold any position in the Company) shall consist of more than half of the total members of the Supervisory Committee, and shall have more than two independent supervisors (i.e., supervisors who are independent of the shareholders and do not hold any position in the Company). The external supervisors shall have right to independently report to the general meeting the good faith and due diligence of the management of the Company.~~

Article 128

The discussion methods of Supervisory Committee are: The Supervisory Committee shall give a written notice to all the members in no less than 10 days but not exceeding 30 days before holding a supervisory meeting.

~~The meeting of the supervisory committee shall only be held when two-thirds or more of the members of the supervisory committee attend.~~ Each supervisor is entitled to one vote.

The resolutions of the supervisory committee shall be passed by ~~two-thirds half~~ or more of supervisors.

Article 130

The minutes of meeting of Supervisory Committee shall be prepared; the attending supervisors and the recorder shall sign on the meeting minutes. The supervisor has the right to make any illustrative note on his statement in the meeting. The minutes of the meeting of Supervisory Committee shall be kept in the Company where it is registered as the Company File by the ~~secretary of Board of Directors~~ Company. The minutes of meeting of Supervisory Committee shall be kept for 15 years.

Article 134

In addition to the obligations imposed by laws, administrative regulations ~~or the listing rules of Hong Kong~~, each Director, Supervisor, general manager, vice general manager and other senior officer, when exercising the functions and powers conferred upon him by the Company, owes the following obligations to every shareholder:

(I) not to cause the Company to operate outside the business scope stipulated in the Company's business license;

(II) to act in good faith in the best interests of the Company;

(III) not to expropriate in any manner the Company's assets, including (but not limited to) opportunities beneficial to the Company;

(IV) not to expropriate personal interests of shareholders, including (but not limited to) distribution rights and voting rights, but not including structuring of the Company submitted to and approved by the general meeting in accordance with the Articles of Association.

Article 136

Each of the Company's Directors, Supervisors, general manager, vice general manager and other senior management shall exercise his powers or carry on his duties in accordance with the fiduciary principle and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation to) the discharging the following obligations:

(I) to act honestly in the best interests of the Company;

(II) to exercise powers within but not to exceed the scope of his powers and duties;

(III) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in general meeting, not to delegate the exercise of his discretion;

(IV) to treat shareholders ~~of the same class~~ equally ~~and to treat shareholders of different classes fairly~~;

(V) except in accordance with the Articles of Association or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with the Company;

(VI) without the informed consent of shareholders given in general meeting, not to use the Company's property for his own benefit by any means;

(VII) not to abuse his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation to) opportunities which are beneficial to the Company;

(VIII) without the informed consent of shareholders given in general meeting, not to accept commissions in connection with the Company's transactions;

(IX) to abide by the Articles of Association, faithfully execute his official duties and protect the Company's interest, and not to exploit his position and power in the Company to advance his own private interests;

(X) not to compete with the Company in any form unless with the informed consent of shareholders given in general meeting;

(XI) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s)with the Company's assets;

(XII) unless otherwise with the informed consent of shareholders in general meeting, to keep in confidence information in respect of the Company acquired by him in the course of and during his term of office and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if:

1. disclosure is made under compulsion of law;

2. the interests of the public require such disclosure;

3. the interests of the relevant Director, Supervisor, general manager, vice general manager or other senior management require such disclosure.

Article 153

The financial reports of the Company shall be made available at the Company 20 days prior to the annual general meeting, for inspection by shareholders. Every shareholder of the Company shall have the right to obtain a copy of the financial reports referred in this Chapter.

~~A copy of the above financial reports, together with directors' report shall, at least 21 days before the date of the annual general meeting, be sent or mailed by us to every holder of H shares at his/her address as entered in the register of shareholders.~~

Article 154

The financial statements of the Company shall, in addition to complying with the PRC Accountancy Standard Code and the relevant regulations~~, be prepared in accordance with either international accounting standards or the standards of the place at which foreign-invested shares of the Company are listed. If there are material differences between the financial statements prepared in accordance with the two accounting standards, then the notes to those financial statements shall state and explain such differences. For the purposes of distributing our profits after tax in a financial year, our profits after tax shall be deemed to be the lesser of the amounts stated in the two sets of financial statements~~.

Article 155

~~Any interim results or financial information announced or disclosed by the Company shall be prepared in accordance with the PRC Accountancy Standard Code and the relevant regulations as well as in accordance with either international accounting standards or overseas accounting standards of the place where the foreign-invested shares of the Company are listed.~~

Article 156

The Company shall ~~publish~~ prepare its financial reports ~~twice~~ once in each financial year. ~~The interim report shall be announced within 60 days after the end of the first six months of a financial year and~~ the annual financial report shall be completed ~~announced~~ within 120 days after the end of a financial year.

~~The extraordinary and annual financial reports prepared by the Company shall be preceded and published in accordance with the requirements of the relevant PRC securities laws, regulations and the stock exchanges where the shares of the Company are listed.~~

Article 165

Dividends shall be distributed to shareholders in proportion to their shareholdings within six months after the end of each accounting year.

~~Unless otherwise resolved at the shareholders' general meeting, the board of directors may be authorized by the shareholders' general meeting to distribute interim dividends. Unless otherwise required by laws or regulations, the amount of interim dividends shall not exceed 50% of the distributable profits shown in the interim profit statement of the Company~~

Any amount paid up in advance of calls on any Share may carry interest but shall not entitle the holder of the Share to receive in respect thereof a dividend subsequently declared.

For exercising power to forfeit unclaimed dividends, such power shall only be exercised after the expiry of applicable period.

Article 168

Dividends and other monies paid by the Company to holders of domestic shares shall be denominated and declared in RMB and paid in RMB within three months after the declaration of dividends.

Dividends and other monies paid by the Company to holders of ~~H shares~~ foreign shares shall be denominated and declared in RMB and paid in ~~HK$~~ freely convertible foreign currencies within three months after the declaration of dividends.

Article 169

The Company shall pay dividends and other monies to holders of foreign ~~H~~ shares in conformity with PRC regulations on foreign exchange control. If no such regulations are in place, the applicable exchange rate shall be the average exchange rate published by the People's Bank of China one week before the declaration of the distribution of dividends or other monies.

Article 171

~~The Company shall appoint receiving agents for shareholders holding H shares. The receiving agents shall, on behalf of such shareholders, receive dividends distributed by the Company for H shares as well as other monies payable.~~

~~The receiving agents appointed by the Company shall meet the requirements of the laws of the jurisdictions where the shares are listed or the relevant provisions of the securities exchange.~~

~~The receiving agents appointed by the Company for holders of H shares listed in Hong Kong Stock Exchange shall be trust companies registered under the Trustee Ordinance of Hong Kong.~~

Article 179

Thirty-days' notice shall be given to the accounting firm if the Company decides to remove such accounting firm or not to renew the appointment thereof. Such accounting firm shall be entitled to make representations at the shareholders' general meeting. Where the accounting firm resigns, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accounting firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

1. A statement to the effect that there are no circumstances in connection with its resignation which it believes should be brought to the notice of the shareholders or creditors of the Company; or

2. A statement of any such circumstances.

~~Where a notice is deposited under the preceding sub-paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority.~~ If the notice contains a statement under the preceding two sub-paragraphs, a copy of such statement shall be placed with the Company for shareholders' inspection. ~~The Company shall also send a copy of such statement by prepaid mail to every shareholder of H Shares at the address registered in the register of shareholders.~~

Where the accounting firm's notice of resignation contains a statement in respect of the above, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances in connection with its resignation.

