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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or otherwise transferred** all your shares in China Resources Gas Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank manager, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of China Resources Gas Group Limited.

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### **華潤燃氣控股有限公司** **China Resources Gas Group Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**

## **(1) DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING ISSUE OF CONSIDERATION SHARES AND (2) PROPOSED REFRESHMENT OF GENERAL MANDATE**

### **Joint Financial Advisers**



**Independent Financial Adviser  
to the Independent Board Committee  
and the Independent Shareholders**



**CIMB Securities (HK) Limited**

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A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee is set out on pages 20 to 21 of this circular and a letter from CIMB, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 35 of this circular.

A notice convening the special general meeting of China Resources Gas Group Limited to be held at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Monday, 25 October, 2010 at 4:15 p.m. is set out on pages 43 to 45 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular.

Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event by no later than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

6 October 2010

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## DEFINITIONS

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*In this circular, the following expressions shall have the following meanings unless the context otherwise requires:*

“Acquisition”	:	the acquisition of the Sale Shares by the Company from Powerfaith pursuant to the terms and conditions under the Sale and Purchase Agreement;
“AGM”	:	the annual general meeting of the Company held on 31 May 2010;
“Associates”	:	shall have the meaning ascribed to it in the Listing Rules;
“Board”	:	the board of Directors;
“Business Day”	:	a day (excluding a Saturday or Sunday) on which licensed banks in Hong Kong are generally open for business;
“BVI”	:	the British Virgin Islands;
“China Resources Holdings”	:	China Resources (Holdings) Company Limited, the substantial and controlling shareholder of the Company holding approximately 64.46% of its issued share capital as at the Latest Practicable Date, or, where the context requires, the relevant subsidiary or subsidiaries thereof;
“China Resources Holdings Group”	:	China Resources Holdings and its subsidiaries, excluding, for the purpose of this circular, the CR Gas Group, the Top Steed Group and the Target Group;
“CIMB” or “Independent Financial Adviser”	:	CIMB Securities (HK) Limited, a corporation licensed to carry out business in types 1, 4 and 6 regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate;
“CNG”	:	compressed natural gas;
“Company”	:	China Resources Gas Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“Completion”	:	the completion of the sale and purchase of the Sale Shares;
“Completion Date”	:	the day on which Completion takes place in accordance with the provisions of the Sale and Purchase Agreement;
“Consideration”	:	HK\$2,000 million;

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## DEFINITIONS

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“Consideration Shares”	:	186,654,223 Shares, representing approximately 11.35% of the existing issued share capital of the Company as at the Latest Practicable Date and expected to represent approximately 10.19% of the enlarged issued share capital of the Company on Completion and having a total cash value equivalent to the Consideration based on a value of HK\$10.715 per Share;
“controlling shareholder”	:	shall have the meaning ascribed to that term in the Listing Rules;
“CR Gas”	:	China Resources Gas Limited, a company incorporated in the BVI with limited liability, which was acquired by the Company on 30 October 2008 and a wholly-owned subsidiary of the Company;
“CR Gas Group”	:	CR Gas, its subsidiaries and its jointly-controlled entities;
“CR Gas Holdings”	:	China Resources Gas (Holdings) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of China Resources Holdings;
“Current General Mandate”	:	the general mandate granted to the Directors at the AGM to allot, issue and deal with additional Shares not exceeding 20% of the then issued share capital of the Company as at the date of the AGM;
“Deed of Indemnity”	:	the deed of indemnity to be entered into among Powerfaith, the Company and CR Gas Holdings on Completion in relation to the tax liabilities of the Target Group prior to Completion and other liabilities as specified therein;
“Director(s)”	:	the director(s) of the Company;
“Encumbrances”	:	rights of pre-emption, options, liens, claims, equities, charges, mortgages, pledges, third-party rights or interests of any nature;
“Enlarged Group”	:	the Group and the Target Group and for the purposes of Appendix, references to “Enlarged Group” shall be construed to include the Group, Mega Fair and its subsidiaries only;
“Group”	:	the Company and its subsidiaries;
“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China;

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## DEFINITIONS

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- “Independent Board Committee” : an independent board committee of the Company constituted to consider the terms of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement, the grant of New General Mandate and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolutions regarding the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of New General Mandate. Mr. Wong Tak Shing, Mr. Luk Chi Cheong and Ms. Yu Jian have been appointed by the Board to serve as members of the Independent Board Committee;
- “Independent Shareholders” : Shareholders other than the controlling shareholder of the Company, namely China Resources Holdings and its Associates;
- “Latest Practicable Date” : 4 October 2010, being the latest practicable date before the printing of this circular for ascertaining certain information contained herein;
- “Listing Rules” : the Rules Governing the Listing of Securities on the Stock Exchange;
- “LPG” : liquefied petroleum gas;
- “Mega Fair” : Mega Fair Limited, a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of China Resources Holdings;
- “New General Mandate” : the refreshment of the general mandate proposed to be granted to the Directors at the SGM to allot, issue and deal with additional Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the ordinary resolution;
- “Parties” : the parties to the Sale and Purchase Agreement, namely, the Company, Powerfaith and CR Gas Holdings;
- “Powerfaith” or “Vendor” : Powerfaith Enterprises Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of China Resources Holdings;
- “PRC” or “China” : the People’s Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau and Taiwan;

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## DEFINITIONS

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- “Pre-Acquisition Reorganisation” : the reorganisation undertaken by the China Resources Holdings Group, under which Mega Fair acquired from China Resources Holdings Group its economic interests in members of the Target Group to form the Target Group;
- “Sale and Purchase Agreement” : the Sale and Purchase Agreement entered into among the Company, Powerfaith and CR Gas Holdings dated 13 September 2010 in relation to the Acquisition;
- “Sale Shares” : 2 ordinary shares of par value of US\$1.00 each in the share capital of Mega Fair, representing the entire issued share capital of Mega Fair as at the Latest Practicable Date and such additional shares as may be issued by Mega Fair to Powerfaith prior to Completion;
- “SFO” : the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
- “SGM” : the special general meeting of the Company to be held on 25 October 2010 for the Shareholders to consider and approve (among other things), if thought fit, the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate;
- “Share(s)” : the ordinary share(s) of HK\$0.10 each in the share capital of the Company which are listed and traded on the main board of the Stock Exchange;
- “Shareholder(s)” : person(s) whose name(s) appear on the register of members of the Company as registered holder(s) of Share(s);
- “Splendid Time” : Splendid Time Investments Inc., a company incorporated in the BVI with limited liability, the substantial and controlling shareholder of the Company holding approximately 64.46% of its issued share capital as at the Latest Practicable Date;
- “Stock Exchange” : The Stock Exchange of Hong Kong Limited;
- “Subscription Shares” : 230,000,000 new Shares allotted and issued by the Company to Splendid Time in accordance with the Top Up Placing Agreement;
- “subsidiary” : shall have the meaning ascribed to that term in the Listing Rules;

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## DEFINITIONS

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“substantial shareholder”	:	shall have the meaning ascribed to that term in the Listing Rules;
“Takeovers Code”	:	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time;
“Target Group”	:	Mega Fair, its subsidiaries and jointly-controlled entities or associated companies;
“Top Steed”	:	Top Steed Limited, a company incorporated in the BVI with limited liability, which was acquired by the Company on 19 October 2009 and a wholly owned subsidiary of the Company;
“Top Steed Group”	:	Top Steed, its subsidiaries and its jointly-controlled entities or associated companies;
“Top Up Placing”	:	the placing of a total of 230,000,000 Shares owned by Splendid Time through Credit Suisse (Hong Kong) Limited as the placing agent and the conditional agreement of Splendid Time to subscribe for the Subscription Shares on the terms and subject to the conditions as set out in the Top Up Placing Agreement;
“Top Up Placing Agreement”	:	the placing, underwriting and subscription agreement entered into among the Company, Splendid Time and Credit Suisse (Hong Kong) Limited dated 14 September 2010 in connection with the Top Up Placing;
“Top Up Placing Announcement”	:	the announcement published by the Company on 14 September 2010 with respect to the Top Up Placing and among others, the allotment and issue of the Subscription Shares;
“Trading Day”	:	the day on which the Shares are traded on the Stock Exchange;
“HK\$”	:	Hong Kong dollar(s), the lawful currency of Hong Kong;
“RMB”	:	Renminbi, the lawful currency of the PRC;
“US\$”	:	the United States dollars, the lawful currency of the United States of America; and
“%”	:	per cent.

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## LETTER FROM THE BOARD

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# 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 (Managing Director)

ONG Thiam Kin (Chief Financial Officer and Company Secretary)

*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 HM 12

Bermuda

*Principal Place of Business*

*in Hong Kong:*

Room 1901-05

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

6 October 2010

*To the Shareholders*

Dear Sir and Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING ISSUE OF CONSIDERATION SHARES  
AND  
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE**

**I. INTRODUCTION**

The Company has, by announcements dated 13 September 2010 and 14 September 2010, announced that it has entered into the Sale and Purchase Agreement to conditionally agree to acquire the entire issued share capital of Mega Fair, an indirect wholly-owned subsidiary of China Resources Holdings, for a consideration of HK\$2,000 million.

