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*You should read this Prospectus in its entirety before you decide to invest in our Shares, and you should not rely solely on key or summarized information. The financial information in this section has been extracted without material adjustment from “Appendix I — Accountant’s Report”. Unless otherwise expressed, all operational and financial data are based on external sales, which eliminate the inter-company transactions, if any.*

### OVERVIEW

We are principally engaged in the gas pipeline connections operation and the transportation and sales of pipelined gas operation in Henan Province. We conduct gas pipeline connections operation by providing property developers and commercial and industrial users with laying and installation. Our new users generally engage us to provide gas pipeline connections prior to our transportation and distribution of natural gas or coal gas to them. We transport, distribute and sell pipelined natural gas or coal gas in three major urban areas of Henan Province, or our Operating Cities, pursuant to Concessions of 30 years or longer. We entered into Concession Agreements with the local governments of our Operating Cities by which they granted us the exclusive right to provide pipelined gas transportation and distribution in our Operating Cities. We also distribute and sell compressed natural gas as vehicular fuel, or CNG, through the CNG filling stations operated by us in two of our Operating Cities.

During the Track Record Period, we placed significant reliance on the substantial revenue and gross profit generated from our gas pipeline connections operation. The revenue generated from our gas pipeline connections operation accounted for approximately 57.3%, 52.9%, 50.6% and 51.1% of our total revenue for the three years ended 31 December 2009 and the six months ended 30 June 2010, respectively, and the revenue generated from our transportation and sales of pipelined gas operation accounted for approximately 39.8%, 45.2%, 47.4% and 44.0%, respectively, of our total revenue during the same periods. The gross profit generated from our gas pipeline connections operation accounted for approximately 94.4%, 89.1%, 81.9% and 80.7% of our total gross profit for the three years ended 31 December 2009 and the six months ended 30 June 2010, respectively, and the gross profit generated from our transportation and sales of pipelined gas operation accounted for approximately 1.8%, 10.2%, 15.2% and 12.1% of our total gross profit during the same periods.

#### *Gas Pipeline Connections Operation*

We conduct gas pipeline connections operation by providing property developers and commercial and industrial users with laying and installation in our Operating Cities. Our new users generally engage us to provide gas pipeline connections prior to our transportation and distribution of natural gas or coal gas to them. During the Track Record Period, we placed significant reliance on the substantial revenue and gross profit generated from this business. Our gas pipeline connections operation generated substantial revenue, received from one-off connection fees, representing 57.3%, 52.9%, 50.6% and 51.1%, respectively, of our total revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our gross profit generated from our gas pipeline connections operation was RMB27.1 million, RMB44.6 million, RMB64.6 million and RMB41.9 million, respectively, representing approximately 94.4%, 89.1%, 81.9% and 80.7% of our total gross profit during the same periods. Our gross profit margin of our gas pipeline connections operation was 71.7%, 66.0%, 71.3% and 71.4%, respectively, for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

For the years ended 31 December 2007, 2008 and 2009, we successfully connected approximately 17,000, 22,000 and 42,000 units of new users, respectively, representing a CAGR of

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approximately 55.8%. The number of new gas pipeline connections grew from approximately 12,000 units of new users for the six months ended 30 June 2009 to approximately 27,000 units of new users for the six months ended 30 June 2010, representing a growth rate of approximately 119.4%. Our total gas pipeline connections grew from approximately 28,000 units of users as at 1 January 2007 to 137,000 units of users as at 30 June 2010.

### *Transportation and Sales of Pipelined Gas Operation*

We are one of the principal pipelined gas transporters and distributors in Henan Province, pursuant to Concessions of 30 years or longer. We transport, distribute and sell pipelined natural gas or coal gas in our Operating Cities. Our Operating Cities are located in Henan Province, the most populous province in China, and are currently home to many industries with strong growth potential. Henan Province sits at the gateway to the West-East Natural Gas Transmission Projects and therefore, combined with its dense population, the steady demand for and supply of natural gas is ensured. Our revenue generated from our transportation and sales of pipelined gas operation accounted for approximately 39.8%, 45.2%, 47.4% and 44.0% of our total revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our gross profit generated from our transportation and sales of pipelined gas operation amounted to approximately RMB0.5 million, RMB5.1 million, RMB12.0 million and RMB6.3 million, respectively, representing approximately 1.8%, 10.2%, 15.2% and 12.1% of our total gross profit during the same periods. Our gross profit margin of our transportation and sales of pipelined gas operation was 1.9%, 8.8%, 14.1% and 12.4%, respectively, for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

As at 30 June 2010, our pipelined gas networks connected 136,645 units of users, comprising a broad range of residential, commercial, industrial and other users, such as public services users, through the operation of an extensive pipeline system consisting of approximately 837 kilometers of installed pipelines. Our sales volume of natural gas and coal gas to end-users grew from 11.2 million m<sup>3</sup> and 7.5 million m<sup>3</sup>, respectively, for the year ended 31 December 2007 to 24.2 million m<sup>3</sup> and 24.6 million m<sup>3</sup>, respectively, for the year ended 31 December 2009. In addition, our sales volume of natural gas and coal gas to end-users was 11.4 million m<sup>3</sup> and 14.8 million m<sup>3</sup>, respectively, for the six months ended 30 June 2009 and 15.4 million m<sup>3</sup> and 10.1 million m<sup>3</sup>, respectively, for the six months ended 30 June 2010.

We also distribute and sell compressed natural gas as vehicular fuel, or CNG, through the CNG filling stations operated by us in two of our Operating Cities. We commenced our distribution and sales of CNG in April 2008. CNG sold from our CNG filling stations is compressed by our own facilities from the pipelined natural gas supplied to us by our suppliers. As at 30 June 2010, we owned and operated one CNG filling station in Hebi City and another in Xuchang City. In the third quarter of 2010, our second CNG filling station in Hebi City commenced operation and brought the total number of CNG filling stations we owned and operated to three. For the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, our CNG sales volume was 0.8 million m<sup>3</sup>, 3.9 million m<sup>3</sup> and 3.2 million m<sup>3</sup>, respectively.

Taking into account our current strategic expansion plan and our business model, we do not expect that our product mix, and therefore revenue mix, to change significantly in the foreseeable future. Please refer to the paragraph headed "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Prospectus for a breakdown of the revenue during the Track Record Period by our major product category and by Operating City.

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### *Purchase and Supply*

During the Track Record Period, we had arrangements for the supply of natural gas or coal gas with three suppliers for our transportation and sales of pipelined gas operation and various suppliers of raw materials for our gas pipeline connections operation. For further information on our suppliers, please refer to “— Transportation and Sales of Pipelined Gas Operation — Purchase and supply” and “— Gas Pipeline Connections Operation — Purchase and supply” in this Prospectus.

The *National Development and Reform Commission*, or the NDRC, regulates the ex-factory price of natural gas. The *Henan Development and Reform Commission* regulates the purchase price of coal gas. The *Commodity Price Bureau* or the local *Development and Reform Commission* places a ceiling on the retail price of natural gas and coal gas. The purchase and selling price of CNG is determined by the market and varies according to region. As a result, the purchase price and selling price of our natural gas and coal gas increased due to relevant price adjustments by such government authorities and the selling price of CNG moved in accordance with market prices during the Track Record Period. The volume of natural gas purchased and sold by us was based on the benchmark volume allocated to us and to our suppliers by the *Henan Development and Reform Commission*, which was only indicative of the actual volume that we purchased or sold. We purchased our natural gas based on actual sales volume and we generally do not have excess natural gas which requires storage. On the other hand, the purchase and sales volume of coal gas and the sales volume of CNG is determined by market supply and demand.

### *Financial Performance*

We experienced high profitability and increasing growth in revenue and earnings during the Track Record Period. Our total revenue increased from RMB65.9 million in 2007 to RMB127.7 million in 2008 and to RMB179.2 million in 2009, representing a CAGR of 64.9% for the two-year period, and from RMB81.9 million for the six months ended 30 June 2009 to RMB115.0 million for the six months ended 30 June 2010, representing a growth rate of 40.4%. Our total gross profit grew from RMB28.7 million in 2007 to RMB50.0 million in 2008 and to RMB78.8 million in 2009, representing a CAGR of 65.7% for the two-year period, and from RMB35.5 million for the six months ended 30 June 2009 to RMB52.0 million for the six months ended 30 June 2010, representing a growth rate of 46.4%.

Our net profit increased from RMB8.3 million in 2007 to RMB25.6 million in 2008, and to RMB47.6 million in 2009, representing a CAGR of 139.5% for the two-year period, and from RMB20.8 million for the six months ended 30 June 2009 to RMB32.9 million for the six months ended 30 June 2010, representing a growth rate of 58.1%. The ceiling of our gas selling price and our increased cost of sales contributed to the fluctuation in our gross profit margin, which was 43.6%, 39.2%, 44.0% and 45.2% for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Our net profit margin was 12.6%, 20.0%, 26.5% and 28.6%, respectively, for the same periods; the increase was mainly due to increases in revenue and our control on expenses. Please refer to the paragraph headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Description of components of results of operations — Gross profit” in this Prospectus for a breakdown of the gross profit during the Track Record Period by our major product category and by Operating City.

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### COMPETITIVE STRENGTHS

We believe the following strengths distinguish us from our competitors, enabling us to capture opportunities in the relevant markets in which we operate our business and compete effectively in the market place:

***We operate our core business in our Operating Cities based on the Concessions.***

We do not encounter any competition when conducting our transportation and sales of pipelined gas operation, other than our distribution and sales of CNG, as well as gas pipeline connections operation under the Concession Agreements, under which the local government granted our Project Companies the exclusive right to provide natural gas or coal gas to residential, commercial, industrial and other users in our Operating Cities in Henan Province. Accordingly, as at the Latest Practicable Date, we were in a dominant position in respect of our transportation and sales of pipelined gas operation and our gas pipeline connections operation in newly constructed residential areas in our Operating Cities. During the period of the Concessions, which are as long as 30 years or more, depending on the city and subject to renewal, we are in a monopolistic position.

***We are very cost-effective while providing high-quality products.***

As an urban pipelined gas transporter and distributor in China, the selling price as well as purchase price of our natural gas and coal gas are set by government authorities. While providing high-quality products to our residential, commercial, industrial and other users, we endeavor to manage our costs and expenses. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our distribution cost and administrative expenses collectively accounted for 11.3%, 7.7%, 6.7% and 6.0% of our revenue, respectively, which remained at a low level. For the year ended 31 December 2009, we achieved high net profit per employee due to the efficient utilization of our workforce. Our cost-effective business model is one of the reasons we are more profitable than the majority of the urban gas companies listed on the Stock Exchange.

Although the Concession Agreements do not extend to the distribution and sales of CNG, we believe we are more cost-effective compared to our competitors who operate in our Operating Cities. Due to our exclusive right to use the natural gas pipelines, our competitors have to utilize other expensive means of transportation, including CNG tank trucks. Therefore, a reduced transportation cost, which means a lower cost of sales, equips us with a distinct competitive edge in our distribution and sales of CNG as compared to our competitors.

***We are located in Henan Province, the most populous province in China and the gateway to China's major long-distance natural gas pipelines.***

We focus our operations in Henan Province. According to the statistics of the PRC Government, Henan Province is the most populous province among all Chinese provinces and metropolitans, with a total population of approximately 99.7 million in 2009. In recent years, Henan Province has experienced unprecedented urbanization. The urban population within Henan Province increased from approximately 30.7% in 2005 to approximately 37.7% in 2009. The large urban population ensures the demand for pipelined natural gas, which is considered one of the safest and cleanest energy sources for modern cities. It also ensures an ample supply of labor and effectively attracts labor-intensive industries to relocate within the vicinity of our Operating Cities.

We are located in cities with high industrial potential. According to the *China National Statistics Bureau*, Henan Province had the fifth highest GDP among all provinces and municipalities

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in China in 2008. It offers a solid economic foundation to facilitate industrial growth and is already home to many industries and businesses, some of which are situated in our Operating Cities. A large number of companies in various industrial sectors, ranging from aluminum, chinaware, tobacco to chemical production industries, have established headquarters in our Operating Cities. Many of these businesses utilize natural gas as their source of energy for their production. A certain number of those businesses have already become our customers or are our targeted potential customers due to the favorable locations of our pipeline networks and our provision of high-quality products.

Henan Province is also the gateway where the First West-East Natural Gas Transmission Pipeline meets the Second West-East Natural Gas Transmission Pipeline. The meeting of these two largest Chinese gas pipelines guarantees a sufficient, steady and efficient supply of natural gas. As the transportation cost of natural gas accounts for a substantial portion of gas purchase cost for the transporters and distributors of natural gas in China, the convenient location of our natural gas pipelines also enhanced our profitability due to the closer distance to the gas origin than those transporters and distributors located in eastern and southern China and those who transport non-pipelined gas.

***We possess extensive industry experience and a strong track record.***

We have substantial experience in the pipelined gas transportation and distribution industry and a strong track record in the provision of gas transportation and distribution, laying and installation and gas pipeline connections. Since we commenced operations in 2002, we have supplied pipelined gas to 135,825 residential users, 620 commercial users, 60 industrial users and 140 other users, through the operation of an extensive pipeline system consisting of approximately 837 kilometers of installed pipelines as at 30 June 2010. Our sales volume of natural gas to end-users grew from 11.2 million m<sup>3</sup> for the year ended 31 December 2007 to 24.2 million m<sup>3</sup> for the year ended 31 December 2009, representing a CAGR of 47% for the two-year period, as compared with 33.7% as the average growth rate of major Hong Kong listed gas companies during the same periods. In addition, our total gas pipeline connections grew from approximately 45,000 units of users in 2007 to 110,000 units of users in 2009, representing a CAGR of 56.3% for the two-year period, as compared with 23.9% as the average growth rate of major Hong Kong listed gas companies during the same periods.

In addition, our extensive industry experience and strong track record is evidenced by our ability to successfully transform project companies that are in financial difficulty to profit making entities. For example, in July 2007, we acquired the pipelined gas operation in Shangjie District of Zhengzhou City from Zhengzhou Shangjie Gas Limited\* (鄭州市上街區燃氣有限公司). We substantially enhanced the financial performance of our Shangjie project company, Shangjie Tian Lun, in the first full financial year after our acquisition. We believe that the utilization of our extensive industry experience and strong track record will ensure the success of our future growth and strategic expansion plan.

***Our visionary and dedicated management team as well as experienced professionals possess extensive industry experience.***

We are led by an established management team with extensive expertise and demonstrated execution capabilities. Mr. Zhang, the chairman of our Board of Directors, has approximately eight years of experience in the urban natural gas transportation and distribution industry and 13 years in the real estate development industry in China. Mr. Xian, our General Manager, has over seven years of experience in the urban natural gas transportation and distribution industry. Our senior management members and experienced professionals are equipped with considerable technical and

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marketing know-how and have developed close relationships with government authorities and key market participants, including our major suppliers. They also possess the vision, in-depth industry knowledge and leadership necessary to take advantage of market opportunities, manage risks and steer the developments and trends in the urban pipelined natural gas industry. In addition, our management team has developed a distinct corporate culture that promotes innovation, motivation, responsibility and achievement, which helps us attract and retain highly-skilled employees.