Article 188

In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in these Articles of Association. The Company shall then go through the relevant approval process. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders' shares at a fair price.

The contents of the resolution of merger or division of the Company shall constitute special documents which shall be available for inspection by the shareholders of the Company.

~~Such special documents shall be sent by mail to holders of H Shares to the address registered in the register of shareholders.~~

Article 189

The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's merger resolution and shall publish a public notice in a newspaper ~~at least three (3) times~~ within thirty (30) days of the date of the Company's merger resolution.

After merger, any rights in relation to debtors and any indebtedness of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.

Article 190

Where there is a division of the Company, its assets shall be divided up accordingly.

In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within then (10) days of the date of the Company's division resolution and shall publish a public notice in a newspaper ~~at least three (3) times~~ within thirty (30) days of the date of the Company's division resolution.

The liabilities of the Company before the division shall be jointly and severally assumed by the surviving companies, unless otherwise agreed by the Company and the creditors in a written agreement reached prior to the division for the settlement of the liabilities.

Article 196

The liquidation committee shall, within ten (10) days of its establishment, send notices to creditors and shall, within sixty (60) days of its establishment, publish a public notice in a newspaper ~~three (3) times at least~~.

A creditor shall, within thirty (30) days of receipt of the notice or, for creditors who have not received such notice, forty five (45) days of the date of the public notice, claim its rights to the liquidation committee. Failing which, such rights shall be deemed to have been waivered. In claiming its rights, the creditor shall provide evidential material in respect thereof. The liquidation committee shall register the creditor's rights.

Article 198

After the liquidation committee has sorted out the Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a shareholders' general meeting or to the relevant governing authority for confirmation.

The Company's assets shall be used to repay the Company's debts in the order as required by laws and regulations. If there is no applicable law, such repayments shall be carried out in accordance with a fair and reasonable order as determined by the liquidation committee.

Any surplus assets of the Company remaining after its debts have been repaid in accordance with the provisions of the preceding paragraph shall be distributed to its shareholders according to ~~the class of shares and~~ the proportion of shares held.

During the liquidation period, the Company shall not commence any new business activities.

Article 202

Amendments to these Articles of Association shall be made in accordance with the following procedures:

(I) the board of directors brings, by way of a resolution in compliance with these Articles of Association, a proposal to the shareholders' general meeting to amend these Articles of Association and prepares a proposal relating to the amendments to these Articles of Association;

(II) shareholders are informed in writing of the proposal relating to the amendments to these Articles of Association and a shareholders' general meeting shall be convened to vote on the contents of such amendments;

(III) the proposed amendments are approved by the shareholders by way of a special resolution.

Authorization may be made by a shareholders' general meeting to the board of directors of the Company by way of an ordinary resolution to the effect that ~~: (1) If it is to increase the registered capital of the Company, the Board is entitled to amend the contents of these Articles of Associations in respect of the Company's registered capital according to the actual situation; or (2)~~ if there are changes necessitated in the verbal or provisional sequences in these Articles of Association approved at a shareholders' general meeting when submitted for approval and registration at the companies approval and registration departments authorized by the State Council ~~and the CSRC~~, the board of directors shall be entitled to effect corresponding amendments in accordance with the requirements of such companies approval and registration departments ~~and the CSRC~~.

Article 203

~~If any amendment to these Articles of Association involves any matters relating to the mandatory provisions, such amendment shall be subject to the approval of the companies approval departments authorized by the State Council and the CSRC. If any amendment involves any matters relating to registration of companies, changes in registration shall be done in accordance with the laws.~~

Article 204

~~The Company shall abide by the following principles for dispute resolution:~~

~~(I)~~ ~~Any disputes or claims arising between holders of H Shares and the Company; holders of H Shares and the Company's directors, supervisors, general manager, deputy general managers, or other senior officers; or holders of H Shares and holders of domestic- shares, in respect of any rights or obligations arising from these Articles of Association, the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company shall be submitted for arbitration.~~

~~When a dispute or claim of rights referred to in the preceding paragraph is submitted for arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim shall, if they are companies, the Company's shareholders, directors, supervisors, general manager, deputy general managers or other senior officers of the Company, comply with the arbitration.~~

~~Disputes in respect of the definition of shareholders and disputes in relation to the register of shareholders need not be resolved by arbitration.~~

~~(II)~~ ~~A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant submits a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.~~

~~If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.~~

~~(III) If any disputes or claims of rights are settled by way of arbitration in accordance with sub-paragraph (I) of this Article, the laws of the PRC shall govern, save as otherwise provided in laws and administrative regulations.~~

~~(IV) The award of an arbitral body shall be final and conclusive and binding on all parties.~~

Article 205

~~Unless otherwise provided in these Articles of Association, the notice, material or written statement sent from the Company to the holders of H shares listed in Hong Kong shall be delivered by courier or by mail to such shareholders according to the registered address of each of them. Notices to the holders of H shares listed in Hong Kong shall be delivered in Hong Kong whenever possible. Notices from the Company to the holders of domestic shares shall be published in one or more newspapers appointed by national security regulatory authorities. Upon publication, such notices shall be deemed as having been received by all holders of domestic shares.~~

Article 209

~~In these Articles of Association, references to "accounting firm" shall have the same meaning as "auditors".~~

Article 210

Each of the figures referred to in these Articles of Association shall include the figure itself.

Note: In the translation of the articles proposed to be amended set out in Part B of this Appendix IV, cross-references to other articles (which are set out in square brackets) are to the original number of the article referred to. Please note that the articles will be re-numbered to reflect deletions and the re-ordering of articles.

1. RESPONSIBILITY STATEMENTS

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Offers, CR Gas and ZZ Gas.

The directors of CR Gas jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to ZZ Gas Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by ZZ Gas and First Shanghai) have been arrived at after due and careful consideration and there are no facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The directors of ZZ Gas jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document to the extent it relates to ZZ Gas Group, and confirm, having made all reasonable inquiries, that to the best of their knowledge and to the extent they relate to ZZ Gas Group, opinions expressed in this Composite Document (other than those expressed by CR Gas, the parties acting in concert with it or Anglo Chinese) have been arrived at after due and careful consideration and there are no facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. MARKET PRICES OF H SHARES

(i) During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK$16.98 on 4 November 2011 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$9.20 on 26 September 2011.

(ii) The table below sets out the closing prices of the H Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the Relevant Period and on the Latest Practicable Date:

Dates	**Closing Price** *(HK$)*
29 April 2011	14.50
31 May 2011	13.64
30 June 2011	12.80
29 July 2011	12.86
31 August 2011	11.50
30 September 2011	9.72
31 October 2011	16.26
Latest Practicable Date	16.76

(iii) The closing price of the H Shares as quoted on the Stock Exchange on the Last Trading Date was HK$10.10.

3. MARKET PRICES OF CR GAS SHARES

(i) During the Relevant Period, the highest closing price of the CR Gas Shares as quoted on the Stock Exchange was HK$12.28 on 9 September 2011 and the lowest closing price of the CR Gas Shares as quoted on the Stock Exchange was HK$10.00 on 7 October 2011.

