You should read the following discussion and analysis of our financial condition and results of operations together with our combined financial information as at and for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 and the accompanying notes included in the Accountant's Report set out in Appendix I to this Prospectus. The Accountant's Report has been prepared in accordance with HKFRS. Potential investors should read the whole of the Accountant's Report set out in Appendix I to this Prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this Prospectus.

Unless the context otherwise indicated, all financial data, whether presented on a combined basis or by segment, are net of inter-company transactions, if any.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

Selected Combined Financial Information

The selected summary information of our combined statements of comprehensive income and combined statements of cash flows for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 and the selected summary information of our combined balance sheets as at 31 December 2007, 2008 and 2009 and 30 June 2010 set forth below are derived from our financial information included in this Prospectus and are qualified in their entirety by reference to such financial information, including the notes thereto, and should be read in conjunction with them and with "— Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

The following table sets forth the summary information of our combined statements of comprehensive income 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	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Combined statements of comprehensive income					
Revenue	65,888	127,657	179,223	81,869	114,950
Cost of sales	(37,185)	(77,623)	(100,393)	(46,366)	(62,976)
Gross profit	28,703	50,034	78,830	35,503	51,974
Distribution cost	(1,978)	(1,553)	(2,236)	(715)	(1,402)
Administrative expenses	(5,489)	(8,318)	(9,723)	(4,580)	(5,490)
Other gains, net	824	5	671	195	32
Operating profit	22,060	40,168	67,542	30,403	45,114
Finance income	1,893	1,874	1,066	527	589
Finance costs	(11,465)	(9,625)	(7,063)	(3,913)	(2,805)
Finance costs, net	(9,572)	(7,751)	(5,997)	(3,386)	(2,216)
Profit before income tax	12,488	32,417	61,545	27,017	42,898
Income tax expense	(4,198)	(6,866)	(13,992)	(6,235)	(10,048)
Profit for the year/period	8,290	25,551	47,553	20,782	32,850
Other comprehensive income for the year/period, net of tax	—	—	—	—	—
Total comprehensive income for the year/period	8,290	25,551	47,553	20,782	32,850
Profit and total comprehensive income attributable to:					
Equity holders of the Company	7,540	23,538	44,299	19,228	32,443
Minority interest	750	2,013	3,254	1,554	407
	8,290	25,551	47,553	20,782	32,850
Dividends	—	—	—	—	33,087

The following table sets forth the summary information of our combined balance sheets as at 31 December 2007, 2008 and 2009 and 30 June 2010:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Combined balance sheets				
Assets				
Non-current assets	169,392	173,236	167,691	172,226
Current assets	74,188	76,251	103,312	110,128
Total assets	243,580	249,487	271,003	282,354
Equity and Liabilities				
Total equity	27,519	63,070	110,623	117,927
Non-current liabilities	85,472	60,258	35,827	35,397
Current liabilities	130,589	126,159	124,553	129,030
Total equity and liabilities	243,580	249,487	271,003	282,354
Net current liabilities	(56,401)	(49,908)	(21,241)	(18,902)
Total assets less current liabilities	112,991	123,328	146,450	153,324

The following table sets forth the summary information of our combined statements of cash flows 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	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Combined statements of cash flows					
Cash and cash equivalents at beginning of the year/period	4,045	7,716	11,371	11,371	14,860
Net cash generated from operating activities	15,342	45,228	51,019	26,144	35,459
Net cash generated from/(used in) investing activities	12,446	(8,778)	(34,606)	(30,800)	41,725
Net cash (used in)/generated from financing activities	(24,117)	(32,795)	(12,924)	9,651	(9,182)
Cash and cash equivalents at end of the year/period	7,716	11,371	14,860	16,366	82,862

Selected Historical Operating Data

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**	**2010**
				(unaudited)	
Revenue (RMB million)					
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
Total revenue	**65.9**	**127.7**	**179.2**	**81.9**	**115.0**

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**	**2010**
				(unaudited)	
Breakdown by user category (RMB million)					
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[(1)]	3.1	10.0	11.0	6.6	3.3
Total revenue	**26.2**	**57.7**	**84.9**	**39.5**	**50.6**
Breakdown by Operating City (RMB million)					
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
Total revenue	**26.2**	**57.7**	**84.9**	**39.5**	**50.6**