### **BUSINESS STRATEGIES**

In order to achieve our long-term goal of becoming a leading operator in the urban clean energy industry in China, we intend to focus on the following principal strategies:

#### *Expand and enhance our business operations in our Operating Cities*

Based on our existing advantages in our pipeline networks and gas sources, and following the development plans of our Operating Cities, we will upgrade our operation standards and proactively develop our residential, commercial and industrial user base in our Operating Cities so as to significantly increase our sales volume. Capitalizing on the advantages arising from the coverage of the existing pipeline networks, we plan to increase the transportation and distribution of pipelined natural gas in suburban areas of our Operating Cities. As at 31 December 2009, we estimated that approximately 79% of the residential population in our Operating Cities were not connected to our pipeline networks. To meet this gap, we plan to expand and enhance our urban branch pipeline network coverage by approximately 71.6 kilometers in our Operating Cities, including the uncovered urban and suburban areas in our Operating Cities, for the year 2010 to promote the use of natural gas and to encourage consumption of clean energy. Our projects commenced in different quarters during 2010 and the completion date of each project depends upon the extent of pipeline coverage. We expect to expend RMB25.0 million in 2010 to carry out our pipeline network expansion plan and we believe our revenue from our transportation and sales of pipelined gas operation and our gas pipeline connections operation will be enhanced. In addition, we also plan to build an additional gas processing facility in Hebi City with a projected production capacity of 20,000 m<sup>3</sup> per hour, and we expect to expend RMB2.0 million to implement our plan.

For the six months ended 30 June 2010, our natural gas revenue generated from industrial users accounted for approximately 14.1% of our revenue generated from our sales of natural gas. There are still industries and corporations in our Operating Cities that do not operate on or consume natural gas, indicating a potential to further increase our sales volume by focusing on major industrial users in Henan Province that we consider to be of high quality. Corporations that we consider to be of high quality are those who consume more than 5.0 million m<sup>3</sup> of natural gas per annum, are of stable production level and have few or no close substitutes for our products. Major industries in our Operating Cities include ceramic and magnesium processing corporations in Hebi City, tobacco and metal processing corporations in Xuchang City and aluminum processing corporations in Shangjie District, operations of which would require a significant amount of natural gas. We endeavor to focus our business on these types of industrial users and develop them into our major customers.

#### *Pursue selective strategic alliances and acquisitions in cities with gas pipeline networks*

China's natural gas transportation and distribution industry, which has historically been controlled by local governments of different provinces, is currently highly fragmented. Due to the increasing need for financing and technological upgrades, the PRC Government has in recent years opened up the natural gas transportation and distribution industry to private sector participants. These participants generally possess better access to capital and management experience to operate

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natural gas pipeline networks and facilities compared to the State-owned enterprises. Accordingly, the industry is expected to experience increased consolidation in the long term. As an integrated transporter and distributor of pipelined natural gas with strong management and financing, business-scale and cost-efficient operations, we believe that we are well-positioned to take advantage of the significant growth opportunities presented by this potential industry consolidation.

As part of our overall expansion plan, our business strategy is to carefully identify and selectively enter into strategic alliances and acquisitions that will complement our product offering, enable us to increase our market and geographical presence, enhance our technological capabilities and know-how and further accelerate our growth. In order to generate recurring revenue and stabilize our overall profitability, we are prepared to explore opportunities to acquire and integrate certain service providers along our value chain, such as natural gas pipeline operators, in order to enhance our product offering that we believe will lower our cost structure and upgrade the quality of our products. We also seek opportunities to acquire businesses with strong track records in energy related sectors and/or our upstream suppliers, such as companies that provide pipelined gas transportation and distribution and LNG processing.

We have identified three gas projects in Henan Province as our potential acquisition targets. As at the Latest Practical Date, we were still at the stage of negotiation with these companies and have not entered into any written agreement or memorandum of understanding with these companies. Our acquisition targets were carefully selected based on high criteria, such as, the target company must: (i) have already secured pipelined gas supplies or be located within 30 km from our urban branch pipeline network; (ii) have the ability to secure gas supplies for the next three years; and (iii) have a customer base of at least 100,000 residential users or industrial and commercial users that we consider ideal. We will also consider any other target companies that have sufficient scale of operation in Henan Province. Each acquisition decision must go through a stringent decision making process by our management, taking into account results of due diligence from our operations, finance and legal departments, and preliminary market research.

We believe that our expansion plan is in line with our overall growth strategies and will strengthen not only our individual operations, but also our integrated product offering. We believe that our extensive expertise in China's natural gas transportation and distribution industry and intimate relationships with key industry players will assist us in identifying strategic alliances and acquisitions that will benefit our overall business operations and enable us to achieve economies of scale.

### ***Expand the market coverage to cities currently without gas pipeline networks in China***

We intend to seek opportunities for our business proactively in cities, other than our Operating Cities, in China so as to fully capitalize on the competitive advantages that are already possessed by us. We believe that natural gas is becoming an increasingly popular source of energy for residential, commercial and industrial use, primarily due to its thermal efficiency and environmentally-friendly nature. According to the *China Statistical Yearbook 2009* and the *China Urban Construction Statistics Yearbook 2008*, in 2008, there were a total of 651 prefecture-level cities (地級市) and sub-prefecture-level cities (縣級市) in China. Sub-prefecture-level cities, in terms of administrative divisions in China, are at the same level as counties, and hence are generally under the administration of prefecture-level cities. Of the 651 prefecture-level and sub-prefecture-level cities in China, only 394 cities had pipelined gas supply. It was estimated that 270 prefecture-level and sub-prefecture-level cities will have pipelined natural gas in 2010. According to the *Henan Statistical Yearbook 2009*, as at the end of 2008, there were a total of 38 cities in Henan Province, of which 17 are prefecture-level cities and 21 are sub-prefecture-level cities, among which a total of 29

cities were connected to pipelined natural gas supply. As to the cities we operate in, Hebi City, Xuchang City and Zhengzhou City are all prefecture-level cities, whereas Shangjie District is a district within Zhengzhou City. In respect of those cities which do not have pipelined gas supply and those cities with inadequate pipeline infrastructures, we aim to grow and expand our market coverage to such cities, including those cities in Henan Province. We therefore aim to provide, subject to the successful procurement of supply from CNPC and Sinopec, a wider coverage to those provinces with inadequate pipelines or to areas with no pipeline infrastructures, thus allowing an increase of subscription by new customers from these areas. We believe that all of these cities will, in the foreseeable future, commence the construction of urban natural gas pipeline networks, following the nationwide urbanization and macroeconomic growth throughout China. We believe that our extensive expertise in China's natural gas transportation and distribution industry and intimate relationships with key industry players, including our upstream natural gas suppliers, will assist us in winning concession contracts to construct natural gas pipeline networks and transport natural gas to residential, commercial and industrial users situated in these cities.

***Actively participate in the development of urban clean energy sector***

With a view to relieve the current imbalanced demand and supply position of energy resources, improve the energy consumption pattern and facilitate energy saving and emission reduction, the PRC Government has announced the *Natural Gas Utilizing Policy* in 2007, which requires the State policy on natural gas utilization to be formulated by the PRC Government in order to ensure priority in using natural gas in major cities. This also facilitates the orderly development of natural gas, thereby enhancing the utilization efficiency of energy resources. The PRC Government has further promulgated the *Circular Economy Promotion Law* ("CEPL") on 29 August 2008. Under the CEPL, the State encourages and supports enterprises to use highly-efficient and oil-saving energies and products. Enterprises in industries, such as oil processing, chemical, steel, non-ferrous metal and building materials production industries, must replace the consumption of fuel oil with clean energy, such as natural gas, within the scope and time limit prescribed by the government.

The promulgation and implementation of these laws and policies demonstrates the PRC Government's decision to encourage the use of clean energy. As a principal pipelined natural gas transporter and distributor as well as gas pipeline connections operator with extensive industrial knowledge and experience, we believe that we are in a position to actively participate in the development of China's clean energy sector. In addition to the development of pipelined natural gas, which is our main focus, we also plan to participate in the development and exploration of LNG and biofuel business opportunities. Our development and exploration plan of LNG is to establish a LNG processing factory in Shaanxi Province with daily processing capacity of 100,000 m<sup>3</sup>. The construction period will be approximately one year. As at the Latest Practicable Date, we are in the process of negotiating with third parties to jointly invest in the plan, however, we have not entered into any written agreement or memorandum of understanding with such third parties. Nitrogen expansion and liquefying process will be employed in the proposed LNG processing factory. We expect to expend a total investment of RMB51.0 million for factory construction and an additional RMB25.0 million for construction of auxiliary pipelines to transport natural gas from gas fields to the factory. We also plan to develop and explore biofuel by investing RMB8.0 million to purchase equipment and machinery to process maize straw into biofuel of annual production capacities of 1.46 million m<sup>3</sup>, using technologies such as high-pressure stabilization and oxidative fermentation technology, biogas decarbonization and purification technology and long-term maize straw storage technology. We plan to operate our biofuel project through sole proprietorship or through joint ventures. The feasibility studies for our biofuel project are to be commenced and we expect our experimental development phase to begin in January 2011 and continue to July 2011.



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### EXPANSION PLAN

The following table sets forth, among others, the details of our expansion plan, estimated total investment and source of funding that we have planned or are considering as at the Latest Practicable Date:

Type of expansion	Details of the expansion	Status of the expansion	Date of expected completion	Estimated total investment (RMB)	Total investment for the six months ended 30 June 2010 (RMB)	Source of funding
Pipeline network expansion	Expand and enhance (for the year 2010) our current urban branch pipeline networks and extend to uncovered urban and suburban areas in our Operating Cities by constructing 71.6 km of new urban branch pipeline networks	Construction commenced in January 2010	On or before 31 December 2010	25.0 million	7.0 million	Working capital
Gas processing facility	Construct one additional processing facility in Hebi City with a projected production capacity of 20,000 m <sup>3</sup> /hour	Construction to commence	Not applicable	2.0 million	Nil	Working capital
Expansion of service coverage <sup>(1)</sup>	To enter into strategic alliances and acquisitions in cities with gas pipeline networks  To expand into cities currently without gas pipeline networks	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Develop and explore LNG opportunities <sup>(1)</sup>	Establish a LNG processing factory in Shaanxi with daily processing capacity of 100,000 m <sup>3</sup>	Negotiating with third parties to jointly invest in the project <sup>(2)</sup>	Not applicable	51.0 million for factory construction	Nil	(i) Working capital; and (ii) Net proceeds from the Global Offering
Develop and explore biofuel opportunities <sup>(1)</sup>	Purchase equipment and machinery to process maize straw into biofuel with annual production capacity of 1.46 million m <sup>3</sup>	Feasibility studies to commence  Experimental development phase to begin in January 2011	Not applicable	8.0 million	Nil	Net proceeds from the Global Offering

Note:

- (1) Such plans are our long-term plans and, as at the Latest Practicable Date, we have not entered into any written agreement or memorandum of understanding with any party.
- (2) We have not entered into any written agreement or memorandum of understanding with such third parties.

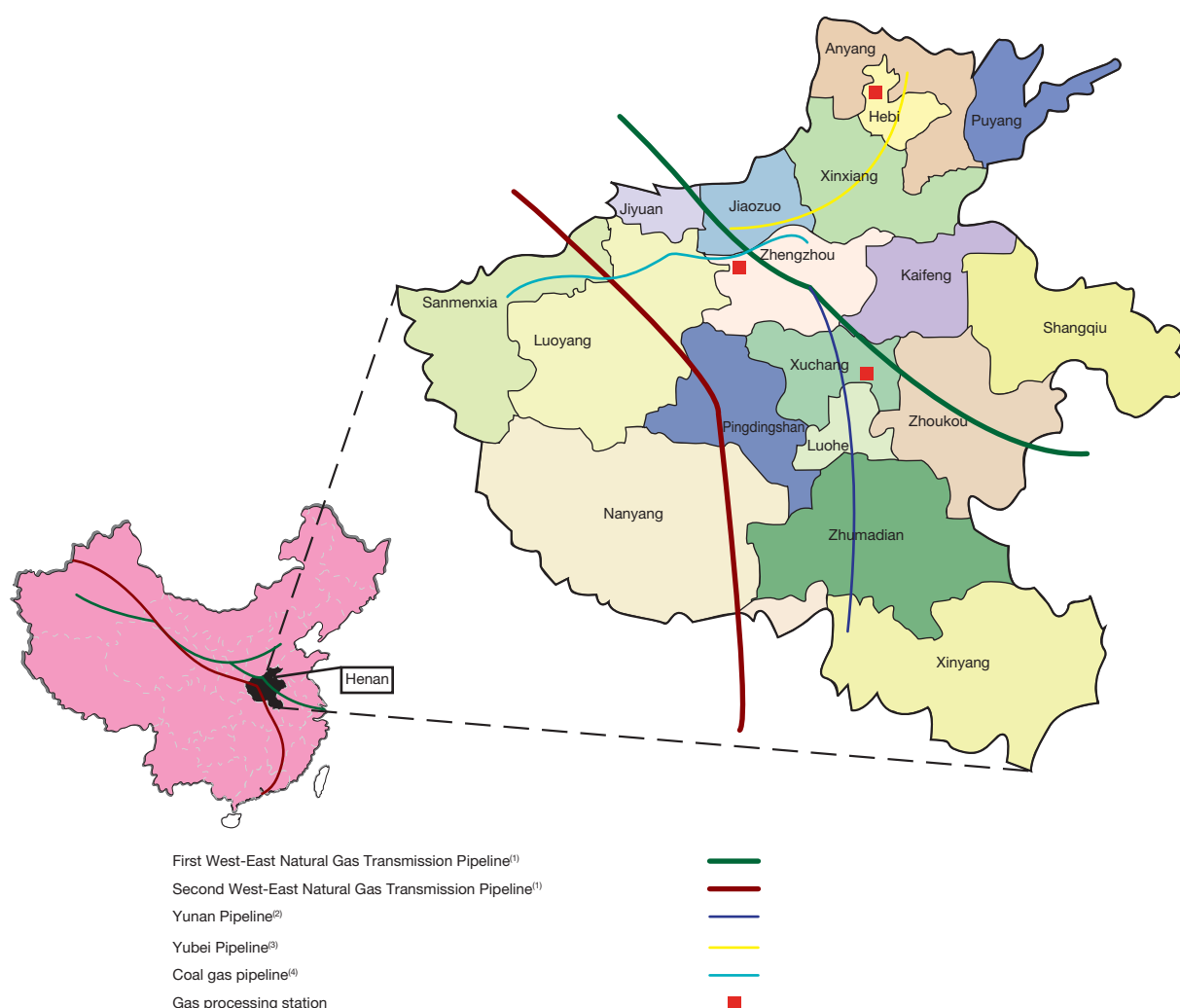
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As at the Latest Practicable Date, we have identified three gas projects in Henan Province as our potential acquisition targets, and we were still at the stage of negotiation and have not entered into any written agreement or memorandum of understanding with these companies. Our acquisition targets were carefully selected based on high criteria, such as, the target company must: (i) have already secured pipelined gas supplies or be located within 30 km from our urban branch pipeline networks; (ii) have the ability to secure gas supplies for the next three years; and (iii) have a customer base of at least 100,000 residential users or industrial and commercial users that we consider ideal. We will also consider any other target companies that have sufficient scale of operation in Henan Province.