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. Since China Resources Holdings is the controlling shareholder of the Company, holding approximately 64.46% of its issued share capital, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5%, the Acquisition, the Sale and Purchase Agreement and the allotment and issue of the Consideration Shares to Powerfaith or its nominee are therefore subject to reporting, announcement and the approval of the Independent Shareholders at the SGM as required under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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The Company has also, pursuant to the Top Up Placing Announcement, announced that it has entered into the Top Up Placing Agreement pursuant to which Splendid Time shall undertake the Top Up Placing. The Acquisition was conditional upon, among others, the completion of the Top Up Placing.

The Top Up Placing was completed on 17 September 2010 whereupon the Subscription Shares were allotted and issued to Splendid Time pursuant to the Current General Mandate granted to the Directors at the AGM. As a result, the Current General Mandate has been partially utilized. In the circumstances and in order to provide the Company with flexibility to fund future investments or project developments when opportunities are identified, the Directors propose to convene a SGM for the Shareholders to consider and, if thought fit, pass a resolution to grant the New General Mandate.

The purpose of this circular is:

- (i) to provide Shareholders with further details of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate;
- (ii) to set out the recommendations of the Independent Board Committee to the Independent Shareholders on the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of New General Mandate;
- (iii) to set out the recommendations of the Company's independent financial adviser, CIMB, to the Independent Board Committee and the Independent Shareholders; and
- (iv) to give notice of the SGM.

## II. THE ACQUISITION

### A. THE SALE AND PURCHASE AGREEMENT

#### Date

13 September 2010

#### Parties to the Sale and Purchase Agreement

- (i) the Company;
- (ii) Powerfaith; and
- (iii) CR Gas Holdings

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## LETTER FROM THE BOARD

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### Sale Shares

Subject to the terms and conditions of the Sale and Purchase Agreement, Powerfaith shall sell as legal and beneficial owner and the Company shall purchase the Sale Shares with effect from Completion free from all Encumbrances and together with all rights and title to and interests in the Sale Shares (including the right to receive all dividends and distributions declared, made or paid on or after the Completion Date).

In consideration of the Company entering into the Sale and Purchase Agreement, CR Gas Holdings unconditionally and irrevocably guarantees as a primary obligor, the due and punctual performance by Powerfaith of all its obligations and punctual discharge by Powerfaith of all its liabilities to the Company under the Sale and Purchase Agreement.

### Conditions Precedent

Completion of the Acquisition is subject to the satisfaction of the following conditions precedent:

- (i) the Independent Shareholders having approved by way of poll at a duly convened SGM, the transactions contemplated under the Sale and Purchase Agreement including but not limited to the Acquisition, the allotment and issue of the Consideration Shares to Powerfaith (or as it may direct), and, to the extent applicable, the transactions arising out of the Sale and Purchase Agreement and in pursuance of the Sale Shares (and for the avoidance of doubt, excluding, to the extent applicable, any continuing connected transactions (as defined in the Listing Rules) arising between the Company and Powerfaith or their respective associates arising as a direct result of Completion which require approval of the Independent Shareholders and matters ancillary thereto);
- (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares to be allotted and issued to Powerfaith (or as it may direct) hereunder, either unconditionally or subject only to conditions to which Powerfaith and the Company have no reasonable objection; and
- (iii) the completion of the Top Up Placing in accordance with the terms of the Top Up Placing Agreement in compliance with the Listing Rules.

The conditions above shall not be waived in any event. Condition (iii) has already been fulfilled. If conditions (i) and (ii) are not fulfilled on or before 31 March 2011 (or such later date as agreed between the parties), the Sale and Purchase Agreement and the transactions contemplated thereunder shall be terminated. Completion shall take place on or before the second Business Day (or such other date as Powerfaith and the Company may agree) after the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled in accordance with the Sale and Purchase Agreement.

Pursuant to the terms of the Sales and Purchase Agreement, the Parties agreed that any dividend declared by the Target Group before Completion shall belong to the Vendor.

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## LETTER FROM THE BOARD

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### Consideration

The Consideration payable by the Company for the Acquisition is HK\$2,000 million. The Consideration shall be satisfied in full by the allotment and issue on the Completion Date of the 186,654,223 Consideration Shares to Powerfaith (or as it may direct) credited as fully paid up, ranking pari passu in all respects with all the then issued Shares and free from all Encumbrances and together with all rights attached or accruing thereto on or after the Completion Date. The Consideration Shares will be issued at a price equivalent to the net placing price under the Top Up Placing.

The Consideration has been arrived at after arm's length negotiations between Powerfaith and the Company after taking into account various relevant factors including the strategic rationale behind the transactions contemplated, the nature of the relevant businesses, the historical financial information, combined net asset value and future prospects of the relevant industries including general economic trends and market growth and the prevailing commercial and business conditions in which Mega Fair operates.

China Resources Holdings had originally acquired the assets comprising the Target Group for a total consideration of HK\$ 1,169 million during the period from 2007 to 2009. The net asset value of Mega Fair as shown in the unaudited combined balance sheet attributable to the Target Group as at 31 December 2009 and 30 June 2010 are approximately HK\$869 million and HK\$1,472 million respectively.

### Consideration Shares

On Completion, the Consideration Shares, having a total cash value of HK\$2,000 million, will be allotted and issued to Powerfaith (or as it may direct). The Consideration Shares will be issued at HK\$10.715 per Share (being the net placing price per Share under the Top Up Placing), which represents:

- (a) a discount of approximately 6.17% to HK\$11.42, being the closing price of the Shares as at the Latest Practicable Date, as quoted on the Stock Exchange;
- (b) a discount of approximately 5.51% from HK\$11.34, being the closing price of the Shares on 13 September 2010, the date of the Sale and Purchase Agreement; and
- (c) a discount of approximately 4.53% from HK\$11.224, being the average closing price of the Shares for the last 5 consecutive Trading Days prior to and including the date of the Sale and Purchase Agreement.

Given that the Acquisition constitutes a connected transaction of the Company of which Independent Shareholders' approval is required and given that the Current General Mandate has been partially utilized for the purposes of issuing the Subscription Shares, specific approval of the Independent Shareholders will be sought for the allotment and issue of the Consideration Shares. An application has been made to the Listing Committee of the Stock Exchange for the granting of listing of and permission to deal in the Consideration Shares.

## LETTER FROM THE BOARD

The following table sets out the simplified shareholding of the Company as at the date of the Sale and Purchase Agreement, the Latest Practicable Date (after the Top Up Placing) and immediately upon Completion:

Shareholders	No. of Shares as at the date of the Sale and Purchase Agreement	Shareholding percentage as at the date of the Sale and Purchase Agreement	No. of Shares as at the Latest Practicable Date <i>(Note 1)</i>	Shareholding percentage as at the Latest Practicable Date	No. of Shares immediately upon Completion	Shareholding percentage immediately upon Completion <i>(Note 2)</i>
China Resources Holdings	1,060,001,983	74.94%	1,060,001,983 <i>(Note 3)</i>	64.46%	1,246,656,206 <i>(Note 4)</i>	68.08%
The Directors <i>(Note 5)</i>	244,000	0.02%	334,000	0.02%	334,000	0.02%
Public	<u>354,194,727</u>	<u>25.04%</u>	<u>584,104,727</u>	<u>35.52%</u>	<u>584,104,727</u>	<u>31.90%</u>
<b>Total</b>	<b><u>1,414,440,710</u></b>	<b><u>100.00%</u></b>	<b><u>1,644,440,710</u></b>	<b><u>100.00%</u></b>	<b><u>1,831,094,933</u></b>	<b><u>100.00%</u></b>

*Notes:*

- (1) Assuming there is no acquisition and/or disposal of Shares and assuming there is no exercise of share options from the Latest Practicable Date up to the date of Completion.
- (2) As of the Latest Practicable Date, a total of 188,000 share options are outstanding. Assuming full exercise of such options on or before the date of Completion, China Resources Holdings, the Directors and the public will hold approximately 64.45%, 0.02% and 35.53% of the then enlarged issued share capital of the Company. Other than the said options, there are no outstanding securities issued by the Company as of the Latest Practicable Date which are convertible into Shares.
- (3) The interest of China Resources Holdings in the Company as at the Latest Practicable Date before Completion represents its indirect interest held through Splendid Time and Commotra Company Limited. China Resources Holdings is a wholly-owned subsidiary of CRC Bluesky Limited. CRC Bluesky Limited is a wholly-owned subsidiary of China Resources Co., Limited which in turn is 99.98% owned by China Resources National Corp.
- (4) Powerfaith is a wholly owned subsidiary of China Resources Holdings. Specific approval of the Independent Shareholders will be sought for the allotment and issue of the Consideration Shares.
- (5) The Directors comprise Mr. Wang Chuandong, Mr. Ong Thiam Kin, Mr. Du Wenmin and Mr. Wong Tak Shing. Such Directors who are also Shareholders will be entitled to vote at the SGM on the basis that neither any of them nor any of their respective Associates is a party to the Sale and Purchase Agreement or any other transactions subject to approval of the Independent Shareholders at the SGM.