(ii) The table below sets out the closing prices of the CR Gas Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the Relevant Period and on the Latest Practicable Date:

Dates	**Closing Price** *(HK$)*
29 April 2011	11.30
31 May 2011	11.04
30 June 2011	10.88
29 July 2011	11.52
31 August 2011	11.98
30 September 2011	10.56
31 October 2011	11.40
Latest Practicable Date	11.58

(iii) The closing price of the CR Gas Shares as quoted on the Stock Exchange on the Last Trading Date was HK$10.08.

4. DISCLOSURE OF INTERESTS

(a) Interests of the directors, supervisors and the chief executives of ZZ Gas in the securities of ZZ Gas and the securities of ZZ Gas's associated corporations

As at the Latest Practicable Date, none of the directors, supervisors or chief executive of ZZ Gas or their respective associates had or was deemed to have any interests or short positions in ZZ Gas Shares, underlying shares and debentures of ZZ Gas and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to ZZ Gas and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code"), to be notified to ZZ Gas and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code.

(b) **Interests of substantial shareholders in the securities of ZZ Gas**

As at the Latest Practicable Date, so far as was known to any of the directors of ZZ Gas, the following persons had or were deemed to have interests or short positions in the ZZ Gas Shares or underlying shares of ZZ Gas which would fall to be disclosed to ZZ Gas and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were entered into the register required to be kept under Section 336 of the SFO:

Name of shareholders	Capacity/ Nature of interest	Number of H Shares held in the Company	Approximate % of beneficial interests in H Shares in the Company	Number of Domestic Shares held in the Company	Approximate % of beneficial interests in Domestic Shares in the Company	Approximate % of beneficial interests in the total registered share capital of the Company
Zhengzhou China Resources Gas Limited ("ZCRG") *(note 1)*	Beneficial owner	—	—	54,041,510	77.11%	43.18%
CR Gas Investment *(notes 2, 3, 4)*	Beneficial owner	4,923,000	8.94%	54,041,510	77.11%	47.12%
China Resources Gas (Hong Kong) Investment Limited ("China Resources Gas (Hong Kong) Investment") *(note 5)*	Controlled corporation's interest	—	—	12,202,490	17.41%	9.75%
Linhai China Resources Gas Company Limited ("Linhai China Resources Gas") *(note 5)*	Controlled corporation's interest	—	—	12,202,490	17.41%	9.75%
China Resources Gas Limited *(notes 3, 5)*	Controlled corporation's interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
CR Gas *(notes 3, 5)*	Controlled corporation's interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
CRH (Gas) Limited (previously Splendid Time Investments Inc.) ("CRHG") *(notes 3, 5)*	Controlled corporation's interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
China Resources (Holdings) Company Limited ("CRH") *(notes 3, 5)*	Controlled corporation's interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
CRC Bluesky Limited ("CRC Bluesky") *(notes 3, 5)*	Controlled corporation's interest	4,923,000	8.94%	66,244,000	94.52%	56.87%

Name of shareholders	Capacity/ Nature of interest	Number of H Shares held in the Company	Approximate % of beneficial interests in H Shares in the Company	Number of Domestic Shares held in the Company	Approximate % of beneficial interests in Domestic Shares in the Company	Approximate % of beneficial interests in the total registered share capital of the Company
China Resources Co., Limited (“CRCL”) *(notes 3, 5)*	Controlled corporation’s interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
China Resources National Corporation (“CRNC”) *(notes 3, 5)*	Controlled corporation’s interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
Centaurus Global Holding Limited (“Centaurus Global”) (*note 6*)	Controlled corporation’s interest	5,069,000	9.21%	—	—	4.05%
Oppetit, Bernard Roger Marie *(note 6)*	Controlled corporation’s interest	5,069,000	9.21%	—	—	4.05%
Deustche Bank Aktiengesellschaft *(note 7)*	Person having security interest in shares	3,867,333(L)	7.02%	—	—	3.09%
	Beneficial owner	600(L)	0.00%	—	—	0.00%
	Beneficial owner	155(S)	0.00%	—	—	0.00%
York Asian Opportunities Domestic Holdings LLC (“York Asian Opportunities LLC”) *(note 8)*	Investment Manager	3,094,073	5.62%	—	—	2.47%
York Asian Opportunities Investments Master Fund, LP *(note 8)*	Beneifical owner	3,094,073	5.62%	—	—	2.47%
York Capital Management Global Advisors, LLC *(note 8, 9)*	Controlled corporation’s interest	3,445,000	6.25%	—	—	2.75%
Dinan, James G. *(note 8, 9)*	Controlled corporation’s interest	3,445,000	6.25%	—	—	2.75%

Notes:

1. ZCRG held 54,041,510 Domestic Shares, representing 77.11% of the total domestic shares of ZZ Gas.

2. CR Gas Investment owns 72.06% of the registered capital of ZCRG, and is therefore deemed to hold those 54,041,510 Domestic Shares held by ZCRG.

3. CR Gas Investment is wholly owned by China Resources Gas Limited. CR Gas is the only shareholder of China Resources Gas Limited. CRHG and Commotra Company Limited ("Commotra") jointly own 68.08% of the equity of CR Gas. CRH (which is a wholly owned subsidiary of CRC Bluesky) owns 100% of equity of CRHG and Commotra. CRC Bluesky is a wholly owned subsidiary of CRCL, and CRNC owns 100% of equity of CRCL. According to the SFO, apart from Commotra, the above companies are deemed to hold those 4,923,000 H Shares and 54,041,510 Domestic Shares.

4. According to the joint announcement jointly issued on 8 October 2010 by CR Gas Investment, CR Gas and the ZZ Gas, CR Gas Investment holds 4,926,000 H shares, representing approximately 8.95% of ZZ Gas's beneficial interest in the H Shares.

5. Linhai Baishun Art Company Limited directly holds 12,202,490 Domestic Shares. Linhai Baishun Art Company Limited is wholly owned by Linhai China Resources Gas, which is in turn wholly owned by China Resources Gas (Hong Kong) Investment. China Resources Gas (Hong Kong) Investment is a wholly owned subsidiary of China Resources Gas Limited. Therefore, according to the SFO, Linhai China Resources Gas, China Resources Gas (Hong Kong) Investment, China Resources Gas Limited, CR Gas, CRHG, CRH, CRC Bluesky, CRCL and CRNC are deemed to hold those 12,202,490 Domestic Shares.

6. According to its disclosure of interests notices filed under Part XV of the SFO, Bernard Roger Marie Oppetit and Centaurus Global Holding Limited hold 5,069,000 H Shares through wholly owned subsidiaries, being Centaurus Capital Limited, Centaurus Capital LP, Centaurus Management Company Limited and Centaurus Capital (Hong Kong) Limited.

7. (L) represents long position, (S) represents short position.

8. According to its disclosure of interests notices filed under Part XV of the SFO, York Asian Opportunities Investments Master Fund, L.P. directly holds 3,094,073 H Shares. York Asian Event-Driven UCITs Fund directly holds 350,927 H Shares. York Asian Opportunities Investments Master Fund, L.P. is wholly owned by York Asian Opportunities Domestic Holdings LLC, the investment manager, which is in turn wholly owned by York Capital Management Global Advisors, LLC. James G. Dinan holds 33.33% interest in York Capital Management Global Advisors, LLC.

9. York Asian Event-Driven UCITs Fund is wholly owned by York UCITs Holdings, LLC, who is in turn wholly owned by York Capital Management Global Advisors, LLC.