Note:

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

	For the year ended 31 December			For the six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
Volume of pipelined gas sold (m^3)					
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	—[(2)]	781,405	3,877,685	1,294,599	3,232,765
Total sales volume	**18,646,753**	**45,313,421**	**52,760,969**	**27,529,780**	**28,774,061**

	As at 31 December			As at 30 June
	2007	2008	2009	2010
Users' connections for our transportation and sales of pipelined gas operation (units)				
Residential users	45,053	66,852	108,929	135,825
Commercial users	287	405	541	620
Industrial users	16	30	51	60
Other users[(1)]	77	96	121	140
Total connections	**45,433**	**67,383**	**109,642**	**136,645**
Constructed pipelines (kilometers)	**488.8**	**612.7**	**750.6**	**837.1**
CNG filling station (units)	**0**[(2)]	**1**	**2**	**2**[(3)]

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
				(unaudited)	
Revenue (RMB million)					
Residential users	35.5	60.2	78.1	36.6	52.4
Commercial users[(1)]	1.8	4.7	8.7	3.7	5.8
Industrial users	0.5	2.7	3.8	1.0	0.5
Total revenue	**37.8**	**67.6**	**90.6**	**41.3**	**58.7**

Note:

(1) Include other users.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

During the Track Record Period, our business mainly consisted of two operations: (i) gas pipeline connections operation; and (ii) transportation and sales of pipelined gas operation.

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.

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 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.

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. Total revenue generated from our transportation and sales of pipelined gas operation for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 was RMB26.2 million, RMB57.7 million, RMB84.9 million, RMB39.5 million and RMB50.6 million, 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 "— 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.

Basis of Presentation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 20 May 2010. In anticipation of the Listing of our Shares on the Stock Exchange, we underwent a reorganization in 2010 as detailed under "History and Corporate Structure" in this Prospectus, and "Statutory and General Information — Further Information about Our Company — Incorporation of our Company" and "Statutory and General

Information — Further Information about Our Company — Changes in share capital of our Company", each included in Appendix VI to this Prospectus.

The Controlling Shareholders owned and controlled the companies now comprising our Group before the Corporate Reorganization and continue to control these companies after the Corporate Reorganization. For the purpose of the financial information set out in Appendix I to this Prospectus, the Corporate Reorganization is considered as a business combination under common control in a manner similar to the principles of merger accounting. The financial information includes the combined financial position, results and cash flows of the companies now comprising our Group as if the existing group structure had been in existence throughout the Track Record Period or since the respective dates of incorporation/establishment or acquisition, whichever is the shorter period. All significant intra-company transactions and balances have been eliminated on combination.

Factors Affecting Our Results of Operations and Financial Condition

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our combined financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below.

The urbanization and industrialization level in China

The demand for natural gas has recently grown in large cities. In consideration of the trends, China has set out a policy to raise the share of natural gas in the country's *Eleventh Five-Year Plan* (2006-2010).

We focus our operations in Henan Province. In recent years, citizens of Henan Province have been experiencing an unprecedented urbanization process. The percentage of 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.

As part of its plan to reduce pollution and to enhance energy utilization rate, the PRC Government has, by implementing policies and constructing infrastructures over the past few years, encouraged the use of natural gas in some of the large and medium-sized cities and the use of LPG in suburban areas where there are no access to natural gas supply networks. The statistics published by the *Ministry of Construction of China* indicates that, in 2008, the total natural gas supply in urban areas was 36.8 billion m^3. Natural gas supply in urban areas maintained a higher growth compared to other gases, an increase of approximately three times between 2000 and 2008, indicating the country's steady progress in replacing other gas energy, such as coal gas, with natural gas in urban areas in recent years. If similar policies are to be implemented in more large and medium-sized cities throughout China, the demand for natural gas will increase.

As a result of the rapid urbanization and industrialization, our revenue and gross profit generated from each of our operations increased during Track Record Period.