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## LETTER FROM THE BOARD

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### **Profit Guarantee**

Pursuant to the Sale and Purchase Agreement, Powerfaith has guaranteed to the Company that the combined profit after taxation of members of the Target Group attributable to Mega Fair for the financial year ending 31 December 2010 assuming the Pre-Acquisition Reorganisation had completed since 1 January 2010 will not be less than HK\$100 million. In the event that such combined profit after taxation is less than the guaranteed level or Mega Fair has a combined loss after taxation for such period, Powerfaith will compensate the Company an amount equal to the difference between the guaranteed amount of HK\$100 million and the combined profit or loss after taxation of Mega Fair for the period commencing from 1 January and ending 31 December 2010 multiplied by 20 and in any event, the compensation payable by Powerfaith to the Company will not exceed the difference between the Consideration and the combined net asset value of Mega Fair as at 30 June, 2010. As part of the commercial negotiation between Powerfaith and the Company, Powerfaith was willing to provide a profit guarantee for the year ending 31 December 2010 to the Company. The accounts of Mega Fair for the year ending 31 December 2010 shall be prepared on the basis as if the Pre-Acquisition Reorganisation where all members of the Target Group were transferred to Mega Fair (to be held directly or indirectly held) had completed as of 1 January 2010 and excluding the effect of any acquisition or disposal by Mega Fair of any assets or businesses and the conduct by Mega Fair of any other business activities which are not conducted in the ordinary course of business of the Company within the year ending 31 December, 2010.

As part of the calculation of compensation, a measurable and verifiable parameter needs to be used and it was concluded that the combined profit and loss after tax of Mega Fair is the most appropriate parameter for the purposes of calculating compensation. 20 times is the implied multiple of the combined profit or loss after tax of Mega Fair calculated using a total consideration of HK\$2,000 million.

In the event that the Company claims against Powerfaith pursuant to the above profit guarantee, a further announcement will be made by the Company (including details of the shortfall and adjustment, if any, of the Consideration). Details of the compensation (if any) will be included in the subsequent annual report of the Company which will also contain opinions from the independent non-executive Directors as to whether Powerfaith has fulfilled its obligations under the profit guarantee.

### **Deed of Indemnity**

On Completion, the Company, Powerfaith and CR Gas Holdings will enter into the Deed of Indemnity. Subject to certain limitations as stated in the Deed of Indemnity, Powerfaith undertakes to the Company to indemnify and keep indemnified the Company from and against any tax liabilities in relation to the business activities of the Target Group prior to Completion. CR Gas Holdings undertakes to guarantee the due and punctual performance of Powerfaith's obligation under the Deed of Indemnity.

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## LETTER FROM THE BOARD

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### **B. REASONS FOR AND BENEFITS OF THE ACQUISITION**

On 21 August 2008 and 8 September 2009, the Company announced its acquisition of CR Gas Group and Top Steed Group respectively, with the intention to expand into the city gas distribution business in China (in particular, in the cities of Chengdu, Huaibei, Nanjing, Wuxi, Suzhou, Fuyang, Linhai, Zibo, Yangquan, Xiangfan, Zhenjiang, Yicheng, Qianjiang and Datong) and capturing the increase in demand for natural gas in China. The said acquisitions have provided stable cash flow income as well as a platform for higher growth potential to the Company. Leveraging the Company's current presence in the gas industry in China and China Resources Holdings Group's strong presence and brand name in China, the Board believes that the transaction is a step forward in further expanding its market share in the down stream gas industry and strengthening its customer and earning base into different regions in China. Upon Completion, the Board believes that the Company, being one of the leading pan-China gas distributors, will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China.

The Directors (excluding the independent non-executive Directors whose opinion is set out on pages 20 to 21 of this Circular) consider that the terms of the Acquisition, the Sale and Purchase Agreement and the allotment and issue of the Consideration Shares are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

## LETTER FROM THE BOARD

### C. INFORMATION ON MEGA FAIR

Mega Fair, a wholly-owned subsidiary of China Resources Holdings, is a holding company. The Target Group currently operates a portfolio of city gas distribution businesses including natural gas pipelines, natural gas facilities repair and maintenance and bottled LPG distribution. Its natural gas distribution operations are strategically located in the cities of Xiamen, Ningbo, Qidong, Gucheng, Tengzhou, Shifang, Kunshan, Jining and Suining. Certain operational data of the Target Group as at 30 June 2010 (as disclosed in the 2010 interim report of the Company) is set out below:

	Province	Year of Founding	% Owned	Type of Gas	Population (mm)	Connected Households	Installed Capacity (m <sup>3</sup> /day)	Gas Sales Volume (000'm <sup>3</sup> )	Residential (%)	Non-residential (%)	Gas Stations (%)	Bottled (%)	No. of Gas Stations
Xiamen	Fujian	2007	49.0	Piped natural and/or other gas, bottled LPG, LPG stations	1.8	276,138	457,000	50,611	16.1%	39.8%	10.8%	33.3%	2
Jining	Shandong	2007	51.0	Piped natural gas, CNG station	8.3	170,623	110,750	39,910	19.8%	74.8%	5.4%	—	1
Suining	Sichuan	1993	50.0	Piped natural gas, CNG stations	3.9	131,962	58,000	39,083	50.5%	25.9%	23.6%	—	4
Tengzhou	Shandong	2008	70.0	Piped natural and/or other gas, CNG stations	1.7	71,453	150,000	30,263	12.6%	79.1%	8.3%	—	2
Shifang	Sichuan	2008	51.0	Piped natural gas, CNG stations	0.4	33,147	90,000	29,884	16.8%	66.8%	16.4%	—	2
Kunshan	Jiangsu	2001	49.9	Piped natural gas	0.7	73,927	451,000	18,508	38.4%	61.6%	—	—	—
Qidong	Jiangsu	2007	100.0	Piped natural and/or other gas, CNG stations	1.1	41,146	80,000	6,286	37.3%	62.7%	—	—	—
Gucheng	Hubei	2004	100.0	Piped natural gas	0.6	394	13,000	2,268	0.5%	99.5%	—	—	—
Hangzhou-wan	Zhejiang	2009	100.0	Piped natural gas	5.7	—	32,280	602	—	100.0%	—	—	—
			Total 9 projects		24.2	798,790	1,442,030	217,415	24.9%	56.2%	11.2%	7.7%	11





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## LETTER FROM THE BOARD

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### Financial information of Mega Fair

No audited account of Mega Fair is available since Mega Fair is not required to prepare the same in the place of its incorporation in the BVI. For the purposes of this circular, the unaudited financial information of Mega Fair for the two years ended 31 December 2009 and six months ended 30 June 2010 are as follows:-

	For the year ended 31 December 2008 <i>HK\$ million</i>	For the year ended 31 December 2009 <i>HK\$ million</i>	For six months ended 30 June 2010 <i>HK\$ million</i>
Unaudited combined profit before taxation and minority interests ( <i>Note 1</i> )	38.5	75.9	74.3
Unaudited combined profit after taxation and minority interests ( <i>Note 1</i> )	27.1	72.3	51.2
Unaudited consolidated profit before taxation and minority interests ( <i>Note 2</i> )	10.1	34.6	74.3
Unaudited consolidated profit after taxation and minority interests ( <i>Note 2</i> )	3.9	24.0	51.2

*Notes:*

1. Assuming the Pre-Acquisition Reorganisation had completed since 1 January 2008 for all members in the Target Group.
2. Assuming the Pre-Acquisition Reorganisation had completed since 1 January 2008 for all subsidiaries of the Target Group but excludes any jointly-controlled entities or associated companies.

### D. NATURE OF BUSINESSES OF THE COMPANY, POWERFAITH AND CHINA RESOURCES HOLDINGS

The Company is a limited liability company incorporated in Bermuda and its shares have been listed on the Stock Exchange since 7 November 1994. The Company is an investment holding company which through its subsidiaries in the PRC, currently operates 32 city gas distribution projects in 11 provinces and 1 municipality in China including natural or petroleum gas pipelines, CNG filling stations and bottled LPG distribution.

Powerfaith is a wholly-owned subsidiary of China Resources Holdings and is an investment holding company with investments in gas projects in various parts of China, including investments in the Target Group.

China Resources Holdings is the substantial and controlling shareholder of the Company and its principal business is investment holding. CR Gas Holdings is a wholly-owned subsidiary of China Resources Holdings and its principal business is investment holding.

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## LETTER FROM THE BOARD

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### III. PROPOSED REFRESHMENT OF GENERAL MANDATE

At the AGM, the Shareholders approved, among other things, an ordinary resolution to grant the Current General Mandate which authorized the Directors to exercise the powers of the Company to allot, issue or otherwise deal with up to 282,884,542 new Shares, being 20% of the entire issued share capital of the Company as at 31 May 2010. There has not been any refreshment of the Current General Mandate since the AGM.

As at the Latest Practicable Date, the Current General Mandate had been partially utilized and an aggregate of 230,000,000 Subscription Shares has been issued under the Current General Mandate to Splendid Time at a price of HK\$10.75 per Share pursuant to the Top Up Placing Agreement. As stated in the Top Up Placing Announcement, the net proceeds from the Subscription were estimated to be approximately HK\$2,461 million, net of professional fees and ancillary expenses. The Company intends to use the net proceeds from the Subscription principally for acquisition of more downstream city gas distribution businesses in the PRC. As at the Latest Practicable Date, the said net proceeds had not yet been utilized.

The Directors (excluding the independent non-executive Directors whose opinion is set out on pages 20 to 21 of this Circular) believe that the grant of the New General Mandate will provide the Company with flexibility to fund future investments or project developments when opportunities are identified and the grant of the New General Mandate is fair and reasonable and in the interests of the Company as a whole. At present, there are no concrete proposals identified by the Company.