Save as disclosed in paragraph (b) above, as at the Latest Practicable Date, so far as was known to any of the directors of ZZ Gas, there was no person who had any interest or short position in the shares or underlying shares of ZZ Gas which would fall to be disclosed to ZZ Gas under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code.

(c) **Members of the ZZ Gas Group**

So far as is known to the directors of ZZ Gas as at the Latest Practicable Date, the following persons were, directly or indirectly, interested in 10% or more of the nominal value of any classes of the share capital carrying rights to vote at general meetings of any members of the ZZ Gas Group (other than ZZ Gas):

Member of the ZZ Gas Group	Name of substantial shareholder	Nominal value of registered and paid-up capital held by the shareholder in the member	Approximate % of shareholding of the member
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%
Henan Zhengran Jinxiang Vehicular Energy Co., Ltd. (河南鄭燃金象車用能源有限公司)	Zhengzhou Traffic and Transportation (Group) Co., Ltd. (鄭州交通運輸 (集團) 有限責任公司)	RMB18,000,000	45%

Save as disclosed above, so far as was known to the directors of ZZ Gas as at the Latest Practicable Date, no other person, other than a director, supervisors or chief executive of ZZ Gas, had, or was deemed to have, any interests or short positions in the shares and underlying shares of ZZ Gas which are required to be disclosed to ZZ Gas and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, nor is it expected that there are any other persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the ZZ Gas Group.

(d) **Interests of the directors and the chief executive of CR Gas in the securities of CR Gas and the securities of CR Gas's associated corporations**

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of CR Gas in CR Gas Shares, underlying shares and debentures of CR Gas and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to CR Gas and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code"), to be notified to CR Gas and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code, were as follows:

A. ***Interests of the directors of CR Gas in the CR Gas Shares***

Name of Director	Capacity	Long or short position	Number of Shares	Approximate percentage of interest in the relevant class of share capital
Mr. Wang Chuandong	Beneficial owner	Long position	100,000	0.0050%
Mr. Ong Thiam Kin	Beneficial owner	Long position	100,000	0.0050%
Mr. Du Wenmin	Beneficial owner	Long position	54,000	0.0027%
Mr. Wong Tak Shing	Beneficial owner	Long position	80,000	0.0040%

B. ***Interests of the directors of CR Gas in associated corporations of CR Gas***

(i) *Shares of China Resources Enterprise, Limited*

Name of Director	Long or short position	Number of Shares	Number of share options	Exercise price per share (HK$)	Date of grant	Aggregate percentage of interest
Mr. Wang Chuandong	Long position	300,000	300,000	10.350	04/10/2004	0.0250%
Mr. Du Wenmin	Long position	100,000				0.0042%

(ii) *Shares and options of China Resources Power Holdings Company Limited*

Name of Director	Long or short position	Number of Shares	Number of share options	Exercise price per share (HK$)	Date of grant	Aggregate percentage of interest
Mr. Ma Guoan	Long position	22,000				0.0005%
Mr. Wang Chuandong	Long position		101,800	2.750	06/10/2003	0.0021%
Mr. Du Wenmin	Long position	480,240				0.0101%

(iii) *Shares of China Resources Land Limited*

Name of Director	Capacity	Long or short position	Number of Shares	Aggregate percentage of interest
Mr. Ong Thiam Kin	Beneficial owner	Long position	100,000	0.0017%
Mr. Du Wenmin	Beneficial onwer	Long position	1,040,000	0.0178%

(iv) *Shares of CRH (Microelectronics) Limited*

Name of Director	Capacity	Long or short position	Number of Shares	Approximate percentage of interest in the relevant class of share capital
Mr. Luk Chi Cheong	Beneficial owner	Long position	1,000,000	0.01%

(v) *Shares of China Resources Cement Holdings Limited*

Name of Director	Capacity	Long or short position	Number of Shares	Approximate percentage of interest in the relevant class of share capital
Mr. Ma Guoan	Beneficial owner	Long position	20,000	0.0003%
Mr. Ma Guoan	Interest of spouse	Long position	20,000	0.0003%
Mr. Ong Thiam Kin	Beneficial owner	Long position	220,000	0.0034%

Save as disclosed above, as at the Latest Practicable Date none of the directors or chief executive of CR Gas had or was deemed to have any interests or short positions in CR Gas Shares, underlying shares or debentures of CR Gas or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to CR Gas and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to CR Gas and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code.

(e) **Interests of substantial shareholders in the securities of CR Gas**

As at the Latest Practicable Date, so far as was known to any of the directors of CR Gas, the following persons had or were deemed to have interests or short positions in the CR Gas Shares or underlying shares of CR Gas which would fall to be disclosed to CR Gas and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were entered into the register required to be kept under Section 336 of the SFO:

Long position in CR Gas

Name of shareholders	Capacity	Nature of interest	Number of shares	Aggregate percentage of interest
CRH (Gas) Limited	Beneficial owner	Beneficial interest	1,407,828,991	70.66%
China Resources (Holdings) Company Limited [1]	Controlled company's interest	Corporate interest	1,411,360,991	70.84%
CRC Bluesky Limited ("CRC Bluesky") [1]	Controlled company's interest	Corporate interest	1,411,360,991	70.84%
China Resources Co., Limited ("CRCL") [1]	Controlled company's interest	Corporate interest	1,411,360,991	70.84%
China Resources National Corporation ("CRNC") [1]	Controlled company's interest	Corporate interest	1,411,360,991	70.84%

Note 1: CRH (Gas) Limited and Commotra Company Limited are directly interested in 1,407,828,991 CR Gas Shares and 3,532,000 CR Gas Shares respectively and both companies are wholly-owned subsidiaries of China Resources (Holdings) Company Limited. China Resources (Holdings) Company Limited is therefore deemed to be interested in 1,411,360,991 CR Gas Shares under Part XV of the SFO. China Resources (Holdings) Company Limited is a wholly-owned subsidiary of CRC Bluesky, which is a wholly-owned subsidiary of CRCL, which is in turn a wholly-owned subsidiary of CRNC. CRC Bluesky, CRCL and CRNC are all therefore deemed to be interested in 1,411,360,991 CR Gas Shares under Part XV of the SFO.

Save as disclosed in paragraph (e) above, as at the Latest Practicable Date so far as was known to any of the directors of CR Gas, there was no person who had any interest or short position in the CR Gas Shares or underlying shares of CR Gas which would fall to be disclosed to CR Gas under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code.

5. INFORMATION REGARDING THE SHARE CAPITAL OF ZZ GAS

(1) The authorised and issued share capital of ZZ Gas as at the Latest Practicable Date were as follows:

Authorised share capital

Number of shares	**Nominal value of shares**
70,084,000 Domestic Shares	RMB70,084,000
55,066,000 H Shares	RMB55,066,000

Issued and fully paid-up share capital

Number of shares	**Nominal value of shares**
70,084,000 Domestic Shares	RMB70,084,000
55,066,000 H Shares	RMB55,066,000

(2) All of the H Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No H Shares have been issued since 31 December 2010, being the end of the last financial year of ZZ Gas, up to the Latest Practicable Date.

(3) Apart from the H Shares being listed on the Stock Exchange, no other securities of ZZ Gas are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

(4) As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities in respect of ZZ Gas Shares.

(5) The directors of ZZ Gas did not recommend the payment of any final dividend for the year ended 31 December 2010 or the payment of an interim dividend for the six months ended 30 June 2011.