### AREAS OF OPERATIONS AND THE CONCESSIONS

#### *Areas of Operations*

The map below shows our main areas of operations.



Notes:

- (1) Operated by PetroChina Company Limited (中國石油天然氣股份有限公司).
- (2) Operated by Henan Lantian Gas Co., Ltd. (河南藍天燃氣股份有限公司).

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(3) Operated by Henan Ancai Energy Co., Ltd. (河南安彩能源股份有限公司).

(4) Operated by Henan Gas (Group) Limited Pipeline Branch (河南省煤氣(集團)有限責任公司管道輸氣分公司).

We do not own any of the pipelines illustrated in the map above.

### *The Concessions*

We entered into Concession Agreements with the local governments of our Operating Cities in Henan Province by which they granted our Project Companies the exclusive right to provide pipelined gas transportation and distribution in our Operating Cities. Under the terms of the Concession Agreements, the Concession grantors granted us the exclusive right to operate, manage and maintain certain pipelines and operational fixed assets to transport and distribute natural gas or coal gas to the end-users. Details of our Concessions are set forth below:

<u>Operating Cities</u>	<u>Concession start/ end year</u>	<u>Concession grantor</u>	<u>Concession grantee</u>	<u>Consideration and method of payment</u>	<u>Payment made under the Concession Agreements during the Track Record Period</u>	<u>Balance to be paid</u>
Hebi (鶴壁市)	2002-2032 <sup>(1)</sup>	Hebi Construction Committee (鶴壁市建設委員會)	Henan Tian Lun Engineering Investment (assumed by Hebi Tian Lun)	RMB1,100,000 annual fee	RMB2,200,000 <sup>(3)</sup>	RMB24,200,000 <sup>(4)</sup>
Xuchang (許昌市)	2003-2053	Xuchang Development and Planning Committee (許昌市發展與計劃 委員會)	Henan Tian Lun Engineering Investment (assumed by Xuchang Tian Lun)	Assumption of an interest bearing foreign currency debt of principal amount of US\$3,850,000 <sup>(2)</sup>	RMB4,959,000	RMB13,087,000 <sup>(5)</sup>
Shangjie District of Zhengzhou City (鄭州市上街區)	2007-2037 <sup>(1)</sup>	Shangjie District of Zhengzhou City Construction Bureau (鄭州市上街區建設局)	Shangjie Tian Lun	Cash purchase of RMB9,500,000 for State-owned assets and assumption of debt of RMB16,260,000	RMB25,760,000	Nil

Notes:

(1) Subject to renewal after expiration of the relevant Concession period.

(2) Equivalent to approximately RMB31,866,000 based on the exchange rate as at 30 September 2003, which is the date the Concession Agreement of Xuchang City was entered into. The assumption of the said debt included the assumption of the interest accrued and unpaid up to 31 December 2003 of approximately US\$1.12 million.

(3) The local government agreed to waive the Concession fee in 2007 as an incentive for us to operate our gas business in Hebi City.

(4) Concession fee for 2010 has not yet been paid as at 30 June 2010. We typically pay the annual fee in the fourth quarter of each year and expect to fully settle the outstanding balance within the Concession period.

(5) We expect to fully settle the outstanding balance before May 2036 when it is due under the debt assignment.

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The following are some of the key terms of the Concession Agreements:

- *Exclusivity, Term and Operational Areas of Concessions.* Depending on the Concession Agreements, terms of our Concessions range from 30 years (for Hebi City and Shangjie District of Zhengzhou City) to 50 years (for Xuchang City). As advised by Grandall Legal Group, according to the principle of non-retroactivity, *Measures on the Administration of the Franchising of Municipal Public Utilities* (市政公用事業特許經營管理辦法) (“Measures”), which came into force on 1 May 2004, stipulating that a concession term shall not exceed 30 years and shall not be applied retrospectively. The Concession in Shangjie District of Zhengzhou City is subject to early termination as provided by the relevant Concession Agreement. However, according to the Concession Agreements in respect of Hebi City and Xuchang City, there are no early termination clauses, subject to early termination stipulations as provided in the Measures. The relevant Concession Agreements for two of our Project Companies, one in Hebi City and the other in Shangjie District of Zhengzhou City, stipulate that, subject to governmental approval, these Project Companies are entitled to renew the relevant Concessions upon: (i) their expiration using the tender process; (ii) meeting the tender requirements as set out by the relevant authority; and (iii) winning the bid. Subject to the Measures, Xuchang Tian Lun may renew the Concession. As advised by Grandall Legal Group, there are no impediments to us renewal of the relevant Concession Agreements. By virtue of the Concession Agreements, the local governments of our Operating Cities transferred their obligations in their respective cities to our Project Companies on an exclusive basis. These Concessions are not transferable without governmental approval.
- *Ownership of Assets.* We have the right to use, operate, manage and maintain the pipeline networks and certain fixed assets in our Operating Cities. The legal title to all fixed assets and pipeline networks in relation to the Concession Agreements operated by our Project Companies remains with us. Upon the expiration of the Concessions or mutually agreed early termination of the Concession in the case of Shangjie District of Zhengzhou, the local government may buyback the legal title to the pipeline networks and fixed assets in that Operating City at a fair consideration.
- *Consideration.* Considerations for our Concessions were paid through various methods, such as: (i) an annual fee of RMB1,100,000 for the Concession in Hebi City; (ii) assumption of foreign currency debts of US\$3,850,000 for the Concession in Xuchang City; and (iii) a one-off cash payment of RMB9,500,000 for State-owned assets and an assumption of debt of RMB16,260,000 under the Concession Agreement in relation to Concession in Shangjie District.
- *Operations.* Under the circumstance that we ensure the safe condition and the smooth operation of the pipeline networks, we have the exclusive right to transport and sell pipelined gas in our Operating Cities.
- *Early Termination.* The Concession grantor of Shangjie has the right to early termination of the Concession in Shangjie under certain circumstances, which include: (i) the occurrence of *force majeure* events; (ii) by mutual agreement of the parties; and (iii) cancellation of the Concession by the grantor. Circumstances which may give rise to cancellation of the Concession in Shangjie by the grantor include the following actions by us during the period of Concession: (i) unauthorized transfer or lease of the Concession by us to any third party; (ii) unauthorized dealing in or pledge of our operating assets; (iii) serious quality or production safety incidents due to poor management;

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(iv) unauthorized suspension of business and gases sold by us that causes serious public interest and safety concerns; and (v) engagement in any unlawful conduct.

Our Directors have confirmed that we have not experienced any breach of our obligations under the Concession Agreements.

### KEY PERFORMANCE INDICATORS

The following table sets forth the breakdown of our revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009 (unaudited)	2010
<b>Revenue (RMB million)</b>					
Transportation and Sales of Pipelined Gas Operation .....	26.2	57.7	84.9	39.5	50.6
Gas Pipeline Connections Operation .....	37.8	67.6	90.6	41.3	58.7
Others .....	1.9	2.4	3.7	1.1	5.7
<b>Total revenue .....</b>	<b><u>65.9</u></b>	<b><u>127.7</u></b>	<b><u>179.2</u></b>	<b><u>81.9</u></b>	<b><u>115.0</u></b>

The following tables set forth the breakdown of revenue of our transportation and sales of pipelined gas operation by user category and by Operating City, the breakdown of our volume of pipelined gas sold and the breakdown of our users' connections for our transportation and sales of pipelined gas operation for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009 (unaudited)	2010
<b>Breakdown by user category (RMB million)</b>					
Residential .....	8.1	12.4	17.6	8.8	12.4
Commercial .....	9.6	13.5	22.4	9.6	15.2
Industrial .....	5.4	19.4	22.4	10.5	10.9
CNG .....	—	2.4	11.5	4.0	8.8
Others <sup>(1)</sup> .....	3.1	10.0	11.0	6.6	3.3
<b>Total revenue .....</b>	<b><u>26.2</u></b>	<b><u>57.7</u></b>	<b><u>84.9</u></b>	<b><u>39.5</u></b>	<b><u>50.6</u></b>
<b>Breakdown by Operating City (RMB million)</b>					
Hebi City .....	11.4	17.1	27.5	12.2	17.0
Xuchang City .....	7.8	15.9	29.1	11.7	21.6
Shangjie District, Zhengzhou City .....	7.0	24.7	28.3	15.6	12.0
<b>Total revenue .....</b>	<b><u>26.2</u></b>	<b><u>57.7</u></b>	<b><u>84.9</u></b>	<b><u>39.5</u></b>	<b><u>50.6</u></b>

Note:

(1) Mainly consisting of schools, government offices, military bases and hospitals.

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	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
<b>Volume of pipelined gas sold (m<sup>3</sup>)</b>					
Natural gas .....	11,166,918	17,535,939	24,236,111	11,403,565	15,447,183
Coal gas .....	7,479,835	26,996,077	24,647,173	14,831,616	10,094,113
CNG .....	— <sup>(2)</sup>	781,405	3,877,685	1,294,599	3,232,765
<b>Total sales volume .....</b>	<b><u>18,646,753</u></b>	<b><u>45,313,421</u></b>	<b><u>52,760,969</u></b>	<b><u>27,529,780</u></b>	<b><u>28,774,061</u></b>
			<b>As at 31 December</b>		<b>As at 30 June</b>
			<b>2007</b>	<b>2008</b>	<b>2009</b>
					<b>2010</b>
<b>Users' connections for our transportation and sales of pipelined gas operation (units)</b>					
Residential users .....	45,053	66,852	108,929	135,825	
Commercial users .....	287	405	541	620	
Industrial users .....	16	30	51	60	
Other users <sup>(1)</sup> .....	77	96	121	140	
<b>Total connections .....</b>	<b><u>45,433</u></b>	<b><u>67,383</u></b>	<b><u>109,642</u></b>	<b><u>136,645</u></b>	
<b>Constructed pipelines (kilometers) .....</b>	<b><u>488.8</u></b>	<b><u>612.7</u></b>	<b><u>750.6</u></b>	<b><u>837.1</u></b>	
<b>CNG filling station (units) .....</b>	<b><u>0<sup>(2)</sup></u></b>	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>2<sup>(3)</sup></u></b>	

Notes:

(1) Mainly consisting of schools, government offices, military bases and hospitals.

(2) We commenced our distribution and sales of CNG in April 2008.

(3) The second CNG filling station in Hebi City commenced operation in the third quarter of 2010, which has not been included in this figure.

The following table sets forth the breakdown of our revenue of our gas pipeline connections operation by user category for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
<b>Revenue (RMB million)</b>					
Residential users .....	35.5	60.2	78.1	36.6	52.4
Commercial users <sup>(1)</sup> .....	1.8	4.7	8.7	3.7	5.8
Industrial users .....	0.5	2.7	3.8	1.0	0.5
<b>Total revenue .....</b>	<b><u>37.8</u></b>	<b><u>67.6</u></b>	<b><u>90.6</u></b>	<b><u>41.3</u></b>	<b><u>58.7</u></b>

Note:

(1) Include other users.

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### TRANSPORTATION AND SALES OF PIPELINED GAS OPERATION

#### *Products*

#### **Natural gas**

We are one of the principal pipelined gas transporters and distributors in Henan Province, pursuant to Concessions of 30 years or longer. We transport, distribute and sell pipelined natural gas or coal gas in our Operating Cities. In 2007, 2008 and 2009, we sold 11.2 million m<sup>3</sup>, 17.5 million m<sup>3</sup> and 24.2 million m<sup>3</sup> of natural gas, respectively, representing a CAGR of 47.3% for the two-year period. For the six months ended 30 June 2010, we sold 15.4 million m<sup>3</sup> of natural gas. We believe that natural gas is becoming an increasingly major source of energy for residential, commercial and industrial users, particularly in the urban areas, primarily due to the thermal efficiency and environmentally-friendly nature of natural gas.

The following table sets forth information relating to the volume of natural gas sold by us for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
<b>Total natural gas sold (m<sup>3</sup> in thousand)</b>					
Residential .....	4,643	6,874	9,352	4,571	6,207
Commercial .....	4,290	5,237	7,922	3,957	5,321
Industrial .....	1,379	3,985	4,451	1,922	2,384
Other <sup>(1)</sup> .....	855	1,440	2,511	954	1,535
<b>Total .....</b>	<b><u>11,167</u></b>	<b><u>17,536</u></b>	<b><u>24,236</u></b>	<b><u>11,404</u></b>	<b><u>15,447</u></b>

Note:

(1) Mainly consisting of schools, government offices, military bases and hospitals.

#### **Coal gas**

We also transport and distribute coal gas to residential, commercial, industrial and other users in Shangjie District of Zhengzhou City. Coal gas, or artificial coal gas, is an ancillary product of the coal to coke conversion process. Coal gas is considered a less environmentally-friendly and less efficient energy source compared to natural gas. In 2007, 2008 and 2009, we sold approximately 7.5 million m<sup>3</sup>, 27.0 million m<sup>3</sup> and 24.6 million m<sup>3</sup> of coal gas, respectively, representing a CAGR of 81.1% for the two-year period. For the six months ended 30 June 2010, we sold 10.1 million m<sup>3</sup> of coal gas.

Coal gas distributed by our Shangjie project company, Shangjie Tian Lun, is purchased from Henan Gas (Group) Limited Pipeline Branch\* (河南省煤氣(集團)有限責任公司 管道輸氣分公司). Upon the commencement of commercial operation of the Second West-East Natural Gas Transmission Pipeline, we plan to gradually convert our coal gas users into natural gas users. We estimate that all pipelined gas users of our Company, including those currently supplied with coal gas, will be provided with only natural gas by the end of 2011. We expect to expend approximately RMB3.5 million in aggregate for the implementation of the conversion program in Shangjie District. Based on our current assessment of the relevant pricing and cost factors, we expect that our gross profit margin going forward will be positively affected by the conversion upon its completion.

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The following table sets forth information relating to the volume of coal gas sold by us for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
<b>Total coal gas sold (m<sup>3</sup> in thousand)</b>					
Residential .....	1,085	2,663	3,554	1,929	3,099
Commercial .....	911	1,928	2,012	1,080	850
Industrial .....	2,778	12,369	10,531	5,443	4,275
Other <sup>(1)</sup> .....	2,705	10,036	8,550	6,378	1,870
<b>Total</b> .....	<b>7,479</b>	<b>26,996</b>	<b>24,647</b>	<b>14,832</b>	<b>10,094</b>

Note:

(1) Mainly consisting of schools, government offices, military bases and hospitals.