As at the Latest Practicable Date, there were an aggregate of 1,644,440,710 Shares in issue. Subject to the passing of the ordinary resolution for the grant of the New General Mandate authorizing the Directors to allot and issue securities up to 20% of the Shares then in issue on the date of the SGM and on the basis that no further Shares are issued or repurchased by the Company between the Latest Practicable Date and the date of the SGM, the Company would be allowed to issue up to a maximum of 328,888,142 Shares under the New General Mandate (excluding the Consideration Shares).

### IV. LISTING RULES IMPLICATIONS

#### A. THE ACQUISITION

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. Since China Resources Holdings is the controlling shareholder of the Company, holding approximately 64.46% of its issued share capital, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5%, the Acquisition, the Sale and Purchase Agreement and the allotment and issue of the Consideration Shares to Powerfaith (or as it may direct) are therefore subject to reporting, announcement and the approval of the Independent Shareholders at the SGM as required under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### **B. THE GRANT OF THE NEW GENERAL MANDATE**

Pursuant to Rule 13.36(4) of the Listing Rules, the grant of the New General Mandate before the next annual general meeting shall be subject to the approval by the Independent Shareholders.

### **V. THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee has been constituted to consider the terms of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate, and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolutions regarding the Acquisition (including the terms of the Sale and Purchase Agreement and the allotment and issue of the Consideration Shares) and the grant of New General Mandate. Mr. Wong Tak Shing, Mr. Luk Chi Cheong and Ms. Yu Jian have been appointed by the Board to serve as members of the Independent Board Committee. No member of the Independent Board Committee has any material interest in the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement.

CIMB has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Acquisition (including the terms of the Sale and Purchase Agreement and the allotment and issue of the Consideration Shares) and the grant of New General Mandate. A letter from CIMB, the Independent Financial Adviser is set out on pages 22 to 35 of this circular.

### **VI. SGM**

The SGM will be held on Monday, 25 October 2010 at 4:15 p.m. at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during which resolutions will be proposed to seek the Independent Shareholders' approval of, amongst other things, the Acquisition and the allotment and issue of the Consideration Shares as contemplated in the Sale and Purchase Agreement and the grant of the New General Mandate.

China Resources Holdings, being the controlling shareholder of the Company and its Associates, holding an aggregate of 1,060,001,983 Shares in the Company (approximately 64.46% of its issued share capital) as at the Latest Practicable Date, will abstain from voting in favour of the proposed resolutions to approve the Acquisition and the allotment and issue of the Consideration Shares as contemplated in the Sale and Purchase Agreement and the grant of the New General Mandate at the SGM.

None of the Directors has any material interest in the Acquisition and the allotment and issue of the Consideration Shares as contemplated in the Sale and Purchase Agreement and none of them will be required to abstain from voting in favour of the relevant proposed resolutions.

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## LETTER FROM THE BOARD

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### Voting by way of poll

Pursuant to rule 13.39(4) of the Listing Rules, all votes of the Shareholders at a general meeting must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote at the SGM pursuant to bye-law 78 of the bye-laws of the Company and the Company will announce the results of the poll in the manner prescribed under rule 13.39(5) of the Listing Rules.

A notice convening the SGM is set out on pages 43 to 45 of this circular. The ordinary resolutions in respect of the Acquisition and the allotment and issue of the Consideration Shares (as contemplated in the Sale and Purchase Agreement) and the grant of the New General Mandate will be proposed at the SGM.

A form of proxy for use by the Shareholders at the SGM is enclosed. Shareholders are advised to read the notice and to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

### VII. RECOMMENDATION

The Directors (excluding the independent non-executive Directors whose opinion is set out on pages 20 to 21 of this Circular) consider that the terms of the Acquisition and the allotment and issue of the Consideration Shares (as contemplated in the Sale and Purchase Agreement) and the grant of the New General Mandate are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

Your attention is drawn to the recommendations of the Independent Board Committee as set out on pages 20 to 21 of this Circular and the letter from CIMB, the Independent Financial Adviser as set out on pages 22 to 35 of this Circular.

### VIII. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this Circular.

Your faithfully,  
For and on behalf of  
**China Resources Gas Group Limited**  
**Ma Guoan**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**華潤燃氣控股有限公司**  
**China Resources Gas Group Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**

*Independent Board Committee:*

Mr. Wong Tak Shing

Mr. Luk Chi Cheong

Ms. Yu Jian

6 October 2010

*To the Independent Shareholders*

Dear Sir and Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING ISSUE OF CONSIDERATION SHARES  
AND  
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE**

We refer to the circular (the “Circular”) dated 6 October 2010 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate, details of which are described in the letter from the Board as set out in the Circular.

We also draw your attention to the advice of CIMB, the independent financial adviser appointed in respect of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate as set out on pages 22 to 35 to the Circular.

As your Independent Board Committee, we have discussed with the management of the Company (1) the reasons for entering into the Sale and Purchase Agreement, and the allotment and issue of the Consideration Shares and the basis upon which its terms have been determined; and (2) the reasons for the grant of the New General Mandate as described in the letter from the Board as set out in the

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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circular. We have also considered the key factors taken into account by CIMB in arriving at its opinion regarding the terms of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of New General Mandate as set out in the letter from CIMB in the Circular, which we urge you to read carefully.

Having taken into account, amongst other things, the advice of CIMB, the independent financial adviser to the Company, we consider that the terms of the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate as described in the letter from the Board as set out in the Circular are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate.

Yours faithfully,

Independent Board Committee

**Mr. Wong Tak Shing**

**Mr. Luk Chi Cheong**

**Ms. Yu Jian**

*Independent Non-Executive Directors*

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**CIMB Securities (HK) Limited**

25/F., Central Tower  
28 Queen's Road Central  
Hong Kong

6 October 2010

*To the Independent Board Committee and  
the Independent Shareholders of China Resources Gas Group Limited*

Dear Sirs,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING ISSUE OF CONSIDERATION SHARES  
AND  
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement and the grant of the New General Mandate, details of which are contained in a circular (the "Circular") to the Shareholders dated 6 October 2010, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An Independent Board Committee comprising Mr. Wong Tak Shing, Mr. Luk Chi Cheong, and Ms. Yu Jian, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders of the Company in relation to the Acquisition, the allotment and issue of the Consideration Shares and the grant of the New General Mandate. Any vote of the Independent Shareholders at the SGM shall be taken by poll. China Resources Holdings and its Associates will abstain from voting in relation to the resolutions to be proposed to approve the Acquisition, the allotment and issue of the Consideration Shares and the grant of the New General Mandate.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and senior management of the Company. The directors of the Company have declared in a responsibility statement set out in the Appendix to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the Target Group or any of their respective subsidiaries or associates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Sale and Purchase Agreement and the allotment and issue of the Consideration Shares, we have considered the following principal factors and reasons:

#### (A) Background and rationale

On 13 September, 2010, the Company entered into the Sale and Purchase Agreement to agree conditionally to acquire the entire issued share capital of Mega Fair, an indirectly wholly-owned subsidiary of China Resources Holdings.

##### 1. *Rationale for the Acquisition and the allotment and issue of the Consideration Shares*

On 21 August, 2008 and 8 September, 2009, the Company announced its acquisitions of CR Gas Group and Top Steed Group respectively, with the intention to expand into the city gas distribution business in China (in particular, in the cities of Chengdu, Huaibei, Nanjing, Wuxi, Suzhou, Fuyang, Linhai, Zibo, Yangquan, Xiangfan, Zhenjiang, Yicheng, Qianjiang and Datong) and capturing the increase in demand for natural gas in China. The said acquisitions have provided stable cash flow income as well as a platform for higher growth potential to the Company. Leveraging the Company's current presence in the gas industry in China and China Resources Holdings Group's strong presence and brand name in China, the Board believes that the transaction is a step forward in further expanding its market share in the down stream gas industry and strengthening its customer and earning base into different regions in China. Upon Completion, the Board believes that the Company, being one of the leading pan-China gas distributors, will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China. The operational data of the Target Group is set out on page 13 of the Circular.

##### 2. *The Target Group*

Mega Fair, a wholly-owned subsidiary of China Resources Holdings, is a holding company. The Target Group currently operates a portfolio of city gas distribution businesses including natural gas pipelines, natural gas facilities repair and maintenance and bottled LPG distribution. Its natural gas distribution operations are strategically located in the cities of Xiamen, Ningbo, Qidong, Gucheng, Tengzhou, Shifang, Kunshan, Jining and Suining.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The China Resources Holdings Group, in order to cater for the Acquisition, underwent the Pre-Acquisition Reorganisation pursuant to which Mega Fair has acquired from the China Resources Holdings Group its economic interests in members of the Target Group to form the Target Group. The corporate charts before and after the Pre-Acquisition Reorganisation are set out on pages 14 to 15 of the Circular.

### 3. *Industry overview of the natural gas industry*

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

The continued economic growth and the rapid industrialisation and urbanisation in China have spiked the demand for energy in China. In order to reduce reliance on polluting energy sources such as coal and crude oil, the PRC government has, in recent years, taken many steps to promote the development and utilisation of less polluting energy sources. On 26 November 2009, China officially announced a target for limiting greenhouse gas emissions, i.e. to cut carbon dioxide emissions per unit of GDP by 40-45% by 2020 from the 2005 level. This target will be incorporated into the country's 12th Five-Year Plan and form a mid-to-long-term planning for the country's domestic economy and social development. Natural gas is a clean, highly efficient energy well suited to become a prime energy source for densely-populated cities. At the same time, it can also substitute for more polluting coal and fuel oil usage, thus serving as a clean energy source for the industrial sector.