6. INFORMATION REGARDING THE SHARE CAPITAL OF CR GAS

(1) The authorised and issued share capital of CR Gas as at the Latest Practicable Date were as follows:

Authorised share capital

Number of shares	**Nominal value of shares**
10,000,000,000 CR Gas Shares	HK$1,000,000,000

Issued and fully paid-up share capital

Number of shares	**Nominal value of shares**
1,992,269,718 CR Gas Shares	HK$199,226,971.8

(2) All of the CR Gas Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. Save for the issue of 161,174,785 new CR Gas Shares in consideration for the acquisition of a batch of seven city gas distribution projects from a wholly-owned subsidiary of the China Resources Group, no new CR Gas Shares have been issued and no CR Gas Shares have been repurchased since 31 December 2010, being the end of the last financial year of CR Gas, up to the Latest Practicable Date.

(3) Apart from the CR Gas Shares being listed on the Stock Exchange, no other securities of CR Gas are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

(4) As at the Latest Practicable Date, there were 188,000 options outstanding under the share option scheme of CR Gas adopted on 26 November 2001 (which was subsequently amended on 21 February 2002). If these share options are exercised in full, a total of 188,000 CR Gas Shares will be issued. Save for these share options, there were no outstanding options, warrants, derivatives or convertible securities in respect of CR Gas Shares.

7. SHARE CAPITAL OF CR GAS AND CAPITAL, DIVIDENDS & VOTING RIGHTS OF NEW SHARES

The new CR Gas Shares to be issued pursuant to the H Share Offer will be issued and credited as fully paid and will rank pari passu with the existing CR Gas Shares.

Each new CR Gas Share confers upon the shareholder the right to an equal share in the distribution of the surplus assets of CR Gas on its liquidation.

8. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE

Interests discloseable under Schedule I to the Takeovers Code

As at the Latest Practicable Date:

(a) CR Gas was interested in 66,244,000 Domestic Shares and 4,926,000 H Shares, representing approximately 56.87% of the total issued shares of ZZ Gas, made up of approximately 94.52% of the total issued Domestic Shares and approximately 8.95% of the total issued H Shares;

(b) save as disclosed in paragraph 4(d)(A) on page V-7 of this Appendix V, no director of CR Gas had any interests in any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas;

(c) save as disclosed in paragraphs 4(b),4(d)(A) and 4(e) on pages V-3 to V-5, V-7 and V-9 of this Appendix V, none of the persons acting in concert with CR Gas owned or controlled any interests in any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas;

(d) no one who owned or controlled shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas had irrevocably committed to vote in favour of or against the resolutions in respect of the Proposal at the H Share Class Meeting and at the EGM;

(e) no one who owned or controlled shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CR Gas or any persons acting in concert with it;

(f) none of CR Gas or any person acting in concert with it had borrowed or lent any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas; and

(g) none of CR Gas, its directors or any parties acting in concert with it had dealt for value in any shares, or any convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas during the Relevant Period.

Interests discloseable under Schedule II to the Takeovers Code

As at the Latest Practicable Date:

(a) ZZ Gas had no interests in any CR Gas Shares, or convertible securities, warrants, options or derivatives in respect of CR Gas Shares;

(b) no directors of ZZ Gas had any interests in any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas;

(c) none of ZZ Gas or its directors had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas during the Relevant Period;

(d) no subsidiary of ZZ Gas, nor any pension fund of ZZ Gas or any of its subsidiaries owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas;

(e) no subsidiary of ZZ Gas, nor any pension fund of ZZ Gas or any of its subsidiaries has dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas and CR Gas during the Offer Period and ending with the Latest Practicable Date;

(f) none of the advisers to ZZ Gas as specified in class (2) of the definition of associate in the Takeovers Code owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas;

(g) none of the advisers to ZZ Gas as specified in class (2) of the definition of Associate under the Takeovers Code has dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas during the Offer Period and ending with the Latest Practicable Date;

(h) no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with ZZ Gas or with any person who is an associate of ZZ Gas by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code or with CR Gas or any persons acting in concert with it;

(i) no fund managers connected with ZZ Gas who managed funds on a discretionary basis owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the shares of ZZ Gas or CR Gas during the Offer Period and ending with the Latest Practicable Date;

(j) none of ZZ Gas nor any directors of ZZ Gas had borrowed or lent any shares, convertible securities, options or derivatives in respect of the shares of ZZ Gas and CR Gas; and

(k) there are no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between ZZ Gas, or any person who is an associate of ZZ Gas by virtue of classes (1), (2), (3) or (4) of the definition of associate, and any other person.

9. LITIGATION

As at the Latest Practicable Date, ZZ Gas Group was not engaged in any litigation or arbitration or claim of material importance to the ZZ Gas Group as a whole and no such litigation or claim of material importance was known to the directors of ZZ Gas to be pending or threatened by or against any member of the ZZ Gas Group.

As at the Latest Practicable Date, CR Gas was not engaged in any litigation or arbitration or claim of material importance and no such litigation or claim of material importance was known to the directors of CR Gas to be pending or threatened by or against CR Gas.

10. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, ZZ Gas has entered into service contracts with the following directors which are required to be disclosed under the Takeovers Code:

(a) a service contract dated 16 June 2011 with Mr. Yang Changyi for a term of three years unless terminated earlier as stipulated in the service contract, commencing on 16 June 2011 at an annual remuneration of RMB360,000. No earlier contracts have been replaced or amended by the service contract dated 16 June 2011 between Mr. Yang Changyi and ZZ Gas; and

(b) a service contract dated 21 February 2011 with Mr. Li Yantong for a term of three years which is terminable by ZZ Gas with not less than three months' notice, commencing from 21 February 2011 at nil remuneration. The annual remuneration of Mr. Li Yantong has been adjusted and is currently RMB280,000. No earlier contracts have been replaced or amended by the service contract dated 21 February 2011 between Mr. Li Yantong and ZZ Gas.

Mr. Yang Changyi may receive a management bonus which is approved by the remuneration and appraisal committee and the board of ZZ 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 ZZ Gas will consider, among others, individual performance of each director and the consolidated net profits of the ZZ Group after taxation but before extraordinary items for the relevant financial year, in determining the management bonus. No variable remuneration is payable to Mr. Li Yantong. For the year ended 31 December 2010, the executive directors received salaries, allowances and benefits in kind in an amount of RMB981,000, and performance related bonuses in an amount of RMB549,000.

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

11. MATERIAL CONTRACTS

Save for the following contracts, no material contracts other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the ZZ Gas Group had been entered into by the ZZ Gas Group within two years preceding the date of the Joint Announcement and up to the Latest Practicable Date:

(a) a land compensation agreement dated 3 March 2011 entered into between ZZ Gas and the Madu Village Committee (馬渡村民委員會) in relation to the acquisition by ZZ Gas of certain land within the Madu Village for a total consideration of RMB 1.4 million;

(b) a concession right agreement dated 30 May 2011 entered into between ZZ Gas and the People's Government of Longhu of Xinzheng City (新鄭市龍湖鎮人民政府) (the "Longhu Government") in relation to the supply of natural gas in Longhu. Pursuant to the agreement, the Longhu Government granted ZZ Gas an exclusive right for the construction of pipelines and related facilities, and the operation, maintenance and repair of the pipeline network and related facilities in Longhu for a term of 30 years from 1 May 2011 to 30 April 2041; and

(c) a supplemental agreement dated 24 June 2011 entered into between ZZ Gas and Zhengzhou Traffic and Transportation (Group) Company Limited (鄭州交通運輸集團有限責任公司) to supplement the joint venture agreement entered into between ZZ Gas and Zhengzhou Traffic and Transportation (Group) Company Limited on 10 August 2009 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 supplemental agreement sets out certain obligations of ZZ Gas and Zhengzhou Traffic and Transportation (Group) Company Limited in relation to the operation and management of the joint venture company, including the provision of gas by ZZ Gas to the joint venture company at the price of RMB 2.60 per cubic metre.