### CNG

In addition, we also distribute and sell compressed natural gas as vehicular fuel, or CNG, through the CNG filling stations operated by us in two of our Operating Cities. We operate these CNG filling stations under our transportation and sales of pipelined gas operation. CNG is a compressed form of natural gas and can be used in engines designed or modified for use with fuel. CNG sold from our CNG filling stations is compressed by our own facilities from the pipelined natural gas supplied to us by our suppliers. We commenced our distribution and sales of CNG in April 2008. Our distribution and sales of CNG is conducted by Hebi Tian Lun Vehicle and Xuchang Tian Lun Vehicle. As at 30 June 2010, we owned and operated one CNG filling station in Hebi City and another in Xuchang City. In the third quarter of 2010, our second CNG filling station in Hebi City commenced operation and brought the total number of CNG filling stations we owned and operated to three. CNG is sold to taxis and buses that operate on vehicular natural gas technology.

The following table sets forth information relating to our distribution and sales of CNG for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
<b>CNG</b>					
Sales volume (m <sup>3</sup> ) .....	— <sup>(1)</sup>	781,405	3,877,685	1,294,599	3,232,765
CNG filling station (units) .....	— <sup>(1)</sup>	1	2	2	2 <sup>(2)</sup>

Notes:

(1) We started to generate revenue from our distribution and sales of CNG in April 2008 in Hebi and in May 2009 in Xuchang.

(2) The second CNG filling station in Hebi City commenced operation in the third quarter of 2010, which has not been included in this figure.

### *Pipelined Gas Delivery Process*

The pipelined gas delivery process comprises long-distance as well as local transportation and distribution. In the case of natural gas, long-distance transportation refers to the transportation of natural gas from gas fields and oil fields via long-distance pipelines to the city gateways of our Operating Cities. In the case of coal gas, it refers to the transportation from Henan Gas (Group)



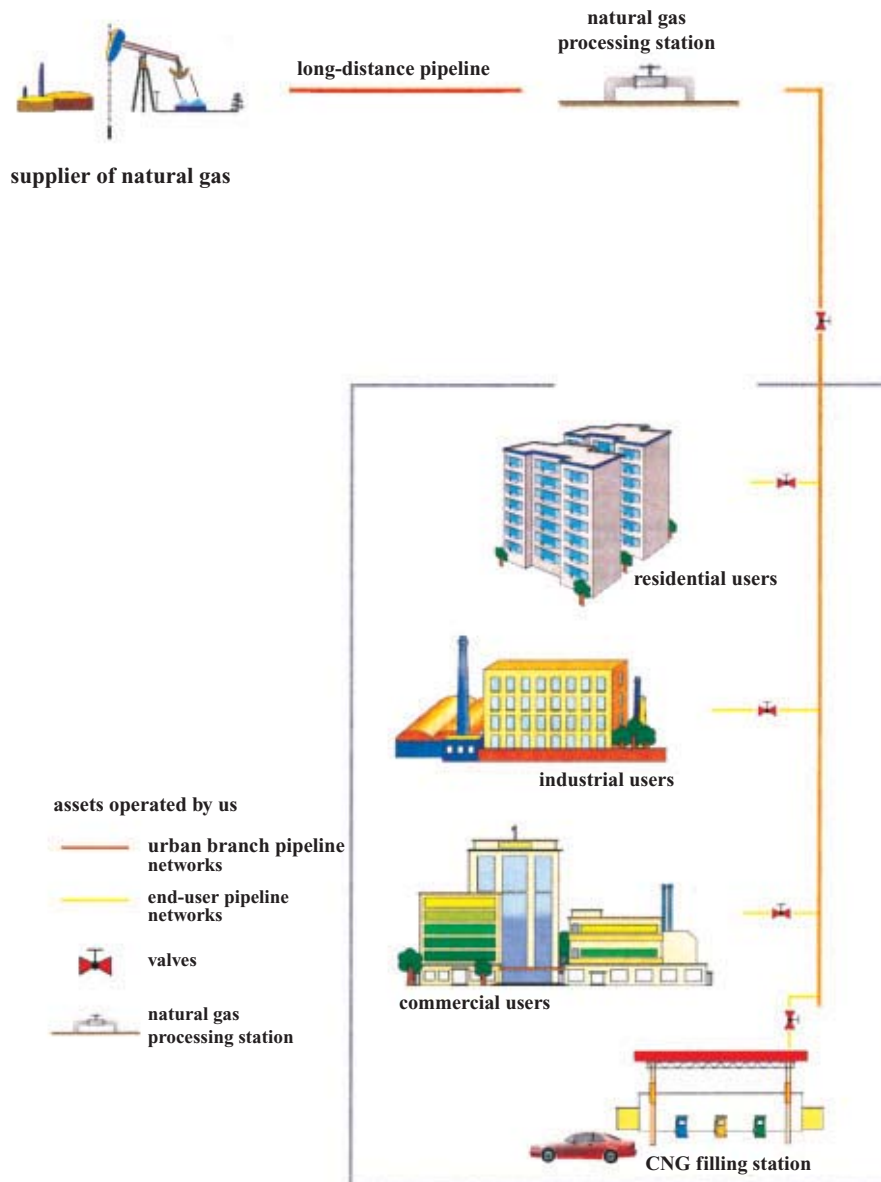
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Limited Pipeline Branch to the gas processing station operated by our Shangjie project company, Shangjie Tian Lun. Local transportation and distribution refers to the delivery of natural gas or coal gas through our urban branch pipeline networks and the end-user pipeline networks, with the appropriate regulation of pressure and composition, through to the end-users.

For the layout of the long-distance transportation pipelines, please refer to “— Areas of Operations and the Concessions” in this Prospectus. The following diagram illustrates the major flow of transportation and distribution of natural gas.



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### *Facilities*

The principal operational facilities for our transportation and sales of pipelined gas operation include gas processing stations, urban branch pipeline networks and end-user pipeline networks, and CNG filling stations operated by us for our distribution and sales of CNG. The following table sets forth the principal facilities operated by us for transportation and sales of pipelined gas operation:

Operation facilities	Status of operation	Location	Specification
Gas processing stations	one in operation <sup>(1)</sup>	Hebi City	hourly designed processing capacity of 15,000 m <sup>3</sup>
	one in operation <sup>(1)</sup>	Xuchang City	hourly designed processing capacity of 24,000 m <sup>3</sup>
	one in operation <sup>(1)</sup>	Zhengzhou City	hourly designed processing capacity of 7,500 m <sup>3</sup>
Urban branch pipeline networks and end-user pipeline networks	320.4 kilometers in operation <sup>(2)</sup>	Hebi City	high-, mid- or low-pressure gas distribution pipeline of approximately 320.4 kilometers in length
	379.9 kilometers in operation <sup>(2)</sup>	Xuchang City	mid- or low-pressure gas distribution pipeline of approximately 379.9 kilometers in length
	137.2 kilometers in operation <sup>(2)</sup>	Zhengzhou City	mid- or low-pressure gas distribution pipeline of approximately 137.2 kilometers in length
CNG filling stations	two in operation <sup>(1)</sup>	Hebi City	daily designed capacity of 20,000 m <sup>3</sup> each
	one in operation <sup>(1)</sup>	Xuchang City	daily designed capacity of 20,000 m <sup>3</sup>

Notes:

(1) As at the Latest Practicable Date.

(2) As at 30 June 2010.

Our Directors confirm, as we generally construct our principal operational facilities in anticipation of our future expansion, that: (i) our gas processing stations and our urban branch pipeline networks were sufficient to supply pipelined gas to our users in our Operating Cities during the Track Record Period; and (ii) our current gas processing stations and urban branch pipeline networks, as well as the planned construction of gas processing stations and urban branch pipeline networks for the year ending 31 December 2010 will be sufficient to supply pipelined gas to all existing and future users in our Operating Cities for the year ending 31 December 2010. Based on the current business and operational environment, we believe we will have sufficient gas processing stations and urban branch pipeline networks to supply pipelined gas to our existing and future users, and for the existing and future demands, in our Operating Cities.

### **Gas processing stations**

A gas processing station acts as a gateway station bridging high-pressure pipelined gas that is being transmitted from our suppliers to us. Our gas processing stations have three primary functions:

- *Pressure regulating* — as the pressure applied in transmitting natural gas or coal gas from gas fields or coke conversion plants through the long-distance transportation pipelines is

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higher, and the fluctuations in pressure and volume flow are much larger than those of the connecting pipelines, the pressure of natural gas has to be regulated or lowered at the processing stations before further transportation into the urban branch pipeline networks;

- *Quantifying* — we quantify and verify the amount of gas purchased from the suppliers for the purpose of settlement; and
- *Cleansing and odorizing* — the primary purpose of this process is to cleanse natural gas and coal gas further and to add a readily detectable but harmless odor so that users and the general public can be alerted to gas leakages.

As at the Latest Practicable Date, we operated three gas processing stations in three of our Operating Cities.

### **Urban branch pipeline networks**

After processing, natural gas and coal gas is transported and distributed through the urban branch pipeline networks operated by us. Our networks consist of high-, mid- and low-pressure pipelines ranging in diameter from 32 millimeters to 315 millimeters. The pipes are made of polyethylene, steel and other materials. For the layout of the long-distance transportation pipelines, please refer to “— Areas of Operations and the Concessions” in this Prospectus.

As at 30 June 2010, we operated a total of approximately 837 kilometers of gas pipeline networks for the distribution of natural gas and coal gas in our Operating Cities. To ensure a stable and consistent supply of gas, our urban branch pipeline networks are designed and constructed as a ring pipeline network. The ring pipeline network ensures that the gas supply is not completely cut off in the event of any single point failure along the ring. In the case of a failure at a particular section of the ring, a substantial portion of the gas can still be transported to the end-users.

### **CNG filling stations**

A CNG filling station sells compressed natural gas to automobiles that are powered on vehicular natural gas technology. As at 30 June 2010, we operated one CNG filling station in Hebi City and another in Xuchang City. In the third quarter of 2010, our second CNG filling station in Hebi City commenced operation and brought the total number of CNG filling stations we owned and operated to three.

### ***Purchase and Supply***

#### **Natural gas**

We purchase natural gas for pipelined delivery to end-users. The amount of natural gas we purchase is dependent on the consumption of our customers. When our customers consume natural gas, the pressure in our pipelines will decrease and our natural gas processing stations, which are connected to the pipelines of our suppliers and regulate the inflow of natural gas, will automatically adjust the flow of natural gas from our suppliers to maintain the pressure in our pipelines. The meters of our suppliers and the meters installed at our natural gas processing stations will then record the amount of natural gas supplied to us. During the Track Record Period, we had two pipelined natural gas suppliers. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the purchased volume from such two suppliers for natural gas was 12.4 million m<sup>3</sup>, 19.8 million m<sup>3</sup>, 29.3 million m<sup>3</sup> and 19.4 million m<sup>3</sup>, respectively. The purchase from

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our largest supplier of pipelined natural gas for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 accounted for 27.6%, 18.6%, 19.4% and 19.8% of our total cost of sales, respectively. Furthermore, such suppliers generally provide us with a credit period from ten to 90 days to settle the natural gas fees.

The purchase and sales volume of our natural gas is based on the benchmark volume allocated to us and our suppliers by the *Henan Development and Reform Commission*. This allocated benchmark volume is only indicative of the actual volume that is supplied. The *Henan Development and Reform Commission* encourages downstream users of natural gas, such as our pipelined natural gas suppliers, to demand additional quantities from CNPC. When we anticipate shortfall in the supply of natural gas, we will approach our relevant supplier to demand additional quantities of natural gas. The amount of additional natural gas to be provided by our relevant supplier will be determined by negotiation. During the Track Record Period, we demanded additional quantities from our suppliers to cover our shortfalls, without incurring disruption to our sales and distribution of natural gas. In 2007, 2008, 2009 and 2010, our suppliers' allocated benchmark volume was 714 million m<sup>3</sup>, 684 million m<sup>3</sup>, 724 million m<sup>3</sup> and 800 million m<sup>3</sup>, respectively, and our allocated benchmark volume was 13.5 million m<sup>3</sup>, 15.5 million m<sup>3</sup>, 15.5 million m<sup>3</sup> and 27.0 million m<sup>3</sup>, respectively. Furthermore, we may acquire natural gas from other alternative suppliers when our pipelined natural gas suppliers cannot provide us with the additional quantities of natural gas that we require. During one of the months in the Track Record Period, Hebi Tian Lun made small purchases of natural gas from an alternative supplier to temporarily satisfy our shortfalls of natural gas. As at the Latest Practicable Date, we did not engage any alternative pipelined gas suppliers other than our two pipelined natural gas suppliers, although we retain the ability to purchase from alternative suppliers should we experience a shortfall.

The purchase price of natural gas comprises pre-determined ex-factory price and pipeline transportation cost. The pre-determined ex-factory price, an effective base price, is set by the NDRC and is generally adjusted every year. The retail price of natural gas is subject to a ceiling imposed by the *Commodity Price Bureau* or the local *Development and Reform Commission*. Any adjustments by us to meet the NDRC's increase must be approved by the *Commodity Price Bureau* or the local *Development and Reform Commission*. The pre-determined ex-factory price is determined and adjusted in accordance with the five-year average price of crude oil, LPG and coal, placing a weighted average of 40%, 20% and 40%, respectively. The pipeline transportation cost is also determined by NDRC and calculated in accordance with the distance transported in kilometers.

Depending on the location of our Operating Cities, we source the natural gas from our two suppliers. The following table sets forth the suppliers, utilized long-distance pipelines and total volume of natural gas supplied to us in the periods indicated:

Project Company	Supplier	Main business of supplier	Pipeline	Gas source	For the year ended 31 December			For six months ended 30 June	
					2007	2008	2009	2009	2010
					('000 m <sup>3</sup> )			('000 m <sup>3</sup> )	
Hebi	Henan Ancai Energy Co., Ltd. <sup>(1)</sup> (河南安彩能源股份有限公司)	Pipeline operation	Yubei Pipeline <sup>(2)</sup>	Tarim Basin	8,163	11,018	14,631	6,731	9,107
Xuchang	Henan Lantian Gas Co., Ltd. <sup>(1)</sup> (河南藍天燃氣股份有限公司)	Pipeline operation	Yunan Pipeline <sup>(2)</sup>	Tarim Basin	4,282	8,768	14,702	6,694	10,342

Notes:

(1) We do not have any interest in these operators of pipeline systems or oil and gas fields.

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(2) Yubei (meaning Northern Henan) and Yunan (meaning Southern Henan) Pipelines are both branch natural gas pipelines of the First West-East Natural Gas Transmission Pipeline.