The percentage of energy consumption from natural gas in the PRC is very low compared to international levels. We note that according to BP Statistical Review of World Energy June 2010, for 2009, natural gas only accounted for 3.67% of China's total primary energy consumption, which is lower than the Asia Pacific region's consumption of 10.78% and far lower than the world's consumption of 23.76%. In addition, we note that the consumption of natural gas in the PRC in 2009 increased to 79.8 million tonnes oil equivalent, representing an increase of approximately 9.0% as compared with that in 2008.

We have also reviewed information from the China Statistical Year Book 2009 published by the National Bureau of Statistics of China (the "NBSC") in respect of energy consumption for households in the PRC. Based on our review, we note that the annual consumption of natural gas for households in the PRC increased to 13.3 billion cubic metres in 2007, representing a compound annual growth rate of approximately 22.6% for the period from 2000 to 2007.

Under the PRC's 11th Five-Year Plan (2006-10), the Energy Development Plan forecasts that the proportion of natural gas in total primary energy consumption will increase by 2.5% within five years, and up to 5.3% by 2010. Based on the growth in consumption of natural gas as indicated above, it is therefore believed that there is significant room for further increases in the utilisation of natural gas in China.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. *Financial performance of Mega Fair*

No audited account of Mega Fair is available since Mega Fair is not required to prepare the same in the place of its incorporation in the BVI. The unaudited financial information of Mega Fair for the two years ended 31 December 2009 and the six months ended 30 June 2010 (the “Track Record Period”) as stated in the letter from the Board in the Circular are summarised as follows:-

	<b>For the year ended 31 December 2008</b>	<b>For the year ended 31 December 2009</b>	<b>For six months ended 30 June 2010</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Unaudited combined profit before taxation and minority interests <sup>1</sup>	38.5	75.9	74.3
Unaudited combined profit after taxation and minority interests <sup>1</sup>	27.1	72.3	51.2
Unaudited consolidated profit before taxation and minority interests <sup>2</sup>	10.1	34.6	74.3
Unaudited consolidated profit after taxation and minority interests <sup>2</sup>	3.9	24.0	51.2

*Note:*

1. Assuming the Pre-Acquisition Reorganisation had completed since 1 January 2008 for all members in the Target Group.
2. Assuming the Pre-Acquisition Reorganisation had completed since 1 January 2008 for all subsidiaries of the Target Group but excludes any jointly-controlled entities or associated companies.

### *Views*

Having taken account of the above factors, we concur with the Directors that the Acquisition is a step forward in further expanding the Company’s market share in the down stream gas industry and strengthening its customer and earning base into different regions in the PRC, while leveraging the Company’s current presence in the gas industry in the PRC and China Resources Holdings Group’s strong presence and brand name in the PRC. We also concur with the Directors that the Company, being one of the leading pan-China gas distributors, will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China following the Acquisition. Given that the consideration for the Acquisition and the allotment and issue of the Consideration Shares as contemplated under the Sale and Purchase Agreement are fair and reasonable as elaborated below, we consider that the Acquisition is in line with the Company’s strategy to become China’s leading gas distribution company and hence is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (B) The consideration

The consideration payable by the Company for the Acquisition is HK\$2,000 million (“Consideration”). As disclosed in the Letter from the Board of this Circular, the Consideration has been arrived at after arm’s length negotiations between Powerfaith and the Company after taking into account various relevant factors including the strategic rationale behind the transactions contemplated, the nature of the relevant businesses, the historical financial information, combined net asset value and future prospects of the relevant industries including general economic trends and market growth and the prevailing commercial and business conditions in which Mega Fair operates.

We further note that pursuant to the Sale and Purchase Agreement, Powerfaith has guaranteed to the Company that the combined profit after taxation of members of the Target Group attributable to Mega Fair for the financial year ending 31 December 2010 assuming the Pre-Acquisition Reorganisation had completed since 1 January 2010 will not be less than HK\$100 million (the “Guaranteed Profit”). In the event that such combined profit after taxation is less than the guaranteed level or Mega Fair has a combined loss after taxation for such period, Powerfaith will compensate the Company an amount equal to the difference between the guaranteed amount of HK\$100 million and the combined profit or loss after taxation of Mega Fair for the period commencing from 1 January, and ending 31 December, 2010 multiplied by 20 and in any event, the compensation payable by Powerfaith to the Company will not exceed the difference between the Consideration and the combined net asset value of Mega Fair as at 30 June, 2010. The accounts of Mega Fair for the year ending December 31, 2010 shall be prepared on the basis as if the pre-acquisition reorganisation where all members of the Target Group were transferred (to be held directly or indirectly held) to Mega Fair had completed as of 1 January, 2010 and excluding the effect of any acquisition or disposal by Mega Fair of any assets or businesses and the conduct by Mega Fair of any other business activities which are not conducted in the ordinary course of business of the Company within the year ending 31 December, 2010.

The Consideration shall be satisfied in full by the allotment and issue on the Completion Date of 186,654,223 of Consideration Shares to Powerfaith or its nominee, representing approximately 11.35% of the issued share capital of the Company as at the Latest Practicable Date, or approximately 10.19% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares will be issued at HK\$10.715 per Share (the “Issue Price”), which represents:

- a discount of approximately 6.17% to HK\$11.42, being the closing price of the Shares as at the Latest Practicable Date, as quoted on the Stock Exchange;
- a discount of approximately 5.51% to HK\$11.34, being the closing price of the Shares on 13 September 2010, the last Trading Day prior to and including the date of the Sale and Purchase Agreement; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

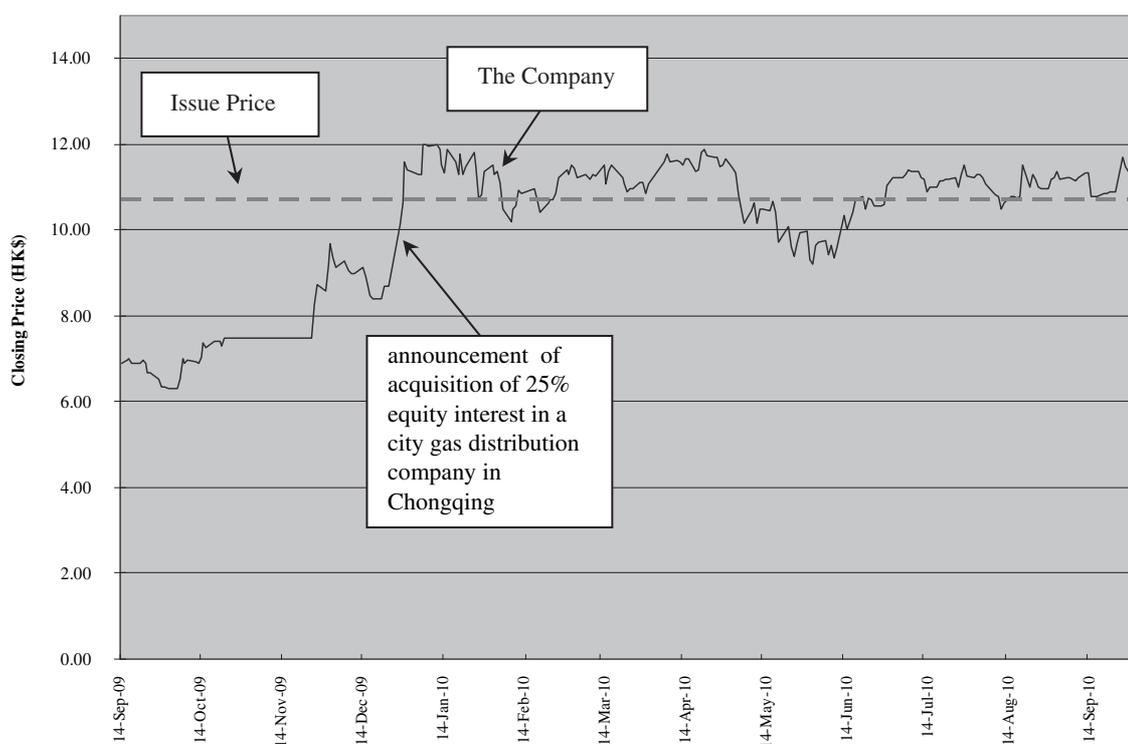
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- a discount of approximately 4.53% from HK\$11.224, being the average closing price of the Shares for the last 5 consecutive Trading Days prior to and including the date of the Sale and Purchase Agreement.

(i) *Share Price performance*

The closing price of the Shares as quoted on the Stock Exchange on 13 September 2010, the last Trading Day prior to and including the date of the Sale and Purchase Agreement (the “Last Trading Day”), was HK\$11.34 per Share (the “Last Trading Price”).

The following chart illustrates the closing prices of the Shares for the period from 14 September 2009 (being the date 12 months prior to the Last Trading Day) up to and including the Latest Practicable Date (the “Review period”):



As shown in the chart above, we note that the price of the Shares increased substantially following the announcement of acquisition of 25% equity interest in a city gas distribution company in Chongqing on 24 December 2009, after which the Shares traded at a range between HK\$9.21 and HK\$12.00 up to and including the Last Trading Day.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The highest and lowest closing prices of the Shares as quoted on the Stock Exchange in the 12-month period up to and including the Last Trading Day (the “Pre-Announcement Period”) were HK\$12.00 per Share recorded on 11 January 2010 and HK\$6.29 per Share recorded on 2 October 2009 respectively. We note that the Issue Price is higher than the volume weighted average price of the Shares during the Pre-Announcement Period of HK\$10.20 (the “Pre-Announcement Average Share Price”), representing a premium of approximately 5.0% over the “Pre-Announcement Average Share Price”.