Save for the following contracts, no material contracts other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the CR Gas Group had been entered into by CR Gas Group within two years preceding the date of the Joint Announcement and up to the Latest Practicable Date:

(a) a master agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the establishment by Zhengzhou SASAC and CR Gas Investment of a joint venture company to be established as a limited company in the PRC (the "Joint Venture") and the related matters;

(b) a joint venture agreement dated 25 November 2009 entered between Zhengzhou SASAC and CR Gas Investment in relation to, among other things, the scope of business of the Joint Venture and the rights and obligations of each of Zhengzhou SASAC and CR Gas Investment in the Joint Venture, including the contribution of RMB490 million in cash equivalent in foreign currency by CR Gas Investment and the contribution of RMB190 million through the injection of assets relating to its piped gas business including land use rights, machinery and equity interests in two PRC companies, namely Nanyang Zhengran Natural Gas Co., Ltd*. (南陽鄭燃燃氣有限公司) and Zhengzhou City Zhengran Gas Design Development Co., Ltd*. (鄭州市鄭燃燃氣設計開發有限公司) by Zhengzhou SASAC;

(c) a capital increase agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to 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;

(d) a share transfer agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the acquisition by the Joint Venture from Zhengzhou SASAC of 54,041,510 Domestic Shares and CR Gas Investment to bear the compensation payable to the staff of ZZ Gas and Zhengzhou Gas Group Co., Ltd.* (鄭州燃氣集團有限公司) for a total consideration of approximately RMB456.7 million;

(e) an asset transfer agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the acquisition by the Joint Venture of certain assets and liabilities, comprising principally buildings and equipment for its piped gas operation, from Zhengzhou SASAC (the "Other Assets") for a total consideration of approximately RMB13.4 million;

(f) master agreements dated 23 December 2009 and a supplement agreement dated 24 December 2009 entered into between CR Gas Investment and Chongqing Energy Investment Group* (重慶市能源投資集團公司) whereby CR Gas Investment will contribute cash of approximately RMB1,162.8 million to Chongqing Gas Group Corp Ltd in return for a 25% equity interest in Chongqing Gas Group Corp Ltd;

(g) a supplemental agreement dated 11 January 2010 entered into among Zhengzhou SASAC, CR Gas Investment, the Joint Venture and Zhengzhou Gas Group Co., Ltd.* pursuant to which the Joint Venture has confirmed its obligations in respect of the acquisition of 54,041,510 Domestic Shares and the Other Assets under the various agreements entered into between Zhengzhou SASAC and CR Gas Investment on 25 November 2009;

(h) a joint venture agreement and an articles of association both dated 9 April 2010 and entered into between China Resources Gas Limited (a wholly-owned subsidiary of CR Gas) and Nanjing City Jiangning District Gas (Group) Company Limited* (南京市江寧區煤氣(集團)公司) in relation to the proposed establishment of a joint venture company to be established in the PRC with a registered capital of RMB600 million, of which RMB306 million will be contributed by Nanjing City Jiangning District Gas (Group) Company Limited* and RMB294 million will be contributed by China Resources Gas Limited;

(i) a sale and purchase agreement dated 13 September 2010 entered into among CR Gas (as purchaser), Powerfaith Enterprises Limited (as vendor) and China Resources Gas (Holdings) Limited (as guarantor) in relation to the acquisition of the entire issued share capital of Mega Fair Limited for a consideration of HK$2,000 million;

(j) a placing, underwriting and subscription agreement dated 14 September 2010 entered into among Splendid Time Investments Inc. (now known as CRH (Gas) Limited), CR Gas and Credit Suisse (Hong Kong) Limited pursuant to which (i) Splendid Time Investments Inc. has agreed to appoint Credit Suisse (Hong Kong) Limited to procure purchasers for, or failing which to purchase themselves, 230,000,000 CR Gas Shares at the placing price of HK$10.75 per CR Gas Share; and (ii) Splendid Time Investments Inc. has agreed to subscribe for, and CR Gas has agreed to issue, 230,000,000 CR Gas Shares at a price of HK$10.75 per CR Gas Share;

(k) (i) a Hong Kong and United States Dollar Master Loan Agreement dated 22 November 2010 for a term of three years ending 31 December 2013 and entered into between CR Gas, China Resources Microelectronics Limited, China Resources Cement Holdings Limited, China Resources Enterprise, Limited, China Resources Land Limited, China Resources Power Holdings Company Limited (collectively "China Resources Group listed companies"), China Resources Gas (Holdings) Limited, China Resources Medications Group Limited, China Resources Textiles (Holdings) Company Limited, China Resources Chemical Holdings Limited and CSMC Asia Limited (collectively "China Resources Group unlisted companies") and China Resources (Holdings) Company Limited, pursuant to which China Resources (Holdings) Company Limited and China Resources Group listed companies and China Resources Group unlisted companies and any of their subsidiaries which has become a party to the agreement may advance from China Resources Group listed companies and any of their subsidiaries which has become a party to the agreement an aggregate amount not exceeding an annual cap under the agreement;

(ii) a RMB Master Loan Agreement dated 22 November 2010 for a term of three years ending 31 December 2013 and entered into between China Resources Co., Limited and the China Resources Group listed companies, pursuant to which China Resources Co., Limited or any PRC incorporated subsidiary of a China Resources Group listed or unlisted company which has become a party to the agreement (but excluding Zhuhai Commercial Bank Co., Ltd. and China Resources SZITIC Trust Co., Ltd.) may advance from any PRC incorporated subsidiary of a China Resources Group listed company which has become a party to the agreement an aggregate amount not exceeding an annual cap under the agreement;

the annual caps to loans made by each of the China Resources Group listed companies and its subsidiaries under the Hong Kong and United States Dollar Master Loan Agreement and the RMB Master Loan Agreement are set out as follows:

China Resources Group listed companies	**Annual caps for the year ending 31 December**		
	2011	**2012**	**2013**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
CR Gas	300	400	500
China Resources Microelectronics Limited	300	350	400
China Resources Cement Holdings Limited	400	500	600
China Resources Enterprise, Limited	6,000	6,600	7,200
China Resources Land Limited	1,500	1,700	1,900
China Resources Power Holdings Company Limited	1,700	1,900	2,100

(l) a sale and purchase agreement dated 16 March 2011 entered into among Thousand Victory Investments Limited which is a wholly-owned subsidiary of CR Gas (as purchaser), Wing Mou Oil Company Limited and Winfield Petrochemical Limited (as vendors) and Hsing Nien Tsu and Wong Mei Lin (as guarantors) in relation to the acquisition of the entire share capital of Flemming Limited for a consideration of RMB352,950,000 (subject to adjustment);