Henan Ancai Energy Co., Ltd\* is a State-owned enterprise, held by a Shanghai Stock Exchange listed company, Henan Ancai High-Tech Co., Ltd\* (河南安彩高科股份有限公司). Henan Lantian Gas Co., Ltd\* is a private entity, held by Henan Lantian Group Co., Ltd\* (河南藍天集團有限公司). The Tarim Basin, where our two pipelined natural gas suppliers source their natural gas, is operated by an upstream supplier, CNPC. Both of our pipelined natural gas suppliers operate solely as long-distance gas pipeline operators and do not own any gas fields or oil fields. Our two pipelined natural gas suppliers were our sole upstream pipelined natural gas suppliers of the respective Operating Cities during the Track Record Period, but they were not the designated suppliers of natural gas to the relevant Operating Cities. Upon commercial operation of the Second West-East Natural Gas Transmission Pipeline, our Directors believe that more pipelined natural gas suppliers will be able to provide pipelined natural gas to the relevant Operating Cities and we will be able to source our natural gas from these alternative suppliers. Our Directors confirm that, none of these suppliers are affiliated with us, our Directors, our chief executives, our senior management team members or our substantial Shareholders. Our Directors confirm also that, we have not entered into any long-term agreements with our pipelined natural gas suppliers as the benchmark allocations from such suppliers are determined by the NDRC. The key terms of our natural gas purchase arrangements with our pipelined natural gas suppliers include that: (i) the purchase volume is subject to NDRC's benchmark allocation and our ability to obtain extra volume from upstream suppliers; (ii) the ex-factory price and pipeline transportation cost are set by the NDRC; (iii) the settlement is determined weekly with upstream suppliers; and (iv) the daily gas supply is confirmed with upstream suppliers. Due to the public utility nature of our operations, suppliers are not required to compensate us for our loss when they fail to supply the amount of natural gas we require.

Natural gas demand and consumption is seasonal, particularly to residential users. We purchase our natural gas based on actual sales volume and we generally do not have excess natural gas which requires storage. During low consumption seasons, should there be any excess natural gas, we may increase our pipeline pressure to store a small quantity of gas within the pipelines, or utilize our CNG gas tanks to store large quantities of natural gas. In recent years, the purchase prices of our natural gas are determined by negotiation between our Project Companies and the suppliers, subject to the base price determined by the NDRC. According to the arrangements between our Project Companies and the suppliers, there is no seasonal difference for the purchase price of natural gas. We are able to pass cost increments down to our end-users for our sale of CNG but not for our sale of natural gas due to the price control placed by the NDRC.

The following table sets forth our purchase prices of natural gas by category of users for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	Approximately RMB/m <sup>3</sup>			Approximately RMB/m <sup>3</sup>	
<i>Hebi Tian Lun</i>					
Industrial users .....	1.38	1.38/1.78 <sup>(2)</sup>	1.78/1.86 <sup>(2)</sup>	1.78	1.86/1.78/2.13 <sup>(2)</sup>
Other users <sup>(1)</sup> .....	1.38	1.38	1.38/1.44/1.49 <sup>(2)</sup>	1.38/1.44 <sup>(2)</sup>	1.49/1.44/1.69 <sup>(2)</sup>
<i>Xuchang Tian Lun</i>					
Industrial users .....	1.36	1.36/1.76 <sup>(2)</sup>	1.76/1.82 <sup>(2)</sup>	1.76/1.82 <sup>(2)</sup>	1.82/2.11 <sup>(2)</sup>
Other users <sup>(1)</sup> .....	1.36	1.36	1.36/1.42 <sup>(2)</sup>	1.36/1.42 <sup>(2)</sup>	1.42/1.67 <sup>(2)</sup>

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Notes:

- (1) Consisting of any users other than industrial users, including but not limited to residential users and commercial users.
- (2) Prices were adjusted in their relevant year.

### Coal gas

Coal gas is an ancillary product generated from the production process of coal into coke. During the Track Record Period, all of the coal gas distributed by us was purchased from Henan Gas (Group) Limited Pipeline Branch\*, an Independent Third Party of our Company. Other than Henan Gas (Group) Limited Pipeline Branch\*, we did not have any other supplier or alternative suppliers for the supply of coal gas. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we have purchased 7.7 million m<sup>3</sup>, 26.1 million m<sup>3</sup>, 24.7 million m<sup>3</sup> and 10.9 million m<sup>3</sup> of coal gas from Henan Gas (Group) Limited Pipeline Branch\*, respectively. The purchases from such supplier accounted for 15.8%, 26.5%, 26.2% and 19.1% of our total cost of sales, respectively, for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010. Furthermore, we were generally provided with a credit period from ten to 90 days to settle the coal gas fees.

Henan Gas (Group) Limited Pipeline Branch\* is a State-owned enterprise, held by Henan Coal Chemical Industry Group Co., Ltd\* (河南煤業化工集團有限責任公司), an Independent Third Party. It supplies artificial coal gas, utilizing its coal processing plant located in Yima County, Sanmenxia City of Henan Province to manufacture, produce and transport coal gas to us in Shangjie District via underground pipelines. The coal mine, where Henan Gas (Group) Limited Pipeline Branch sources its coal, is operated by a State-owned enterprise. During the Track Record Period, Henan Gas (Group) Limited Pipeline Branch\* was the sole supplier, but not the designated supplier of coal gas to Shangjie District. The key terms of our coal gas purchase agreement with our supplier include that: (i) the daily maximum purchase volume must be between 40,000 m<sup>3</sup> and 160,000 m<sup>3</sup>, and the supplied volume for each month is based on the application made by us, subject to approval by our supplier, on the 20th of the previous month; (ii) the price is determined in accordance with approved retail price set by the *Henan Development and Reform Commission*; (iii) the invoices are settled through payment of cash equivalents to the supplier's designated bank account; (iv) an amount of RMB2.0 million must be deposited to secure the purchase of coal gas; and (v) such contract is renewable once per year.

The purchase and sales volume of our coal gas is, unlike natural gas, determined by supply and demand in the market and is not based on benchmark allocations. In contrast to natural gas, the NDRC does not set the predetermined ex-factory prices or the pipeline transportation cost for coal gas. The purchase price of coal gas is regulated by the *Henan Development and Reform Commission*, while the retail price is subject to a ceiling price imposed by the *Commodity Price Bureau*. Pipeline transportation cost is included in the purchase price and are not separately identified by the *Henan Development and Reform Commission*. Factors considered by the *Henan Development and Reform Commission* when making price adjustments to coal gas are: (i) the price of coal as a raw material; (ii) the ability of end-users to bear the cost increment; and (iii) the calorific value of coal gas as compared to natural gas. Our ability to pass cost increments down to our end-users depends on the price control by the *Commodity Price Bureau*. We purchase our coal gas based on demand and we do not have excess coal gas which requires storage. During low consumption seasons, should there be any excess coal gas, we may increase our pipeline pressure to store a small quantity of gas within the pipelines.

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The following table sets forth our purchase prices of coal gas for the periods indicated:

<u>Shangjie Tian Lun</u>	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB/m <sup>3</sup>			RMB/m <sup>3</sup>	
	0.85	0.85/1.00 <sup>(1)</sup>	1.00/1.30 <sup>(1)</sup>	1.00/1.30 <sup>(1)</sup>	1.30

Note:

(1) Prices were adjusted in their relevant year.

Coal gas is being phased out as part of the effort to improve air quality and environmental conditions in Zhengzhou City. Upon the commencement of commercial operation of the Second West-East Natural Gas Transmission Pipeline, we plan to gradually convert our coal gas users into natural gas users. We estimate that, according to the scheduled conversion program, all of our coal gas users will have been converted to natural gas users by the end of 2011. To execute the scheduled conversion program, we plan to: (i) gradually modify existing coal gas appliances so that such appliances will be compatible with the use of natural gas; (ii) replace the supply of coal gas with natural gas in our urban branch pipeline networks; and (iii) replace the supply of coal gas with natural gas in the end-user pipeline networks. The full cost of the coal gas appliance conversion will be borne by the commercial and industrial users or by us for our residential users. Alternatively, our users can voluntarily replace their existing coal gas appliances with natural gas appliances at their own cost. We estimate the total cost of conversion will be RMB3.5 million. As the cost of conversion is estimated to be approximately RMB3.5 million, we expect the cost for such conversion program will not have a material impact on our profit margins and working capital. Taking into account the calorific value of natural gas, our Directors do not believe that the Company's end-users will switch to alternative energy sources after the conversion because natural gas is considered a more economical energy source and switching to alternative energy will incur additional costs borne by the end-users.

During the Track Record Period, due to the suspension of the supply of coal gas for emergency repair by our coal gas supplier, Henan Gas (Group) Limited Pipeline Branch\*, we temporarily suspended the supply of coal gas to our users in Shangjie District. Please refer to the paragraph headed "Risk Factors — Risks Relating to Conducting Business in the PRC — We may be directly or indirectly adversely affected by acts of God, war or terrorism" for further details on the temporary suspension.

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### *Sales and Marketing*

For each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the revenue generated from our transportation and sales of pipelined gas accounted for approximately 39.8%, 45.2%, 47.4% and 44.0%, respectively, of our total revenue. The following table sets forth the number of connections as at 31 December 2007, 2008 and 2009 and 30 June 2010 for different categories of users:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
<b>Users' connections for our transportation and sales of pipelined gas operation (units):</b>				
Residential users .....	45,053	66,852	108,929	135,825
Commercial users .....	287	405	541	620
Industrial users .....	16	30	51	60
Other users <sup>(1)</sup> .....	77	96	121	140
<b>Total connections .....</b>	<b><u>45,433</u></b>	<b><u>67,383</u></b>	<b><u>109,642</u></b>	<b><u>136,645</u></b>

Note:

(1) Mainly consisting of schools, government offices, military bases and hospitals.

Our users range from residential, commercial and industrial sectors. We adopt different marketing strategies for different types of users. Commercial and industrial users are the most important users in terms of sales volume and profit margins as generally such users consume higher quantity of gas per user as compared to our residential users and the sale price of our natural gas and coal gas to commercial and industrial users are generally higher than that of the sale price of the same gas to our residential users. In light of the recent PRC Government's five-year plans and the relevant authorities' city planning and construction plans for our Operating Cities, we believe it will have a positive impact on the property development market. Combined with the PRC Government's policy to promote clean energy, we believe that property developers will most likely install natural gas facilities and appliances in their new property developments. Due to the increasing adoption of natural gas as the energy source for heating systems among new residential, commercial and industrial buildings, we believe that our revenue from sales made for heating will continue to grow.

As one of our principal objectives is to provide a safe, reliable, efficient and environmentally-friendly energy source to the residents within our Operating Cities, residential users are among our key customers. Growth in residential demand occurs as a result of several simultaneous trends, such as the trend of new construction and replacement of old housing stocks in these cities. Substantially all new residential developments are connected to our urban branch pipeline networks. In addition, during the Track Record Period, a substantial number of connected housing units have been retro-fitted for natural gas heating and connected to our urban branch pipeline networks.

Furthermore, there is a general increase in per capita use of natural gas for heating and living purposes among residential users in our Operating Cities, which is in line with the increase in per capita income. As we are currently the sole natural gas transporter and distributor in our Operating Cities, property developers generally approach our Project Companies directly to submit applications for installation of urban branch pipeline networks for natural gas. After our performance assessment of the property developer and upon formal acceptance of the application submitted to us, our Project Company will enter into a pipeline installation contract with the property developer and upon signing of the pipeline installation contract, a connection fee will become payable to us.



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Consumption is captured through meters, which are installed at each connection point and read monthly by us for residential users and more frequently for other users. Our industrial and commercial users are required to place a deposit that is equal to approximately one-month's usage to secure their accounts. Payments for the consumption of natural gas by our users can be made at our branch offices or through certain banks approved by us. As to residential users, such users can elect to receive monthly consumption statements or purchase prepaid cards. For residential users who receive monthly consumption statements, such users can either settle their fees by pre-authorized bank transfers or in-person payment at our branches before the due date, which is not more than 90 days from the date of the monthly consumption statement. Each bank generally charges a fee of RMB20,000 per year in Hebi City and there is no bank fee in Xuchang City. We do not use the service of any individual collectors.

As at 30 June 2010, the total monthly sales volume from our distribution and sales of CNG in Hebi City and Xuchang City was approximately 337,000 m<sup>3</sup> and 201,000 m<sup>3</sup>, respectively. We estimate that each bus uses an average of 40 m<sup>3</sup> of CNG per day and each taxi uses an average of 12 m<sup>3</sup> of CNG per day.

The PRC Government's clean energy policy as expressed in the proposal for the *Eleventh Five-Year Plan* (2006-2010) encourages the use of CNG as a vehicular fuel. In addition, CNG is currently cheaper than gasoline, and therefore we believe that there is significant unmet demand for CNG in Hebi City and Xuchang City and that the market for CNG provides us with the greatest opportunities for profit and potential growth. We believe that our vertically integrated operations and our urban branch pipeline networks give us greater access to CNG supplies and customers and have uniquely positioned us to become a major supplier of CNG in two of our Operating Cities.

We have established a 24-hour customer service call center to ensure prompt response and immediate reaction to customer feedback. The call center normally receives an average of 50 calls per day. The majority of calls are requests for connections, inquiries on gas pipeline design and alterations, requests for repairs and general inquiries on billing.

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### *Tariff Structure and Rate Regulations*

Ceilings of our pipelined gas tariffs are determined by the *Commodity Price Bureau* of each of our Operating Cities. Different natural gas tariff schedules apply to the four categories of users: residential, commercial, industrial and other users. Industrial and commercial users, on average, pay more than residential users and other users, including schools, government offices, military base and hospitals. The following table sets forth the approved retail prices of natural gas and coal gas, including VAT, by category of users for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB/m <sup>3</sup>			RMB/m <sup>3</sup>	
<i>Hebi City</i>					
Residential users .....	1.70	1.70	1.70	1.70	1.70
Commercial users .....	1.90	1.90	1.90/2.40 <sup>(3)</sup>	1.90	2.40/2.82 <sup>(3)</sup>
Industrial users .....	1.80/2.28 <sup>(3)</sup>	2.28 <sup>(3)</sup>	2.28/2.40 <sup>(3)</sup>	2.28	2.40/2.82 <sup>(3)</sup>
Other users <sup>(1)</sup> .....	1.70	1.70	1.70	1.70	1.70
<i>Xuchang City</i>					
Residential users .....	1.82	1.82	1.82	1.82	1.82
Commercial users .....	2.17	2.17	2.17/2.85 <sup>(3)</sup>	2.17/2.85 <sup>(3)</sup>	2.85/3.28 <sup>(3)</sup>
Industrial users .....	1.99/2.45 <sup>(3)</sup>	2.45	2.45/2.65 <sup>(3)</sup>	2.45/2.65 <sup>(3)</sup>	2.65/2.98 <sup>(3)</sup>
Other users <sup>(1)</sup> .....	1.82	1.82	1.82	1.82	1.82
<i>Shangjie District, Zhengzhou City<sup>(2)</sup></i>					
Residential users .....	1.00	1.00	1.00	1.00	1.00
Commercial users .....	1.40	1.40/1.55 <sup>(3)</sup>	1.55/1.85 <sup>(3)</sup>	1.55/1.85 <sup>(3)</sup>	1.85
Industrial users .....	1.00	1.00/1.15 <sup>(3)</sup>	1.15/1.45 <sup>(3)</sup>	1.15/1.45 <sup>(3)</sup>	1.45
Other users <sup>(1)</sup> .....	1.00	1.00/1.15 <sup>(3)</sup>	1.15/1.45 <sup>(3)</sup>	1.15/1.45 <sup>(3)</sup>	1.45

Notes:

(1) Mainly consisting of schools, government offices, military bases and hospitals.