During the period from 14 September 2009 up to and including to the Latest Practicable Date (the “Post-Announcement Period”), the highest and lowest closing prices of Shares as quoted on the Stock Exchange were HK\$11.70 recorded on 27 September 2010, and HK\$10.78 recorded on 15 September 2010. The Issue Price is below the closing prices of the Shares throughout the Post-Announcement Period and represents a discount of approximately 8.42% and 0.60%, respectively, to such highest closing price and lowest closing prices per Share recorded during the Post-Announcement Period.

Given the size of the Consideration Shares, we consider the issue of the Consideration Shares to be similar to a share placement in the market. As noted in the Letter from the Board and in the Top Up Placing Announcement, 230,000,000 Shares were placed to independent places at a price of HK\$10.75 per Share (the “Placing Price”) pursuant to the Top Up Placing Agreement. The Placing Price net of commission is HK\$10.715 per Placing Share, which is equal to the Issue Price. Further, for comparison purposes, we have also reviewed recent share placements in the last three months. Based on our review, we note that the placing prices were on average at a discount of 13.24% to the closing prices of the shares of the respective companies in the last trading day immediately prior to the respective share placements being announced, and a discount of 12.52% to the average closing price of the shares in the last 5 trading days immediately prior to the respective share placements being announced.

### *Views*

Given the above, in particular that (i) the Issue Price is equal to the Placing Price net of commission; (ii) the Issue Price at a discount of 5.51% to the Last Trading Price represents a smaller discount as compared to the average discount of the share placements under review; (iii) the Issue Price is higher than the volume weighted average price of the Shares during the Pre-Announcement Period, we consider the Issue Price to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *Market comparables*

In assessing the fairness of the Consideration, we have, to our best efforts, conducted a search of all companies listed on the Stock Exchange whose principal business is similar to that of the Target Group and have identified seven other companies (the “Comparable Companies”), being an exhaustive list of companies to our best knowledge. The criteria for selecting the Comparable Companies are those companies principally engaged in the city gas distribution business and who have a market capitalisation over HK\$2,000 million. The following table sets out the comparison between the price-to-earnings ratio (“PER”) and price-to-book ratio (“PBR”) as implied under the Consideration and those of the Comparable Companies.

Name of Comparable Companies	Market capitalisation (HK\$ in million) (Note 1)	Historical PER (“Historical PER”) (times) (Note 2)	Prospective PER (“Prospective PER”) (times) (Note 3)	PBR (times) (Note 4)
Hong Kong & China Gas Co. Ltd. (3)	140,630	27.32	25.53	4.09
Beijing Enterprises Holdings Limited (392)	62,953	24.79	18.83	N/A
Kunlun Energy Company Ltd. (135)	51,126	23.04	16.75	N/A
Xinao Gas Holdings Ltd. (2688)	23,471	21.29	15.81	3.71
China Resources Gas Group Ltd. (1193)	16,040	25.77	20.73	11.98
China Gas Holdings Ltd. (384)	15,450	16.39	15.60 (Note 5)	3.50
Towngas China Co. Ltd. (1083)	8,644	22.37	17.05	1.04
China Oil And Gas Group Ltd. (603)	4,307	29.32	17.40	1.86
<b>Minimum</b>		<b>16.39</b>	<b>15.60</b>	<b>1.04</b>
<b>Maximum</b>		<b>29.32</b>	<b>25.53</b>	<b>11.98</b>
<b>Average</b>		<b>23.79</b>	<b>18.46</b>	<b>4.36</b>
<b>The Acquisition:</b>		<b>27.66</b> (Note 6)	<b>20.00</b> (Note 7)	<b>1.36</b> (Note 8)

Source: Bloomberg, as at 13 September 2010

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Calculated based on the closing prices of the shares of the Comparable Companies as extracted from Bloomberg on the date of the Sale and Purchase Agreement.
2. As extracted from Bloomberg on the date of the Sale and Purchase Agreement based on the trailing 12-month earnings of the Comparable Companies.
3. Represents the prospective PER of the Comparable Companies (based on market consensus) for the year ending 31 December 2010 as extracted from Bloomberg on the date of the Sale and Purchase Agreement.
4. As extracted from Bloomberg on the date of the Sale and Purchase Agreement.
5. Represents the prospective PER of China Gas Holdings Ltd. for the year ending 31 March 2011 (based on market consensus) as extracted from Bloomberg on the date of the Sale and Purchase Agreement.
6. Calculated based on the Consideration and the unaudited combined profit after taxation and minority interests of the Target Group for the year ended 31 December 2009 of HK\$72.3 million, assuming the Pre-Acquisition Reorganisation had completed since 1 January 2008 for all members in the Target Group.
7. Calculated based on the Consideration and the Guaranteed Profit of HK\$100 million.
8. Calculated based on the Consideration and net asset value of the Target Group of approximately HK\$1,472 million as at 30 June 2010.

As noted from the table above, the Historical PER for the Target Group as implied under the Consideration is within the range and slightly higher than the average Historical PER of the Comparable Companies. The Historical PER for the Target Group was calculated based on the Consideration and the unaudited combined profit after taxation and minority interests of the Target Group for the year ended 31 December 2009 of HK\$72.3 million, assuming the Pre-Acquisition Reorganisation had completed since 1 January 2008 for all members in the Target Group.

Given that Powerfaith has guaranteed to the Company the Guaranteed Profit of HK\$100 million, we have also compared the Prospective PER of the Target Group (calculated based on the Consideration and the Guaranteed Profit) with the Prospective PER of the Comparable Companies (as quoted on Bloomberg) and noted that the Prospective PER of the Target Group as implied under the Consideration is within the range and comparable to the average of Prospective PER of the Comparable Companies. Further, the PBR as implied under the Consideration is also within the range and lower than the average of the Comparable Companies.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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(iii) *Comparable Transactions*

As additional reference, in assessing the fairness of the Consideration, we have also, to our best knowledge, identified three transactions (the “Comparable Transactions”) in relation to natural gas business during the Review Period.

Announcement Date	Company	NAV of acquisition target <i>(HK\$' million)</i>	Consideration <i>(HK\$' million)</i>	Asset to be acquired	PER <i>(times)</i>	PBR <i>(times)</i>
17-Mar-10	Towngas China Company Ltd. (as purchaser)	217.4	1,722	Acquisition of six piped city-gas projects in the Liaoning and Zhejiang provinces from The Hong Kong and China Gas Company Ltd.	26.82 <i>(Note 1)</i>	2.82 <i>(Note 2)</i>
24-Dec-09	China Resources Gas Group Ltd (as purchaser)	1,295	1,321	25% interest in a city gas distribution company in Chongqing.	39.24 <i>(Note 3)</i>	4.08 <i>(Note 4)</i>
25-Nov-09	China Resources Gas Group Ltd (as purchaser)	895	519	43.18% interest in Zhengzhou Gas Company Limited, which 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	6.95 <i>(Note 5)</i>	1.34 <i>(Note 6)</i>
<b>Minimum</b>					<b>6.95</b>	<b>1.34</b>
<b>Maximum</b>					<b>39.25</b>	<b>4.08</b>
<b>Average</b>					<b>24.34</b>	<b>2.75</b>
<b>The Acquisition:</b>				<b>Historical PER</b>	<b>27.66</b>	
				<b>Prospective PER</b>	<b>20.00</b>	<b>1.36</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Calculated based on the consideration of HK\$1,721,750,000 and the unaudited net profit attributable to shareholders of Towngas (BVI) Holdings Ltd. and its subsidiaries of RMB64.2 million (excluding the net profit of certain excluded businesses) as at 31 December 2009 as disclosed in the circular for the acquisition dated 7 April 2010.
2. Calculated based on the consideration of HK\$1,721,750,000 and the unaudited net asset value of Towngas (BVI) Holdings Ltd. of RMB217.4 million as at 31 December 2009 and certain estimated shareholders' loans amount of HK\$420.9 million as disclosed in the circular for the acquisition dated 7 April 2010.
3. Calculated based on the consideration of HK\$1,321 million and the profit after tax and extraordinary items of the target, Chongqing Gas, of RMB118.5 million for the year ended 31 December 2008 as disclosed in the announcement of the acquisition dated 24 December 2009 and the exchange rate of RMB 0.88 = HK\$1.
4. Calculated based on the consideration of HK\$1,321 million and the unaudited net asset value of Chongqing Gas of RMB1,139.9 million as at 30 September 2009 as disclosed in the announcement of the acquisition dated 24 December 2009 and the exchange rate of RMB 0.88 = HK\$1.
5. Calculated based on the consideration of HK\$519 million and the net profit after taxation of Zhengzhou Gas of RMB152.2 million for the year ended 31 December 2008 as disclosed in the announcement of the acquisition dated 25 November 2009 and the exchange rate of RMB 0.88 = HK\$1.
6. Calculated based on the consideration of HK\$519 million and the unaudited net asset value of Zhengzhou Gas of RMB787.6 million as at 30 June 2009 as disclosed in the announcement of the acquisition dated 25 November 2009 and the exchange rate of RMB 0.88 = HK\$1.