(m) a corporate reorganisation agreement dated 5 July 2011 among Zibo Xinneng Energy Resources Group Company Limited Trade Union Committee* (淄博鑫能能源集團有限公司工會委員會), Zibo Xinneng Energy Resources Group Company Limited* (淄博鑫能能源集團有限公司), Zibo China Resources Gas (Hong Kong) Limited and Zibo China Resources Gas Co., Ltd* (淄博華潤燃氣有限公司) ("Zibo CR Gas China") in relation to the corporate reorganization involving the shareholdings in the registered capital of Zibo CR Gas China by way of share repurchase or share transfers as follows:

(i) Zibo Xinneng Energy Resources Group Company Limited Trade Union Committee* agrees to sell and Zibo CR Gas China agrees to repurchase 9% of the registered capital of Zibo CR Gas China ("Zibo Target Shares") for a purchase consideration of RMB41,431,500, subject to the approval of the local authorities in the PRC ("Share Repurchase"); and

(ii) if the approval of the local authorities in the PRC is not obtained for the Share Repurchase within a reasonable time, Zibo Xinneng Energy Resources Group Company Limited Trade Union Committee* shall sell, and Zibo Xinneng Energy Resources Group Company Limited* and Zibo China Resources Gas (Hong Kong) Limited shall respectively purchase the Zibo Target Shares for a total consideration of RMB41,431,500 in the following proportion:

Purchaser	**Percentage of registered capital of Zibo CR Gas China to be purchased**	**Purchase Consideration**
		RMB
Zibo Xinneng Energy Resources Group Company Limited*	4%	18,414,000
Zibo China Resources Gas (Hong Kong) Limited	5%	23,017,500
Total	9%	41,431,500

(n) a sale and purchase agreement dated 22 July 2011 entered into among CR Gas (as purchaser), Powerfaith Enterprises Limited (as vendor) and China Resources Gas (Holdings) Limited (as guarantor) in relation to the acquisition of the entire issued share capital of Wang Gao Limited for a consideration of HK$1,710 million;

(o) a joint venture contract and a supplemental agreement both dated 2 November 2011 entered into between China Resources Gas (Hong Kong) Investment Limited and Tianjin Gas Group Company Limited*(天津市燃氣集團有限公司) in relation to the establishment by both parties of a joint venture company as a limited company in the PRC ("Tianjin Joint Venture") and the related matters, whereby China Resources Gas (Hong Kong) Investment Limited will contribute cash of RMB2.45 billion to the Tianjin Joint Venture in return for a 49% stake in the Tianjin Joint Venture and Tianjin Gas Group Company Limited* will contribute certain operating assets with an appraised value of RMB2.55 billion in return for a 51% stake in the Tianjin Joint Venture; and

(p) the unanimous shareholders resolutions dated 9 November 2011 of Nanjing Jiangning China Resources Gas Co., Ltd signed by Nanjing City Jiangning District Gas (Group) Company Limited* (南京市江寧區煤氣(集團)公司) and China Resources Gas Limited, pursuant to which both parties have agreed that the registered capital of Nanjing Jiangning China Resources Gas Co., Ltd will be reduced from RMB951 million to RMB665.7 million and Nanjing Jiangning China Resources Gas Co., Ltd will return an equivalent amount to Nanjing City Jiangning District Gas (Group) Company Limited*.

* *For identification purposes only.*

12. EXPERTS

The following are the qualifications of each of the experts who are named in this Composite Document or have given their opinion or advice which is contained in this Composite Document:

Name	Qualification
Anglo Chinese	A corporation licensed to carry on types 1, 4, 6 and 9 of the regulated activities as defined in the SFO
First Shanghai	A corporation licensed to carry on type 6 of the regulated activities as defined in the SFO

13. CONSENTS

Anglo Chinese and First Shanghai have given and have not withdrawn their respective written consents to the issue of this Composite Document with the inclusion in this Composite Document of the texts of their respective letters and references to their names in the form and context in which they are included.

14. GENERAL

(a) The registered office of ZZ Gas is at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC 450006. The principal place of business of ZZ Gas in Hong Kong is at Room 908, 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

(b) The registered office of CR Gas is Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal office of CR Gas in Hong Kong is Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

(c) The share registrar and transfer office of ZZ Gas in Hong Kong is Computershare Hong Kong Investor Services Limited, which is situated at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

(d) The principal place of business of Anglo Chinese is at 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

(e) The principal place of business of First Shanghai is at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

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

(g) The directors of China Resources (Holdings) Company Limited are Mr. Song Lin, Mr. Qiao Shibo, 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.

(h) The directors of China Resources National Corporation are Mr. Song Lin, Mr. Qiao Shibo, 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.

(i) CR Gas does not have any intention to transfer, charge or pledge any ZZ Gas Shares acquired pursuant to the Proposal to any other person.

(j) There is no agreement or arrangement to which CR Gas is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers.

(k) None of the existing directors of ZZ Gas will be given any benefit as compensation for loss of office or otherwise in connection with the Proposal.

(l) There is no agreement or arrangement between any of the directors of ZZ Gas and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal.

(m) There is no agreement or arrangement or understanding (including any compensation arrangement) between CR Gas or any person acting in concert with it (on the one part) and any of the directors, recent directors, shareholders or recent shareholders of ZZ Gas (on the other part) having any connection with or dependence upon the Proposal.

(n) As described in the "Letter From Anglo Chinese", the Proposal is conditional on certain conditions being fulfilled or (to the extent applicable) waived. Any decision in relation to invoking or waiving a condition, to the extent that it can be waived or invoked, may be made by CR Gas. The circumstances in which such a condition can be waived or invoked are set out in the "Letter From Anglo Chinese" on pages 18 to 19 of this Composite Document. Subject to the foregoing, there are no other arrangements or agreements to which CR Gas is a party which relate to the circumstances in which CR Gas may or may not invoke or seek to invoke a condition to the Proposal.

(o) As at the Latest Practicable Date, there was no material contract entered into by CR Gas in which any of the directors of ZZ Gas had a material personal interest.

(p) As at the Latest Practicable Date, there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between CR Gas or any parties acting in concert with it, or any of its associate of any of them, and any other person.

(q) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between ZZ Gas or any of its associate, and any other person.

(r) None of the directors of ZZ Gas has any direct beneficial interest in the ZZ Gas Shares.

(s) The emoluments of the directors of CR Gas will not be affected by the Proposal or by any other associated transactions.

(t) Settlement of the consideration to which any ZZ Gas Shareholder is entitled under the Cash Consideration and the Share Consideration pursuant to the Proposal will be implemented in full in accordance with the terms of Cash Consideration and the Share Consideration, as the case may be, without regard to any lien, right of set-off, counterclaim or other analogous right to which CR Gas may otherwise be, or claim to be, entitled against any such ZZ Gas Shareholders.

(u) The English text of this Composite Document and the forms of acceptance shall prevail over the Chinese text for the purpose of interpretation, in case of any inconsistency.