(2) Supplies coal gas.

(3) Prices were adjusted in their relevant year.

When we propose the price of pipelined gas sold to the end-users to the *Commodity Price Bureau* for approval, we take into account the following factors:

- *Gas purchase costs*: the price that we pay at the city gateway. It is intended to cover all the costs related to production, processing, transportation and gas supply flexibility incurred by the upstream participants up to the delivery point at the city gateway, plus tax and profit of our supplier;
- *Operating costs and expenses*: including direct labor, parts, materials, maintenance, subcontractors, gas appliances, depreciation and amortization and overheads; and
- *Reasonable profits*.

In the event of circumstances beyond our control that causes cost increases, such as increase in costs of gas supply; amendments to obligations; changes in law, government regulation, rule or order; and *force majeure* events, we may require the *Commodity Price Bureau* to consider

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circumstances that we believe constitute grounds for price adjustments. The *Commodity Price Bureau* will then convene a series of hearings to reach an informed determination of the price for residential users. In determining the price adjustment, the *Commodity Price Bureau* in the relevant Operating City will consider various factors including costs, such as purchase price of natural gas from the suppliers and the capital expenditure for the pipeline networks and other facilities under construction, as well as profit. The price concluded by the *Commodity Price Bureau* will be reported to the local *Development and Reform Commissions* of Operating Cities for confirmation. Our Directors confirm that, from our past experience, the time required for obtaining the approval for price adjustments for our commercial and industrial users is approximately one month and that for our residential users is approximately six months.

### **GAS PIPELINE CONNECTIONS OPERATION**

We conduct gas pipeline connections operation by providing property developers and commercial and industrial users with laying and installation in our Operating Cities. Our new users generally engage us to provide gas pipeline connections prior to our transportation and distribution of natural gas or coal gas to them.

#### ***Products***

As part of our overall business and for the purposes of providing natural gas to relevant real estate properties and residential estates, we provide property developers and end-users with laying and installation of urban gas pipeline networks and laying and installation of end-user pipeline networks within the properties or the residential estates. We also lay and install end-user pipeline networks for new commercial or industrial users.

A single construction and installation project of a natural gas pipeline network typically takes weeks or months to complete. For large-scale pipeline network constructions, we act as a project manager to provide overall project management, including project supervision to ensure that the construction of the required pipeline network is carried out in accordance with all the relevant standards and regulations. As a project manager, we are also responsible for the supervision of subcontractors and for ensuring that the construction carried out by subcontractors is in accordance with contract specifications.

Once we accept an application from a prospective user for the installation and construction of a natural gas pipeline network, we will initially conduct a preliminary assessment and feasibility study on the proposed property. Principal factors to be considered in the preliminary assessment and feasibility study by us include: (i) the number and distribution of households in the property; (ii) the means of gas transportation; and (iii) the quality and creditworthiness of the property developer.

Revenue in respect of gas pipeline connections operation is recognized upon the completion of construction of pipelines for users and connection of the pipelines to our existing gas pipeline networks, which coincides with the “fire ignition ceremony”. The “fire ignition ceremony” is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users. Upon the “fire ignition ceremony”, the significant risks and rewards of ownership will be transferred to the customers and the economic benefits associated with the contracts will be passed to us. Generally, it takes up to approximately six months after we receive advances from our customers before construction will commence. It can take approximately two to four months from the commencement of the construction to the completion of the construction. Hence, the time between when we receive advances from our customers and when we recognize such advances as revenue is generally within a year. The length in time depends on the nature of the construction

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project and whether the customer is a residential user, including property developer, or a commercial or industrial user.

During the Track Record Period, we placed significant reliance on the substantial revenue and gross profit generated from our gas pipeline connections operation. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, revenue generated from the gas pipeline connections operation was RMB37.8 million, RMB67.6 million, RMB90.6 million and RMB58.7 million, respectively. Our gas pipeline connections operation generated substantial revenue, received from one-off connection fees, representing 57.3%, 52.9%, 50.6% and 51.1% of our total revenue for the respective periods. The majority of such revenue was derived from our gas pipeline connections operation in new residential areas for property developers.

The following table sets forth the breakdown of our pipeline connections projects for property developers and the related advances from customers as at 30 June 2010:

<u>Operating Cities</u>	<u>Number of property developments as at 30 June 2010</u>	<u>Total number of residential users pipeline connections for the property developments as at 30 June 2010</u>	<u>Total advances received from customers as at 30 June 2010 (RMB'000)</u>	<u>Expected completion date</u>
Hebi City .....	30	17,329	14,209	Between July 2010 to December 2011
Xuchang City .....	47	8,575	10,406	Between July 2010 to July 2011
Shangjie District of Zhengzhou City .....	<u>11</u>	<u>1,859</u>	<u>4,727</u>	Between July 2010 to December 2010
<b>Total</b> .....	<b><u>88</u></b>	<b><u>27,763</u></b>	<b><u>29,342</u></b>	<b>Between July 2010 to December 2011</b>

The advances received from property developers represented approximately 81.7% of our total advances from customers as at 30 June 2010.

### *Purchase and Supply*

Raw materials for our gas pipeline connections operation mainly consist of polyethylene pipes, steel pipes, valves, pipeline connectors and accessories. Our main supplier of these materials for the three years ended 2009 was Cangzhou Mingzhu Plastic Material Co., Ltd\* (滄州明珠塑料股份有限公司). We had 32, 49, 45 and 57 other suppliers of raw materials as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our total purchases of raw materials and consumables for gas pipeline connections operation were RMB15.0 million, RMB17.2 million, RMB18.3 million and RMB12.0 million, respectively. Such purchases were based on normal commercial terms and market price.

In addition, we subcontract on an as-needed basis, including outsourcing to subcontractors to provide certain services that we are unable to or do not generally provide, such as gas pipeline construction. It is our principal practice to engage qualified subcontractors, such as Hexiang Engineering, to work under our supervision. Hexiang Engineering is a connected person of our Company under the Listing Rules. We have entered into the Hexiang Engineering Construction Agreement with Hexiang Engineering on 13 October 2010. The Hexiang Engineering Construction

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Agreement stipulates that: (i) the construction and installation fees payable by us will be determined by the project with reference to the scale and complexity of the work to be carried out by Hexiang Engineering; (ii) the prices set by the local government for construction and installation; and (iii) the prices and terms with subcontractors, who are Independent Third Parties, engaged by us in similar transactions. For further details of our transactions with Hexiang Engineering, see the paragraph headed “Connected Transactions — Connected Transactions — Non-Exempt Continuing Connected Transactions — Transactions with Hexiang Engineering” of this Prospectus. We carefully select subcontractors through a bidding process in order to reduce our overall costs and ensure quality performance by the subcontractors. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we engaged a total of 15, eight, five and five qualified subcontractors, respectively. We maintain business relationships with a number of subcontractors for gas pipeline construction services, but are not obliged to procure services from any one of them. Our long-term relationships with the subcontractors enable us to obtain stable subcontracting fees, which may potentially lead to higher margins on projects. We entered into the Hexiang Engineering Construction Agreement with Hexiang Engineering and continue using subcontractors to meet the additional capacity required for the growth of our business.

During the Track Record Period, payment terms of the agreements with our property developers and end-users varied according to different Operating Cities.

The following table sets forth the payment prices and payment terms of our gas pipeline connections operation for our individual residential users during the Track Record Period:

Operating City	Payment price	Payment terms
Hebi City . . . . .	RMB2,400	Full payment before commencement of construction
Xuchang City . . . . .	RMB2,800	Full payment before commencement of construction
Shangjie District . . . . .	RMB3,500	Full payment before commencement of construction

The following table sets forth the payment prices and terms for our property developers, which are part of our industrial and commercial users, for work carried out in each of our Operating Cities during the Track Record Period:

Operating City	Payment price range	Payment terms <sup>(1)</sup>
Hebi City . . . . .	RMB0.8 million – RMB2.7 million	typically paid in two installments of up to 70% prior to construction and the remainder paid prior the “fire ignition ceremony”
Xuchang City . . . . .	RMB0.6 million – RMB2.4 million	typically paid in three installments of 30% within three-day period upon entering into the contract, 50% prior to construction and 20% prior the “fire ignition ceremony”
Shangjie District . . . . .	RMB1.3 million – RMB5.4 million	typically paid in two installments of up to 70% prior to construction and the remainder paid prior the “fire ignition ceremony”

Note:

(1) The “fire ignition ceremony” is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users.

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The following table sets forth the payment prices and terms for our industrial and commercial customers, excluding individual residential end-users who are required to make one-off payments, for work carried out in each of our Operating Cities during the Track Record Period:

Operating City	Payment price range	Payment terms <sup>(1)</sup>
Hebi City . . . . .	RMB0.7 million – RMB5.3 million	typically paid in two installments of up to 70% prior to construction and the remainder paid prior the “fire ignition ceremony”
Xuchang City . . . . .	RMB0.2 million – RMB2.4 million	typically paid in two installments of at least 30% within three days of entering into the contract and up to 70% prior the “fire ignition ceremony”
Shangjie District . . . . .	RMB0.3 million – RMB5.4 million	typically paid as a one-off payment

Note:

(1) The “fire ignition ceremony” is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users.

Payment settlement with industrial and commercial customers, including the property developers, and end-users were made in both cash and bank transfers during the Track Record Period.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our total engagement of construction and design services fee was RMB3.9 million, RMB5.9 million, RMB6.5 million and RMB5.1 million, respectively. Our purchase of construction service from Hexiang Engineering was RMB0.3 million, RMB4.5 million, RMB5.2 million and RMB3.4 million, respectively, for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

### ***Sales and Marketing***

We are an investor and operator for the urban gas pipeline networks in our Operating Cities. In order to expand the gas pipeline connections operation, we expect that we will continue to emphasize the quality of our construction work. Pursuant to the terms of the contracts, we will collect a connection fee from the property developers, property management companies or end-users prior to connecting each property or residential estate to our pipeline networks and related installation works. Such connection fee is typically paid in installments or as a one-off payment and is compulsory for all of our new users. The connection fee structure for our gas pipeline connections operation is different between the structure for our residential users and that for our industrial and commercial users. Generally we price our connection fee by taking into consideration the following factors: (i) the local economic development level; (ii) the consumption ability of local residents; and (iii) the cost of installation for each of the Project Companies. The connection fee for our residential users is based on a set fee per connection. The majority of our gas pipeline connections for residential users are contracted through the property developers. These property developers will be responsible to settle the connection fees with us. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the average connection fee per residential connection was RMB2,750, RMB2,792, RMB2,792 and RMB2,792, respectively. As to the connection fee for our industrial and commercial users, the fee of each project is determined based on various factors,

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including the construction and installation plan, the raw materials specified by the customers and the size of the project.

### *Permits and Approvals*

As advised by Grandall Legal Group, businesses that conduct the gas pipeline construction and connections operation should obtain the “Construction Enterprises Qualification Certificate” to comply with the relevant regulations. Our Project Companies subcontract and engage only those authorized subcontractors who have obtained the “Construction Enterprises Qualification Certificate” to conduct gas pipeline construction and connections operation by providing laying and installation to our residential, commercial, industrial and other users. As advised by Grandall Legal Group, we are not required to hold the relevant certificate to operate our gas pipeline connections operation.

We act as a project manager to provide overall project management, including project supervision to ensure that the construction of the required pipeline network is carried out in accordance with all the relevant standards and regulations. As a project manager, we are also responsible for the supervision of subcontractors and for ensuring that the construction carried out by subcontractors is in accordance with contract specifications.

For details on our material licenses, permits and certificates, see “— Compliance with Laws, Rules and Regulations in the PRC” in this Prospectus.

## KEY CUSTOMERS AND SUPPLIERS

### *Customers*

We have a large and stable customer base and have no significant reliance on any of our users. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales to our largest five customers collectively were RMB8.6 million, RMB17.1 million, RMB22.4 million and RMB18.5 million, respectively, and accounted for 13.0%, 13.4%, 12.5% and 16.1%, respectively, of our total revenue. During the same periods, sales made to our largest customer for the respective year/period amounted to RMB3.7 million, RMB4.4 million, RMB7.3 million and RMB5.3 million, respectively, and accounted for only 5.5%, 3.4%, 4.1% and 4.6%, respectively, of our total revenue.

Our five largest customers for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were as follows:

Customers	For the year ended 31 December			For the six months ended 30 June		
	2007	2008	2009	2010	2009	2010
	Nature of transaction	Customers	Nature of transaction	Customers	Nature of transaction	Customers
Wanxiang Property Management Co., Ltd* (萬象物業管理公司)	gas pipeline connections	China Great Wall Aluminum Corporation* (中國長城鋁業公司)	consumption of coal gas	Hebi Coal Mining Subsidence Comprehensive Management Office* (鶴壁市採煤沉陷綜合治理工作辦公室)	gas pipeline connections	Shenyi Branch Company of Henan Yaxing Real Estate Co., Ltd.* (河南省亞星房地產有限公司申顧分公司)
Hebi Tianpeng Real Estate Development Co., Ltd* (鶴壁市天鵬房地產開發有限公司)	gas pipeline connections	Xuchang Hengfeng Industries Co., Ltd* (許昌恒豐實業有限公司)	consumption of natural gas	Lincoln Electric Heli (Zhengzhou) Welding Materials Co., Ltd* (林肯電氣合力(鄭州)焊材有限公司)	consumption of coal gas	Xuchang Zhongyuan Real Estate Development Co., Ltd.* (許昌中原房地產開發有限公司)
Hebi Hotel * (鶴壁迎賓館)	consumption of natural gas	Zhengzhou Research Institute of CHALCO* (中國鋁業股份有限公司鄭州研究院)	consumption of coal gas	Zhengzhou Research Institute of CHALCO* (中國鋁業股份有限公司鄭州研究院)	consumption of coal gas	Lincoln Electric Heli (Zhengzhou) Welding Materials Co., Ltd.* (林肯電氣合力(鄭州)焊材有限公司)
Xuchang Guangjie Real Estate Construction & Development Co., Ltd* (許昌廣傑房地產建築開發有限公司)	gas pipeline connections	Lincoln Electric Heli (Zhengzhou) Welding Materials Co., Ltd* (林肯電氣合力(鄭州)焊材有限公司)	consumption of coal gas	China Great Wall Aluminum Corporation* (中國長城鋁業公司)	consumption of coal gas	Hebi Coal Mining Subsidence Comprehensive Management Office* (鶴壁市沉陷區綜合治理辦公室)
Xuchang Rebecca Real Estate Development Co., Ltd* (許昌瑞貝卡房地產開發有限公司)	gas pipeline connections	Henan Yongda Property Co., Ltd * (河南永達地產有限公司)	gas pipeline connections	Xuchang Hengfeng Industries Co., Ltd* (許昌恒豐實業有限公司)	consumption of natural gas	Hebi Lulou County Guxian Villagers' gas pipeline connections Committee* (鶴壁市鹿樓鄉故縣村民委員會)

None of our Directors, senior management, their associates, or any shareholders holding more than 5% of the issued share capital of our Company held any interest in any of our five largest customers for the three years ended 31 December 2009 and the six months ended 30 June 2010.