As noted from the table above, the Historical PER of the Target Group as implied under the Consideration is within the range and slightly higher than the average of the Comparable Transactions, while the Prospective PER is lower than the average of the Comparable Transactions. The PBR of the Target Group as implied under the Consideration is also lower than the average PBRs of the Comparable Transactions.

(iv) *Adjustment to the Consideration*

Pursuant to the Sale and Purchase Agreement, in the event that the combined profit after taxation of members of the Target Group attributable to Mega Fair for the financial year ending 31 December 2010 is less than HK\$100 million or Mega Fair has a combined loss after taxation for such period, Powerfaith will compensate the Company an amount equal to the difference between the guaranteed amount of HK\$100 million and the combined profit or loss after taxation of Mega Fair for the period commencing from 1 January and ending 31 December 2010 multiplied by 20 and in any event, the compensation payable by Powerfaith to the Company will not exceed the difference between the Consideration and the combined net asset value of Mega Fair as at 30 June 2010 (the "Adjustment"). Given that the Adjustment is referenced to the Prospective PER of the Target Group of 20 times as implied under the Consideration which is subject to a minimum that is equal to the net asset value of the Target Group, whilst the Comparable Companies are trading at a PBR of approximately 1.04 times to 11.98 times, we consider that the Adjustment to the Consideration to be fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(v) *Payment method*

As advised by the Company, the Board has considered other financing methods for satisfaction of consideration of the Acquisition. However, as the issue of Consideration Shares enables sufficient funding for the Acquisition without utilising the cash of the Company or increasing the financial gearing of the Company and also enlarges the capital base of the Company, the Directors consider that payment by way of issue of the Consideration Shares is the most appropriate method.

*Opinion*

Having taken into account the aforesaid, we consider the Consideration to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(vi) *Grant of New General Mandate*

As set out in the Letter from the Board, an ordinary resolution will be proposed at the SGM to seek Independent Shareholders' approval for the grant of the New General Mandate authorising the Directors to allot and issue securities up to 20% of the Shares then in issue on the date of the SGM. On the basis that no further Shares are issued or repurchased by the Company between the Latest Practicable Date and the date of the SGM, the Company would be allowed to issue up to a maximum of 328,888,142 Shares under the New General Mandate (excluding the Consideration Shares).

Pursuant to the Current General Mandate which was granted by the Shareholders at the AGM, the Directors are authorised to exercise the powers of the Company to allot, issue or otherwise deal with up to 282,884,542 new Shares, being 20% of the entire issued share capital of the Company as at 31 May 2010. There has not been any refreshment of the Current General Mandate since the AGM.

As noted in the Letter from the Board, the Current General Mandate has been partially utilised as at the Latest Practicable Date and an aggregate of 230,000,000 Subscription Shares has been issued under the Current General Mandate at a price of HK\$10.75 per Share pursuant to the Top Up Placing Agreement.

As advised by the Directors, the next AGM is not expected to be held until May 2011, which is about seven months away from the Latest Practicable Date. If the general mandate (which has already been partially utilised) is not refreshed at the SGM, the Company will not have sufficient general mandate, if so required to be utilised, until the general mandate is approved at the next AGM. The grant of the New General Mandate would provide the Group maximum flexibility to fund future investments or project developments when opportunities are identified for any future fund raising activities. As compared with other fund raising methods, the issue of new Shares under the New General Mandate is a more cost-effective, flexible and efficient method of fund raising as (i) the new Shares can be placed at a narrower discount to the market price than that for a comparable rights issue or open offer; (ii) the placing of the new Shares can be carried out in a shorter amount of time without strict timetable restrictions and therefore offers a flexible means that allows the Company to take advantage of favourable market conditions; and (iii) fund raising by means of placing the new Shares will not entail any restrictive covenants on the Company's operations unlike in the case of bank loans or increase the financial gearing of the Company as is the case for other forms of debt financing.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further, assuming that there is no change in the share capital of the Company of 1,644,440,710 Shares from the Latest Practicable Date to the date of the SGM and on the basis that the New General Mandate is fully utilised, 328,888,142 new Shares will be issued, which represent 20% of the issued share capital as at Latest Practicable Date and approximately 16.67% of the issued share capital of the Company as enlarged by the full utilisation of the New General Mandate. On such basis, holding of the Shareholders (including the existing public Shareholders) will be diluted in proportion to their respective shareholding in the Company by 20% accordingly.

Having considered that grant of the New General Mandate would provide the Group maximum flexibility to fund future investments or project developments when opportunities are identified for any future fund raising activities and that the dilution effect of the New General Mandate to all Shareholders is in proportion to their respective shareholding in the Company, we concur with the Directors' view that the grant of the New General Mandate is in the interests of the Company and the Shareholders as a whole.

### **(C) Effect on shareholding interests of the Shareholders**

Based on the issued share capital of the Company of 1,644,440,710 Shares, the Consideration Shares represents approximately 11.35% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 10.19% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

Having considered that the Acquisition is a step forward in further expanding the Company's market share in the down stream gas industry and strengthening its customer and earning base into different regions in the PRC; that the Company will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China following the Acquisition; that the consideration for the Acquisition is fair and reasonable as elaborated above, and that the consideration of the Acquisition will be satisfied by the issue of Consideration Shares and without any financial requirement to raise the necessary funding for the Acquisition, we concur with the view of the Directors that the issue of the Consideration Shares would enable the Company to enlarge its capital base and improve its overall financial position. Having considered the above analyses, we consider that the shareholding dilution effect arising from the issue of the Consideration Shares to be acceptable.

### **(D) Possible financial effects of the Acquisition**

#### ***Earnings***

The Group had an audited consolidated net profit after taxation attributable to the equity holders of the Company for the year ended December 31, 2009 of approximately HK\$441.66 million. Upon completion of the Acquisition, Mega Fair will become a wholly-owned subsidiary of the Company and, accordingly, the financial results of Mega Fair will be consolidated into the financial statements of the Company, and the city gas distribution businesses acquired will contribute to both the revenue and the earnings of the Group.



## 1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and the short positions (within the meaning of Part XV of the SFO) of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### i *Interests in the Shares and underlying Shares of the Company*

<b>Name</b>	<b>Capacity</b>	<b>Long or short position</b>	<b>Number of Shares</b>	<b>Number of share options<sup>1</sup></b>	<b>Approximate percentage of interest<sup>2</sup></b>
Mr. Wang Chuandong	Beneficial owner	Long position	100,000	—	0.0061%
Mr. Ong Thiam Kin	Beneficial owner	Long position	100,000	—	0.0061%
Mr. Du Wenmin	Beneficial owner	Long position	54,000	—	0.0033%
Mr. Wong Tak Shing	Beneficial owner	Long position	80,000	—	0.0049%

*Notes:*

1. This refers to the number of underlying shares of the Company covered by its share option scheme as at the Latest Practicable Date.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of the Company to the total issued share capital of the Company as at the Latest Practicable Date.

ii. *Interests in the issued ordinary shares and underlying shares of China Resources Enterprise, Limited (“CRE”), an associated corporation of the Company*

Name	Capacity	Long or short position	Number of shares	Number of share options <sup>1</sup>	Exercise price per share HK\$	Date of grant	Aggregate percentage of interest <sup>2</sup>
Mr. Wang Chuandong	Beneficial owner	long position	300,000	300,000 <sup>3</sup>	10.35	04/10/2004	0.0250%
Mr. Du Wenmin	Beneficial owner	long position	100,000	—	—	—	0.0042%

*Notes:*

1. This refers to the number of underlying shares of CRE covered by its share option schemes as at the Latest Practicable Date.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRE to the total issued share capital of CRE as at the Latest Practicable Date
3. The exercisable period during which the share options may be exercised is from 4 October 2004 to 3 October 2014.
4. In each case, HK\$1.00 is payable upon acceptance of the share options granted.

iii. *Interests in the issued ordinary shares and underlying shares of China Resources Power Holdings Company Limited (“CRP”), an associated corporation of the Company*

Name	Capacity	Long or short position	Number of shares	Number of share options <sup>1</sup>	Exercise price per share HK\$	Date of grant	Aggregate percentage of interest <sup>2</sup>
Mr. Ma Guoan	Interest of spouse	long position	22,000	—	—	—	0.0005%
Mr. Wang Chuandong	Beneficial owner	long position	—	101,800 <sup>3</sup>	2.75	06/10/2003	0.0022%
Mr. Du Wenmin	Beneficial owner	long position	297,000	183,240 <sup>4</sup>	2.75	12/11/2003	0.0102%

*Notes:*

1. This refers to the number of underlying shares of CRP covered by its share option scheme as at the Latest Practicable Date.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRP to the total issued share capital of CRP as at the Latest Practicable Date.
3. The share options are exercisable in 5 tranches, from 6 October 2004, 2005, 2006, 2007 and 2008 to 5 October 2013.
4. The share options are exercisable in 2 tranches, from 6 October 2007 to 5 October 2013, and 6 October 2008 to 6 October 2013.
5. In each case, HK\$1.00 is payable upon acceptance of the share options granted.

iv. *Interests in the issued ordinary shares and underlying shares of China Resources Land Limited ("CRL"), an associated corporation of the Company*