(v) All time and dates references contained in this Composite Document refer to Hong Kong time and dates.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) 47/F, Jardine House, One Connaught Place, Central, Hong Kong; (ii) the website of ZZ Gas at http://www.hnzzgas.com/; and (iii) the website of the SFC at http://www.sfc.hk from the date of this Composite Document until the Closing Date or the date on which the Proposal is withdrawn or lapses, whichever is earliest:

(a) the Articles of Association;

(b) the memorandum and articles of association of CR Gas;

(c) the annual reports of ZZ Gas for the years ended 31 December 2009 and 2010;

(d) the interim report of ZZ Gas for the six months ended 30 June 2011;

(e) the annual reports of CR Gas for the years ended 31 December 2009 and 2010;

(f) the interim report of CR Gas for the six months ended 30 June 2011;

(g) the letter from the board of CR Gas, the text of which is set out on pages 8 to 12 of this Composite Document;

(h) the letter of advice from Anglo Chinese, the text of which is set out on pages 13 to 23 of this Composite Document;

(i) the letter from the board of ZZ Gas, the text of which is set out on pages 24 to 31 of this Composite Document;

(j) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 32 to 33 of this Composite Document;

(k) the letter of advice from First Shanghai, the text of which is set out on pages 34 to 66 of this Composite Document;

(l) the material contracts referred to in section 11 entitled "Material Contracts" in this Appendix;

(m) the service contracts of the directors of ZZ Gas referred to in section 10 entitled "Directors' Service Contracts" in this Appendix;

(n) the written consents referred to in section 13 entitled "Consents" in this Appendix; and

(o) the letter from The Bank of Tokyo-Mitsubishi UFJ Ltd. confirming the facility agreement in relation to the payment of the Offers.

鄭州華潤燃氣股份有限公司
Zhengzhou China Resources Gas Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3928)

NOTICE OF H SHARE CLASS MEETING

NOTICE IS HEREBY GIVEN that an H share class meeting (the "**H Share Class Meeting**") of ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (鄭州華潤燃氣股份有限公司, the "**Company**") will be held at Meeting Room No. 2, 2/F, 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC on 9 January 2012 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the composite offer and response document of the Company dated 23 November 2011:

AS A SPECIAL RESOLUTION

"**THAT**:

(a) the voluntary withdrawal of the listing of the H Shares from the Stock Exchange, be and is hereby approved; and

(b) any director of the Company be and is hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the voluntary withdrawal."

By Order of the Board
Zhengzhou China Resources Gas Co., Ltd. *
Yan Guoqi
Chairman

Zhengzhou, the PRC
23 November 2011

* *For identification purposes only.*

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

Notes:

i. Any Shareholder who is entitled to attend and vote at the H Share Class Meeting may appoint one or more proxies to attend and vote at the H Share Class Meeting on his or her behalf. A proxy need not be a shareholder of the Company. A form of proxy for use at the H Share Class Meeting is hereby enclosed. In the case of joint holders of an H Share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the H Share Class Meeting either in person or by proxy, the vote of the joint holder whose name appears first in the relevant register of members shall be accepted to the exclusion of the other joint holder(s).

ii. In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority, must be deposited with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the H Share Class Meeting or any adjournment thereof or 24 hours before the time appointed for taking the poll.

iii. The register of holders of H Shares in Hong Kong will be closed from 9 December 2011 to 9 January 2012 (both days inclusive), during which no transfer of shares will be registered. Properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 8 December 2011 for registration, in order for the H Shares to be transferred before the closure of the register of H Shares.

iv. Shareholders whose names appear on the relevant register of members on 9 December 2011 are entitled to attend and vote at the H Share Class Meeting.

v. Shareholders who intend to attend the H Share Class Meeting should complete and deposit or post the enclosed reply slip to the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 19 December 2011.

vi. Shareholders or their proxies shall produce their identity documents when attending the H Share Class Meeting.

vii. The H Share Class Meeting is expected to be held for less than half a day. Shareholders (in person or by proxy) who attend the H Share Class Meeting shall be responsible for their own traveling and accommodation expenses.

viii. Pursuant to Rule 13.39(4) of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll. Therefore, the resolution to be considered at the H Share Class Meeting will be taken by way of poll.

鄭州華潤燃氣股份有限公司
Zhengzhou China Resources Gas Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3928)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of ZHENGZHOU CHINA RESOURCES GAS CO., LTD.* (鄭州華潤燃氣股份有限公司, the "**Company**") will be held at Meeting Room No. 2, 2/F, 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC on 9 January 2012, immediately after the conclusion or adjournment of the H Share Class Meeting to be held at 10:00 a.m. at the same place, for the purposes of considering and, if thought fit, passing the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the composite offer and response document of the Company dated 23 November 2011:

AS SPECIAL RESOLUTIONS

1. "**THAT**:

   (a) the voluntary withdrawal of the listing of the H Shares from the Stock Exchange, be and is hereby approved; and

   (b) any director of the Company be and is hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the voluntary withdrawal."

2. "**THAT**:

   (a) the amendments to the Articles of Association in the form set out in Part B of Appendix IV to the Composite Document be and are hereby approved, which amendments shall come into effect on the day that both of the following conditions are satisfied: (i) the Stock Exchange withdrawing the listing of the H Shares from the Stock Exchange; or (ii) issue by any relevant authority in the PRC of any approval, endorsement or registration required to make the specified amendments of the Articles of Association; and

(b) the board of directors of the Company be and is hereby authorised to deal with on behalf of the Company the relevant approval, registration, filing procedures and other related issues arising from the amendments to the Articles of Association; and the directors of the Company be and are hereby authorised and empowered to make further amendments to the Articles of Association in order to fulfil any request that may be raised or made by the relevant authority in the PRC during the approval, endorsement and/or registration of the amendments of the Articles of Association."

By Order of the Board
Zhengzhou China Resources Gas Co., Ltd. *
Yan Guoqi
Chairman

Zhengzhou, the PRC
23 November 2011

* *For identification purposes only.*

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

Notes:

i. Any ZZ Gas Shareholder who is entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote at the EGM on his or her behalf. A proxy need not be a ZZ Gas Shareholder. A form of proxy for use at the EGM is hereby enclosed. In the case of joint holders of a Domestic Share or H Share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the EGM either in person or by proxy, the vote of the joint holder whose name appears first in the relevant register of members shall be accepted to the exclusion of the other joint holder(s).

ii. In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority, must be deposited:

— in the case of H Shareholders, with the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; or

— in the case of Domestic Shareholders, at the Company's registered address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC 450006,

not less than 24 hours before the time for holding the EGM or any adjournment thereof or 24 hours before the time appointed for taking the poll.

iii. The registers of holders of the Domestic Shares and H Shares in Hong Kong will be closed from 9 December 2011 to 9 January 2012 (both days inclusive), during which no transfer of shares will be registered.

iv. For holders of H Shares, properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 8 December 2011, for registration, in order for the H Shares to be transferred before the closure of the register of H Shares.

v. ZZ Gas Shareholders whose names appear on the relevant register of members on 9 December 2011 are entitled to attend and vote at the EGM.

vi. ZZ Gas Shareholders who intend to attend the EGM should complete and return the enclosed reply slip:

— in the cases of H Shareholders, by deposit with or post to the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; or

— in the cases of Domestic Shareholders, by post or fax to the Company's registered address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC 450006 (fax no.: 86-371-68890488),

on or before 19 December 2011.

vii. ZZ Gas Shareholders or their proxies must produce their identity documents when attending the EGM.

viii. The EGM is expected to be held for less than half a day. ZZ Gas Shareholders (in person or by proxy) who attend the EGM shall be responsible for their own traveling and accommodation expenses.

ix. Pursuant to Rule 13.39(4) of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions to be considered at the EGM will be taken by way of poll.