### Suppliers

Our key suppliers mainly consist of the transporters and distributors of natural gas and coal gas, as well as the suppliers of pipe materials and gas equipment. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, purchases from our five largest suppliers collectively were RMB29.9 million, RMB61.2 million, RMB81.1 million and RMB50.9 million, respectively, and accounted for 71.4%, 80.0%, 80.1% and 82.9%, respectively, of our total purchases of raw materials and consumables. During the same periods, purchases from our largest supplier for the respective year/period amounted to RMB11.1 million, RMB23.4 million, RMB29.7 million and RMB16.8 million, respectively, and accounted for 26.5%, 30.6%, 29.3% and 27.4%, respectively, of our total purchases of raw materials and consumables.



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Our five largest suppliers for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were as follows:

2007		For the year ended 31 December		2008		2009		For the six months ended 30 June		2010	
Suppliers	Nature of transaction	Suppliers	Nature of transaction	Suppliers	Nature of transaction	Suppliers	Nature of transaction	Suppliers	Nature of transaction	Suppliers	Nature of transaction
Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Henan Gas (Group) Limited Pipeline Branch* (河南省煤氣 (集團) 有限責任公司 管道輸氣分公司)	supply of coal gas	Henan Gas (Group) Limited Pipeline Branch* (河南省煤氣 (集團) 有限責任公司 管道輸氣分公司)	supply of coal gas	Henan Gas (Group) Limited Pipeline Branch* (河南省煤氣 (集團) 有限責任公司 管道輸氣分公司)	supply of coal gas	Henan Lantian Gas Co., Ltd.* (河南藍天燃氣股份有限公司)	supply of coal gas	Henan Lantian Gas Co., Ltd.* (河南藍天燃氣股份有限公司)	supply of natural gas
Henan Gas (Group) Limited Pipeline Branch* (河南省煤氣 (集團) 有限責任公司 管道輸氣分公司)	supply of coal gas	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Henan Lantian Gas Co., Ltd.* (河南藍天燃氣股份有限公司)	supply of natural gas	Henan Lantian Gas Co., Ltd.* (河南藍天燃氣股份有限公司)	supply of natural gas	Henan Gas (Group) Limited Branch* (河南省煤氣 (集團) 管道輸氣分公司)	supply of coal gas	Henan Gas (Group) Limited Pipeline Branch* (河南省煤氣 (集團) 管道輸氣分公司)	supply of coal gas
Henan Lantian Gas Co., Ltd.* (河南藍天燃氣股份有限公司)	supply of natural gas	Henan Lantian Gas Co., Ltd.* (河南藍天燃氣股份有限公司)	supply of natural gas	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas
Cangzhou Mingzhu Plastic Co., Ltd.* (滄州明珠塑料股份有限公司)	supply of polyethylene pipe	Cangzhou Mingzhu Plastic Co., Ltd.* (滄州明珠塑料股份有限公司)	supply of polyethylene pipe	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Henan Ancai Energy Co., Ltd.* (河南安彩能源股份有限公司)	supply of natural gas	Hexiang Engineering	supply of raw materials for construction project	Hexiang Engineering	supply of raw materials for construction project
Tianjin Chen Xing Gas Meter Equipment Technology Co., Ltd.* (天津辰星燃氣表具技術有限公司)	gas equipment	Hexiang Engineering	supply of raw materials for construction project	Cangzhou Mingzhu Plastic Co., Ltd.* (滄州明珠塑料股份有限公司)	supply of raw materials for construction project	Cangzhou Mingzhu Plastic Co., Ltd.* (滄州明珠塑料股份有限公司)	supply of polyethylene pipe	Yada Plastic Product Co., Ltd.* (亞大塑膠製品有限公司)	supply of polyethylene pipe	Yada Plastic Product Co., Ltd.* (亞大塑膠製品有限公司)	supply of polyethylene pipe

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Other than Hexiang Engineering, none of our Directors, senior management, their associates, or any shareholders holding more than 5% of the issued share capital of our Company held any interest in any of our five largest suppliers for the three years ended 31 December 2009 and the six months ended 30 June 2010.

### SAFETY MAINTENANCE AND QUALITY CONTROL

We strictly follow government regulations when adopting our own safety rules and emergency recovery plans, which are to be followed by all of our employees. We also provide safety-related education and training to employees and have established safety standards in connection with the operation of existing facilities.

We have established strict quality control standards on various aspects of our gas supply, pipeline laying, facilities repairs and maintenance. In respect of our gas supply, we take certain measures by adding odorizing substance and by integrating purification process and pressure adjustment functions to our gas processing stations, so as to ensure the immediate detection in case of gas leakages and the steady supply of our gas. We select high-quality materials for our pipelines from reputable suppliers and subcontract to qualified subcontractors for our pipeline laying and installation. We patrol and make full records at our gas processing stations, as well as daily inspection of our urban branch pipeline networks, to implement repairs and maintenance. Due to the nature of our business, we place great emphasis on the maintenance of pipeline networks and storage and distribution facilities. As at the Latest Practicable Date, we had a team of 113 technicians (including employees from our department of safety and technology, department of pipeline network and the chief officers of our CNG filling stations, as well as its managers and operations technicians) who are engaged in safety, maintenance and technical upgrade in respect of the following areas: (i) maintenance of the urban branch pipeline networks and end-user pipeline networks; (ii) maintenance of natural gas storage and distribution stations; (iii) deployment of safety monitoring systems; and (iv) methods to increase operating efficiency and safety standards. In respect of our distribution and sales of CNG, our technicians are also responsible for the repair and maintenance of our equipments and facilities in accordance with our safety rules and quality control standards. As at the Latest Practicable Date, our team of technicians comprises 11 licensed engineers and the remaining were technical workers. Their industry experience range from new joiners to experienced technicians with over 20 years of industry experience. As at the Latest Practicable Date, we had 32 technicians with over 10 years of industry experience, 21 of whom have over 20 years of industry experience.

We have taken the following measures to ensure normal gas safety and supply of within our Operating Cities:

- (i) established measures and systems such as safety checking, fixing and maintenance, timely reporting of malfunctions and accidents of the gas facilities, emergency repairs and other measures and systems as required by the relevant laws and regulations;
- (ii) established and implemented the 24-hour watch system to monitor any possible gas accidents;
- (iii) established rules to conduct regular training on gas safety to periodically train our pool of qualified professional management and technical personnel;
- (iv) established safety rules on gas usages for its users and provide regular educational publicity and instructions to the end-users based on common knowledge gas usages; and

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- (v) stipulated in the gas supply contracts entered into between the end-users and us that no gas user is permitted to, without prior authorization by us, connect to the pipeline to use gas or alter the nature of usage or the user's name and address.

The Directors confirm that, during the Track Record Period, we have not experienced any material losses or claims from failure to distribute gas or lay and install pipelines.

During the Track Record Period, we experienced certain litigations in relation to safety accidents. Please refer to “— Legal Compliance and Proceedings” in this Prospectus for details. Save as disclosed above, we have not experienced any accidents which have had a material impact on our financial conditions or results of operation during the Track Record Period.

### COMPLIANCE WITH LAWS, RULES AND REGULATIONS IN THE PRC

#### *Licenses, Permits and Certificates for the Operation of Our Business*

The following table sets forth our material licenses, permits and certificates, including those under the Concession Agreements, in compliance with the regulations of the PRC, for the operation of our business effective during the Track Record Period:

Company	License/Permit/ Certificate	Granting Authority	Date of Grant	Expiry Date
<b>Hebi Tian Lun</b>	Business License (企業法人營業執照)	Hebi Municipal Administration for Industry and Commerce (鶴壁市工商行政管理局)	23 August 2004	19 August 2029
	Gas Enterprise Qualification Certificate (燃氣經營許可證)	Hebi Municipal Construction Committee (鶴壁市建設局)	28 July 2009	28 July 2014
<b>Hebi Tian Lun Vehicle</b>	Business License (企業法人營業執照)	Hebi Municipal Administration for Industry and Commerce (鶴壁市工商行政管理局)	18 April 2008	16 April 2012
	Gas Enterprise Qualification Certificate (燃氣企業經營許可證)	Hebi Municipal Housing and Urban- Rural Development Bureau (鶴壁市住房和城鄉建設局)	5 January 2010	5 January 2016
	Pressured Pipeline Use Registration Certificate (壓力管道使用登記證)	Hebi Municipal Bureau of Quality and Technical Supervision (鶴壁市質量技術監督局)	20 January 2008	20 December 2013
	Fire Control Acceptance Letter of Construction Project (建設工程消防驗收意見書)	Hebi Municipal Fire Department (鶴壁市公安消防支隊)	11 May 2008	Not applicable <sup>(1)</sup>

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Company	License/Permit/ Certificate	Granting Authority	Date of Grant	Expiry Date
	Hazardous Chemicals Operation Permit (危險化學品經營許可證)	Henan Provincial Administration of Work Safety (河南省安全生產監督管理局)	18 September 2009	22 September 2011
	Gas Bottle Filling Permit (氣瓶充裝許可證)	Henan Provincial Bureau of Quality and Technical Supervision (河南省質量技術監督局)	11 August 2008	10 August 2012
	Application Registration Card for Environment Acceptance of Construction Project (建設項目竣工環境保護 驗收申請登記卡)	Hebi Environment Protection Bureau (鶴壁市環境保護局)	16 December 2008	Not applicable <sup>(1)</sup>
<b>Xuchang Tian Lun</b>	Business License (企業法人營業執照)	Xuchang Municipal Administration for Industry and Commerce (許昌市工商行政管理局)	11 April 2008	17 April 2018
	Gas Enterprise Qualification Certificate (燃氣企業經營許可證)	Xuchang Municipal Construction Committee (許昌市建設委員會)	21 May 2008	21 May 2011
<b>Xuchang Tian Lun Vehicle</b>	Business License (企業法人營業執照)	Xuchang Administration for Industry and Commerce (許昌市工商行政管理局)	12 September 2008	19 May 2018
	Gas Enterprise Qualification Certificate (燃氣經營許可證)	Xuchang Municipal Construction Committee (許昌市建設委員會)	5 August 2009	5 August 2012
	Hazardous Chemicals Operation Permit (危險化學品經營許可證)	Henan Provincial Administration of Work Safety (河南省安全生產監督管理局)	28 July 2009	27 July 2012
	Fire Control Acceptance Letter of Construction Project (建設工程消防驗收意見書)	Xuchang Municipal Fire Department (許昌市公安消防支隊)	22 June 2009	Not applicable <sup>(1)</sup>

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<u>Company</u>	<u>License/Permit/ Certificate</u>	<u>Granting Authority</u>	<u>Date of Grant</u>	<u>Expiry Date</u>
	Application Registration Card for Environment Acceptance of Construction Project (建設項目竣工環境保護驗 收申請登記卡)	Xuchang Municipal Environment Protection Bureau (許昌市環境保護局)	4 August 2009	Not applicable <sup>(1)</sup>
	Pressured Pipeline Use Registration Certificate (壓力管道使用登記證)	Xuchang Municipal Bureau of Quality and Technical Supervision (許昌市質量技術監督局)	4 June 2009	4 June 2012
	Gas Bottle Filling Permit (氣瓶充裝許可證)	Henan Provincial Bureau of Quality and Technical Supervision (河南省質量技術監督局)	29 July 2009	28 July 2013
	Permission of Water-Intaking (取水許可證)	Water Conservancy Bureau of Xuchang County (許昌縣水利局)	13 November 2008	13 November 2013
<b>Shangjie Tian Lun</b>	Business License (企業法人營業執照)	Shangjie District Branch of Zhengzhou Administration for Industry and Commerce (鄭州市工 商行政管理局上街分局)	18 July 2007	17 July 2017
	Gas Enterprise Qualification Certificate (燃氣經營許可證)	Zhengzhou City Administration Bureau (鄭州市城市管理局)	2 January 2010	31 December 2010
	Construction Enterprises Qualification Certificate (建築企業資質證書) <sup>(2)</sup>	Zhengzhou City Bureau of Municipal Administration (鄭州市市政管理執法局)	18 November 2008	18 November 2013
<b>Hebi New Energy</b>	Business License (企業法人營業執照)	Hebi Municipal Administration for Industry and Commerce (鶴壁市工商行政管理局)	13 May 2010	12 May 2016

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Company	License/Permit/ Certificate	Granting Authority	Date of Grant	Expiry Date
	Gas Enterprise Qualification Certificate (燃氣企業經營許可證)	Hebi Municipal Housing and Urban- Rural Development Bureau (鶴壁市住房和城鄉建設局)	12 May 2010	12 May 2016

Notes:

- (1) A one-time application is required for our application of the relevant Gas Enterprise Qualification Certificate for our CNG filling stations.
- (2) The Certificate only applies to gas appliance installation.

The relevance and implications of the relevant rules and regulations to our business and operations are set forth below:

- (i) the obtaining and the renewal of concession rights by us shall be in compliance with *The Measures on the Administration of the Franchising of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) and regulations on the administration of gas within territory of Henan Province.
- (ii) the obtaining of Gas Enterprise Qualification Certificate for our business and operations shall follow the stipulations of *The Administrative Measures on Urban Fuel Gas Utilization* (《城市燃氣管理辦法》) and regulations on the administration of gas within territory of Henan Province.
- (iii) we shall observe the stipulations of *The Administrative Measures on Urban Fuel Gas Utilization* and regulations on the administration of gas within territory of Henan Province in our daily business and operations.

We had receivables due from Henan Tian Lun Real Estate of RMB11.7 million as at 31 December 2007, 2008 and 2009, respectively, which bore interest at annual rates ranging from 7.5% to 8.6%. As advised by Grandall Legal Group, such advances to Henan Tian Lun Real Estate were not in compliance with the *General Principles of Loan* (《貸款通則》) in the PRC. Please refer to the paragraph headed “— Legal Compliance and Proceedings — Advances to related parties” in the section for further details.