Name	Capacity	Long or short position	Number of shares	Number of share options <sup>1</sup>	Exercise price per share HK\$	Date of grant	Aggregate percentage of interest <sup>2</sup>
Mr. Du Wenmin	Beneficial owner	long position	790,000	250,000 <sup>3</sup>	1.23	01/06/2005	0.0206%

*Notes:*

1. This refers to the number of underlying shares of CRL covered by its share option scheme as at the Latest Practicable Date.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRL to the total issued share capital of CRL as at the Latest Practicable Date.
3. The share options are exercisable in 2 tranches, from 1 June 2008 to 31 May 2015, and 1 June 2009 to 31 May 2015.
4. In each case, HK\$1.00 is payable upon acceptance of the share options granted.

v. *Interests in the issued ordinary shares and underlying shares of China Resources Microelectronics Limited (“CRM”), an associated corporation of the Company*

Name	Capacity	Long or short position	Number of shares	Number of share options <sup>1</sup>	Exercise price per share HK\$	Date of grant	Aggregate percentage of interest <sup>2</sup>
Mr. Du Wenmin	Beneficial owner	long position	1,458,000	—	—	—	0.0166%
Mr. Luk Chi Cheong	Beneficial owner	long position	1,165,912	—	—	—	0.0133%

*Notes:*

1. This refers to the number of underlying shares of CRM covered by its equity incentive plan or share option scheme as at the Latest Practicable Date.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRM to the total issued share capital of CRM as at the Latest Practicable Date.

vi. *Interests in issued ordinary shares and underlying shares of China Resources Cement Holdings Limited (“CR Cement”), an associated corporation of the Company*

Name	Capacity	Long or short position	Number of shares	Number of share options	Exercise price per share HK\$	Date of grant	Aggregate percentage of interest <sup>1</sup>
Mr. Ong Thiam Kin	Beneficial owner	long position	120,000	—	—	—	0.0018%

*Notes:*

1. This represents the percentage of aggregate long position in ordinary shares of CR Cement to the total issued share capital of CR Cement as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## 3. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, 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 member of the Enlarged Group:

Name of shareholder	Capacity	Nature of interest	Number of Shares	Percentage of the aggregate long position in Shares to the issued share capital of the Company as at the Latest Practicable Date
Splendid Time Investments Inc. (“Splendid Time”) <sup>1</sup>	Beneficial owner	Beneficial interest	1,059,999,983	64.46%
China Resources Holdings <sup>1</sup>	Controlled company’s interest	Corporate interest	1,060,001,983	64.46%
CRC Bluesky Limited (“CRC Bluesky”) <sup>1</sup>	Controlled company’s interest	Corporate interest	1,060,001,983	64.46%
China Resources Co., Limited (“CRCL”) <sup>1</sup>	Controlled company’s interest	Corporate interest	1,060,001,983	64.46%
China Resources National Corp. (“CRN”)	Controlled company’s interest	Corporate interest	1,060,001,983	64.46%

*Note:*

- Splendid Time and Commotra Company Limited directly holds 1,059,999,983 and 2,000 Shares in the Company respectively and both companies are wholly-owned subsidiaries of China Resources (Holdings) Company Limited. China Resources Holdings is therefore deemed to be interested in 1,060,001,983 Shares of the Company under Part XV of the SFO. China Resources Holdings is a wholly-owned subsidiary of CRC Bluesky. CRC Bluesky is a wholly-owned subsidiary of CRCL which in turn is 99.98% owned by CRN. CRC Bluesky, CRCL and CRN are all therefore deemed to be interested in 1,060,001,983 Shares of the Company under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. 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 Enlarged Group (including any options in respect of such capital), or who were recorded in the register required to be kept by the Company under section 336 of the SFO.

#### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into a service contract with any member of the Enlarged Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### **5. DIRECTORS' INTERESTS IN ASSETS' CONTRACTS OR ARRANGEMENTS**

As at the Latest Practicable Date, none of the Directors has any interest, direct or indirect, in any assets which since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date of circular in which is significant in relation to the businesses of the Enlarged Group.

#### **6. QUALIFICATION AND CONSENT OF EXPERT**

CIMB, the independent financial adviser, is a corporation licensed to carry on types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO.

CIMB has given and has not withdrawn its written consent to the issue of this circular with copies of its letter in this circular and the references to its name included in the form and context in which it appear.

As at the Latest Practicable Date, CIMB was not interested in any Share or share in any member of the Group, nor does it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

As at the Latest Practicable Date, CIMB did not have any direct or indirect interests in any assets which have since 31 December 2009 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

**7. MATERIAL ADVERSE CHANGE**

Reference is made to the Company's announcement dated 28 June 2010, the joint announcements dated 25 November 2009, 11 December 2009, 27 August 2010, 24 September 2010 and the composite document dated 3 September 2010. The terms of the Group's proposed establishment of the equity joint venture enterprise with Tianjin Gas Group Company Limited are yet to be finalized, and the acquisition of domestic shares and H shares in Zhengzhou Gas Company Limited (Stock code: 3928) is yet to complete pending the extension of the offer period in accordance with Rule 15.3 of the Takeovers Code.

As at the Latest Practicable Date, save for the two transactions mentioned above, the Directors were not aware of any material adverse change, actual or potential, in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited consolidated accounts of the Company have been made up.

**8. COMPETING INTEREST**

As at the date of this circular, none of the Directors and their respective Associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (public holidays excepted) at the head office of the Company at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM:

- a. Letter from the Independent Board Committee as set out on pages 20 to 21 of this circular;
- b. the letter from CIMB, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 22 to 35 of this circular;
- c. the Top Up Placing Agreement;
- d. the Sale and Purchase Agreement;
- e. the consideration shares notice dated 14 September 2010 issued by the Company pursuant to the Sale and Purchase Agreement; and
- f. this circular.

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## NOTICE OF THE SPECIAL GENERAL MEETING

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### 華潤燃氣控股有限公司 China Resources Gas Group Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of China Resources Gas Group Limited (the “**Company**”) will be held at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Monday, 25 October 2010 at 4:15 p.m. to consider and, if thought fit, pass (with or without amendments) the following resolutions:

#### **ORDINARY RESOLUTIONS**

1. “**THAT:-**

- (a) the conditional sale and purchase agreement dated 13 September 2010 entered into between (i) Powerfaith Enterprises Limited (“**Powerfaith**”), a wholly-owned subsidiary of China Resources (Holdings) Company Limited (“**China Resources Holdings**”) as the vendor; (ii) the Company as purchaser; and (iii) China Resources Gas (Holdings) Limited, a wholly-owned subsidiary of China Resources Holdings as guarantor of all obligations and liabilities of Powerfaith to the Company under the agreement, in relation to the sale and purchase of the entire issued share capital of Mega Fair Limited, an indirectly wholly-owned subsidiary of China Resources Holdings, at a consideration of HK\$2,000 million (the “**Sale and Purchase Agreement**”, a copy of which has been produced at the meeting marked “**A**” and signed by the chairman of the meeting for identification purpose), be and is hereby approved, and **THAT** all the transactions contemplated under the Sale and Purchase Agreement be and are hereby approved (including but not limited to the allotment and issue to Powerfaith (or as it may direct) of 186,654,223 ordinary shares of HK\$0.10 each in the share capital of the Company at the issue price of HK\$10.715 each credited as fully paid up and ranking pari passu with the existing issued shares of the Company (“**Consideration Shares**”) pursuant to the Sale and Purchase Agreement); and
- (b) the Directors be and are hereby authorised to sign, execute, perfect and deliver all such documents and deeds, and do all such actions which are in their opinion necessary, appropriate, desirable or expedient for the implementation and completion of the Sale and Purchase Agreement, the allotment and issue of the Consideration Shares to Powerfaith (or as it may direct), all other transactions contemplated under or incidental to the Sale and Purchase Agreement and all other matters incidental thereto or in connection therewith and to agree to the variation and waiver of any of the matters relating thereto that are, in the opinion of the Directors, appropriate, desirable or expedient in the context of the Acquisition and are in the best interests of the Company.”

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## NOTICE OF THE SPECIAL GENERAL MEETING

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2. **“THAT:-**

- (a) subject to paragraph 2(c) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers, subject to and in accordance with all applicable laws and the bye-laws of the Company, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraphs 2(a) and 2(b) of this resolution, otherwise than pursuant to a Rights Issue (as hereinafter defined) or an issue of shares of the Company under the share option scheme or similar arrangement for the time being adopted by the Company or an issue of shares upon exercise of subscription or conversion rights attached to warrants which may be issued by the Company or any securities convertible into shares or an issue of shares of the Company by way of any scrip dividend or similar arrangements pursuant to the bye-laws of the Company from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution, and the said approval shall be limited accordingly;
- (d) for the purpose of this resolution:

**“Relevant Period”** means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws of Bermuda to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

**“Rights Issue”** means an offer of shares open for a period fixed by the directors of the Company to holders of shares whose names stand on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject

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## NOTICE OF THE SPECIAL GENERAL MEETING

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to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong); and

- (e) the general mandate granted to the directors of the Company to allot, issue and deal with additional shares of the Company pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31 May 2010 be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing of this resolution).”

By order of the Board  
**MA Guoan**  
*Chairman*

Hong Kong, 6 October 2010

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

**Notes:**

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney authorised to sign the same.
3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarised copy of such power of attorney or authority, must be lodged at the office of the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.