As advised by Grandall Legal Group, our Company has obtained all the necessary licenses, permits and certificates from the appropriate and competent authorities as required under the laws, rules and regulations of the PRC to operate our business under the Concessions, and has been in full compliance with all relevant laws and regulations since the incorporation of the respective companies in our Group.

### OTHER RULES AND REGULATIONS OF THE PRC RELATED TO OUR BUSINESS

Certain rules and regulations on the property market may have implications to our Group’s business as we place significant reliance on revenue generated from our gas pipeline connections operation. Our gas pipeline connections operation is substantially for the pipeline connections for residential users dwelling in residential property developments. Recently promulgated rules and regulations that are related to the property market include the *Circular on Facilitate Stable and*

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*Sound Development of the Real Estate Market* (《國務院辦公廳關於促進房地產市場平穩健康發展的通知》), the *Notice on Resolutely Curbing the Soaring of Housing Prices in Some Cities* (《關於堅決遏制部分城市房價過快上漲的通知》) and *Notice on Regulating the Identification Criteria on the Second House related to Individual Housing Loan from Commercial Banks* (《關於規範商業性個人住房貸款中第二套房認定標準的通知》). Our Directors confirm that there has not been any noticeable effect on our business since the promulgation of such laws and regulations.

For details of the rules and regulations related to our business or the PRC, please refer to the section headed “Regulations” in this Prospectus.

### PROPERTIES

Our facilities are located in Hebi City, Xuchang City and Zhengzhou City of Henan Province, and mainly comprise high-, mid- and low-pressure urban branch pipeline networks, natural gas processing stations as well as natural gas storage and distribution stations. Please refer to “— Transportation and Sales of Pipelined Gas Operation — Facilities” in this Prospectus. As at the Latest Practicable Date, we owned the land use rights in respect of a total land area of 18,688 m<sup>2</sup>. We are advised by Grandall Legal Group that, pursuant to the laws of PRC, we are not required to acquire the land use right to the land above our underground urban branch pipeline networks for the purpose of operating such pipeline networks. Therefore, no approvals from the relevant government land administrative authorities are required for our operation of the pipelines.

Our principal executive offices, including our administration, sales and marketing departments, are located at our headquarters in Zhengzhou City of Henan Province, China. We have already obtained building ownership certificates for some of our buildings. We also operate some of our businesses in one leased property, including part of our corporate office space and operating facility. As at the Latest Practicable Date, we were not in breach of any lease agreement.

As at the Latest Practicable Date, we owned and/or used nine parcels of land and 21 buildings, covering an aggregate site area of approximately 35,194 m<sup>2</sup> and an aggregate floor area of approximately 12,083 m<sup>2</sup>, respectively. Of these properties, the right to use three parcels of land, covering an aggregate site area of approximately 3,884 m<sup>2</sup>, was administratively allocated to us by the relevant government authorities in China.

As at the Latest Practicable Date, we operated some of our businesses in one leased property, which covers an aggregate site area of approximately 6,910 m<sup>2</sup> (approximately 10.4 mu). The lease is for a period of 30 years from 10 August 2005 at an annual rental fee of the cash equivalent of 1,000 kg of wheat per mu.

As at the Latest Practicable Date, we had not obtained the necessary approvals, permits and certificates for a total aggregate floor area of 432 m<sup>2</sup> of buildings, mainly used as shelters for our staff and facilities, built on the parcels of land we owned and/or used. We expect that we will obtain the necessary approvals, permits and certificates for the aforesaid buildings in approximately 24 months. Our Directors consider that it is impractical to single out the revenue and profit contributions of these properties as our revenue is not directly generated by or traceable from these properties. Our Directors confirm that these buildings are not crucial to our business.

As advised by Grandall Legal Group, pursuant to the confirmations issued in June 2010 by the *Housing and Construction Bureaux* in the cities where those buildings are located, the responsible government authorities, it was confirmed that: (i) we are entitled to use such buildings without

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obtaining the relevant approvals, permits and/or certificates; and (ii) we will not be penalized for not obtaining the relevant approvals, permits and/or certificates. Furthermore, as advised by Grandall Legal Group, the maximum penalty for the properties with defective title is an order for demolition. We intend to apply for the relevant approvals, permits and certificates in respect of a portion of these properties. The Controlling Shareholders of our Company entered into a deed of indemnity to indemnify us, among others, any loss or damages suffered by us arising from the penalty or order for demolition imposed by the competent authority on the properties with defective title.

Our Directors and Grandall Legal Group have confirmed that, save as disclosed above, we have obtained all title certificates regarding the parcels of land and buildings we owned and/or used, including those parcels of land which were administratively allocated to us, and our leased property has been properly registered with the relevant authorities.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have applied for one trademark in Hong Kong and we did not own any patents or other intellectual property rights. Once the trademark is protected by registration, we will have adequate legal protection for the trademark. If in the future we are aware of any other intellectual property rights which are material to our business, we will also register such rights. For further information in relation to our intellectual property rights, please refer to “Statutory and General Information — Further Information about the Business — Intellectual property rights” included in Appendix VI to this Prospectus.

### COMPETITION

We encounter limited competition when conducting our transportation and sales of pipelined gas operation, other than our distribution and sales of CNG, as well as gas pipeline connections operation under the Concession Agreements, which has resulted in an exclusive right for our Project Companies to operate in our Operating Cities. Accordingly, as at the Latest Practicable Date, we were in a dominant position in respect of our transportation and sales of pipelined gas operation and gas pipeline connections operation in newly-constructed residential areas in our Operating Cities. During the period of the Concession, we are in a monopolistic position. However, our Concessions in Shangjie District of Zhengzhou City may be terminated prior to the expiration. Please refer to the paragraph headed “— Areas of Operation and the Concessions — The Concessions” in this section and the paragraph headed “Risk Factors — Risks Relating to our Business — We rely on Concessions for the operation of our business, which will expire or may be terminated before expiration.” for further details.

Rapid economic development in China has caused demand for pipelined gas to exceed domestic production. Strong domestic demand may lead to potential lack of capacity of existing network operators and may attract new entrants to invest in new infrastructure. The increase in capacity resulted from the new investments may create competition or lead to increased competition among pipelined gas network operators. Due to the tremendous demand for natural gas in China, it may also attract more natural gas network operators from the international markets to operate in China.

With respect to our distribution and sales of CNG, currently, there are two CNG filling stations in Hebi City, both of which are owned by us, and three CNG filling stations in Xuchang City, one of which is operated by us. The other two CNG filling stations in Xuchang City are privately owned by single station operators. Owing to our exclusive natural gas pipeline networks in the cities we sell CNG, we are more cost-effective than our competitors who transport CNG by truck. We believe that



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we can effectively compete with the other stations based upon our strong organization, experience and financial resources.

### INSURANCE

We do not currently maintain fire, casualty or other property insurance covering our facilities, properties or equipment other than with respect to vehicles. In addition, we do not maintain any business interruption insurance or any third-party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our properties or relating to our operations, other than third-party liability insurance with respect to vehicles and insurance as required under the *Labor Law of the PRC* (《中華人民共和國勞動法》) referred to below. We do maintain personal injury insurance for certain of our employees who are outdoor workers. Please refer to “Risk Factors — Risks Relating to Our Business — Accidents or occurrences of public safety concerns may occur; we lack adequate insurance coverage” in this Prospectus.

Our insurance coverage includes social insurance, medical and accident insurance for our staff in accordance with the *Labor Law of the PRC*. Our Directors believe that we have adequate insurance coverage as we have maintained policies which are mandatory under relevant PRC laws and regulations and in accordance with industry practice.

### LEGAL COMPLIANCE AND PROCEEDINGS

As at the latest Practicable Date, we have been involved in the following material litigations:

#### *Personal Injury Case*

On 29 December 2005, Li Shiqun (李士群) brought a proceeding to the People’s Court of Shan Cheng District, Hebi (鶴壁市山城區人民法院) against Hebi City Water Group Limited\* (鶴壁市城市水務(集團)有限責任公司), Hebi Tian Lun and the *Bureau of Labor and Social Security of Hebi* (鶴壁市勞動和社會保障局) for compensation of personal injury (the “Personal Injury Case”). The complainant claimed that the injury was due to the poor road conditions arising from improper construction work carried out by Hebi City Water Group Limited\* (鶴壁市城市水務(集團)有限責任公司) and Hebi Tian Lun.

On 23 August 2009, pursuant to Civil Ruling ((2009) Shan Min Chu Zi No. 533) (民事判決書[(2009)山民初字第533號]), the People’s Court of Shan Cheng District, Hebi (鶴壁市山城區人民法院) ruled that Hebi City Water Group Limited\* (鶴壁市城市水務(集團)有限責任公司), Hebi Tian Lun and the *Bureau of Labor and Social Security of Hebi* (鶴壁市勞動和社會保障局) shall, jointly and severally, compensate the complainant in the amount of RMB53,325.80. Hebi City Water Group Limited\* (鶴壁市城市水務(集團)有限責任公司), Hebi Tian Lun and the *Bureau of Labor and Social Security of Hebi* (鶴壁市勞動和社會保障局) filed an appeal to the Intermediate Peoples’ Court of Hebi, Henan (河南省鶴壁市中級人民法院). On 11 May 2010, the Intermediate Peoples’ Court of Hebi, Henan (河南省鶴壁市中級人民法院) upheld the ruling in the Civil Ruling ((2009) Shan Min Chu Zi No. 533) (民事判決書[(2009)山民初字第533號]). As advised by Grandall Legal Group, as at 9 July 2010, Hebi City Water Group Limited\* (鶴壁市城市水務(集團)有限責任公司), Hebi Tian Lun and the *Bureau of Labor and Social Security of Hebi* (鶴壁市勞動和社會保障局) had fulfilled their respective compensation obligations, of a total amount of RMB53,325.80, as ruled by the Civil Ruling ((2009) Shan Min Chu Zi No. 533) (民事判決書[(2009)山民初字第533號]). An amount of RMB17,775.26 to be paid by Hebi Tian Lun, out of RMB53,325.80, was paid to the complainant as compensation.

We aim at maintaining a high standard of work in connection with our construction work, including engaging contractors with sufficient expertise and qualifications to carry out the laying

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and maintenance of pipelines, and implementing evaluation and on-site checking processes after completion of the relevant work. We have also arranged daily on-site checking on our pipeline network. We intend to step-up our efforts in ensuring the safe operation of our pipelines, which include increasing the number of our routine on-site checks to twice a day and conducting ad hoc examinations of the on-site checking records by our managers.

Our Directors have confirmed that the Personal Injury Case was a one-off occurrence since our establishment and up to the Latest Practicable Date. Taking into account of the fact that we have fully fulfilled our compensation obligations under the Personal Injury Case, the amount we have paid for any personal injury case so far and the likelihood of re-occurrence of similar events in the future, our Directors consider that the Personal Injury Case will not have a material impact on our business or our financial position.

### *Gas Leakage Case*

On 30 December 2009, Wang Sizhao (王思照) and Zhang Jinfeng (張金鳳) brought a proceeding to the People's Court of Shangjie, Zhengzhou (鄭州市上街區人民法院) against Henan Ya Xing Property Group Limited\* (河南亞星置業集團有限公司) and Shangjie Tian Lun for a compensation of RMB497,782 for the death of the two complainants' daughter (the "Gas Leakage Case"). The complainants claimed that the deceased was poisoned due to gas leakage in the apartment bought from Henan Ya Xing Property Group Limited\* (河南亞星置業集團有限公司). The Gas Leaking Case was heard before the People's Court of Shangjie, Zhengzhou (鄭州市上街區人民法院) on 9 March 2010. In our defense submitted to the People's Court of Shangjie, Zhengzhou (鄭州市上街區人民法院), the relevant gas leakage was due to unauthorized alteration of the lay-out of the installed pipelines. As at the Latest Practicable Date, no ruling has been laid down in respect of the Gas Leakage Case. As advised by Grandall Legal Group, the maximum liability of Shangjie Tian Lun under the Gas Leakage Case will not exceed RMB497,782.

We understand the importance of preventing gas leakage in our operations. We have implemented a 24-hour reporting hotline and gas leakage alarm system, and, during the monthly routine visits to our customers to take the gas-meter readings, our staff are required to conduct safety checks on the gas facilities at the same time, including but not limited to, whether there is any aging or unauthorized alteration of the gas facilities. For every identified case of unauthorized alteration, we will issue written notification to the relevant customer and require the customer to remedy the authorized alteration within the period specified in the written notice, and our on-site inspection will be carried out upon expiry of the period specified for the remedial actions to be taken by the customer. If the customer fails to take remedial actions to our satisfaction upon our on-site inspection, we will temporarily suspend the supply of gas to such customer after our on-site inspection. We have also arranged promotional leaflets on gas safety to be distributed to our customers and check on their understanding on gas safety during our routine visits to our customers.

Our Directors have confirmed that the Gas Leaking Case was a one-off occurrence since our establishment and up to the Latest Practicable Date. Taking into account the actions taken and to be taken by us regarding the prevention of gas leakage and the reinforcement of gas safety, and the potential liability under the Gas Leaking Case, our Directors consider that the Gas Leaking Case will not have a material impact on our business or our financial position.

Our Directors have further confirmed that, due to the remoteness of outflow and the insignificant impact the maximum liability under the relevant legal proceedings is to have on our financial statements, there is no provision made in our accounts regarding the liabilities arising or to be arising from the Personal Injury Case and the Gas Leaking Case.

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As at the Latest Practicable Date, except as disclosed above, we were not involved in any legal or arbitral proceedings, which imposed a significant adverse effect on our financial position, and we were not aware of any material proceedings pending or threatened.

### *Advances to Related Parties*

During the Track Record Period, we have made certain advances to Henan Tian Lun Real Estate, a company which was effectively owned as to 50% as at 1 January 2007 and as to 50% as at the Latest Practicable Date by Mr. Zhang. The advances made to Henan Tian Lun Real Estate, which amounted to approximately RMB11,662,000 as at 31 December 2007, 2008 and 2009, was for its general working capital purposes and bore interest at annual interest rates between 7.52% and 8.61%. The interest income from such receivables amounted to RMB0.9 million, RMB1.0 million, RMB1.0 million and RMB0.5 million for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

Grandall Legal Group has advised us that such advances to Henan Tian Lun Real Estate are not in compliance with the *General Principles of Loan* (《貸款通則》) promulgated by the PBOC and we may be liable to a penalty of up to five times of the interest income received from such advances. As at 30 June 2010, all such advances to Henan Tian Lun Real Estate had been discontinued and all amount due from Henan Tian Lun Real Estate had been fully settled by Henan Tian Lun Real Estate.

As at the Latest Practicable Date, we have not received any notice from the PBOC that any relevant penalty had been or will be imposed. Our Controlling Shareholders have provided an indemnity in our favor to indemnify us for all possible penalties or liabilities arising from such advances. Our Directors confirm that any possible penalty in connection with such advances will not have any material effect on our financial position. Our Directors also confirm and undertake that such loan advancing activities will not continue after the Listing.