Product mix

During the Track Record Period, our operations include transportation and sales of pipelined gas and gas pipeline connections. The following table sets forth the breakdown of our total revenue by operation for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Transportation and sales of pipelined gas operation	26,230	39.8	57,714	45.2	84,886	47.4	39,480	48.2	50,626	44.0
Gas pipeline connections operation	37,775	57.3	67,594	52.9	90,624	50.6	41,266	50.4	58,719	51.1
Others	1,883	2.9	2,349	1.9	3,713	2.0	1,123	1.4	5,605	4.9
Total revenue	**65,888**	**100.0**	**127,657**	**100.0**	**179,223**	**100.0**	**81,869**	**100.0**	**114,950**	**100.0**

The following table sets forth the breakdown of revenue of our transportation and sales of pipelined gas operation by user category and by Operating City for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009 (unaudited)	2010
Breakdown by user category (RMB million)					
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[(1)]	3.1	10.0	11.0	6.6	3.3
Total revenue	**26.2**	**57.7**	**84.9**	**39.5**	**50.6**
Breakdown by Operating City (RMB million)					
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
Total revenue	**26.2**	**57.7**	**84.9**	**39.5**	**50.6**

Note:

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

The mix of products in our portfolio directly affects our results of operations and profitability. 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 near future.

Product mix also affects margins as different products may result in differing margins depending on the market of each Operating City at a particular point in time. Our revenue generated from transportation and sales of pipelined gas operation depends on the demand and consumption of the end-users, and revenue generated from the gas pipeline connections operation depends on our ability to secure the contracts. The proportion between the revenue generated from our transportation and sales of pipelined gas operation and our gas pipeline connections operation could have an impact on our margins. For example, there are significant differences between the gross profit margins of our transportation and sales of pipelined gas operation and that of our gas pipeline connections operation. During the Track Record Period, the gross profit margin of our transportation and sales of pipelined gas operation and our gas pipeline connections operation ranged from 1.9% to 14.1% and from 66.0% to 75.8%, respectively.

The approved retail prices of pipelined gas and the composition of our customers vary in our Operating Cities, which leads to different profit margins of our transportation and sales of pipelined gas operation in these Operating Cities. For our gas pipeline connections operation, because the connection costs in our Operating Cities are at a similar level, higher connection fees will result in higher profit margin. Furthermore, as the gross profit margin of our gas pipeline connections operation is substantially higher than that of our transportation and sales of pipelined gas operation, any changes in the proportion of the revenue generated from either of the operations may substantially affect our overall profit margin. As a result, our gross profit margin is determined by the sales price of natural gas, coal gas and CNG and our connection fee, and the cost of sales of each operation, as well as the combination of various products within and across our operations and Operating Cities.

Sales volume and price of pipelined gas

Our results of operations are directly affected by sales volume of pipelined gas, which in turn depends on market demand and our ability to widely transport and distribute pipelined gas, as well as our transportation and distribution capacity. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, revenue generated from our transportation and sales of pipelined gas operation accounted for approximately 39.8%, 45.2%, 47.4%, 48.2% and 44.0%, respectively, of our total revenue. The following table sets forth the sales volume of pipelined gas for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
Volume of pipelined gas sold (m^3)					
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	—[1]	781,405	3,877,685	1,294,599	3,232,765
Total sales volume	**18,646,753**	**45,313,421**	**52,760,969**	**27,529,780**	**28,774,061**

Note:

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

The retail prices of natural gas and coal gas are generally determined by the *Commodity Price Bureau* of each Operating City. 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 bases 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	2010
	Approximately RMB/m³			
Hebi City				
Residential users	1.70	1.70	1.70	1.70
Commercial users	1.90	1.90	1.90/2.40(3)	2.40/2.82(3)
Industrial users	1.80/2.28(3)	2.28	2.28/2.40(3)	2.40/2.82(3)
Other users(1)	1.70	1.70	1.70	1.70
Xuchang City				
Residential users	1.82	1.82	1.82	1.82
Commercial users	2.17	2.17	2.17/2.85(3)	2.85/3.28(3)
Industrial users	1.99/2.45(3)	2.45	2.45/2.65(3)	2.65/2.98(3)
Other users(1)	1.82	1.82	1.82	1.82
Shangjie District, Zhengzhou City(2)				
Residential users	1.00	1.00	1.00	1.00
Commercial users	1.40	1.40/1.55(3)	1.55/1.85(3)	1.85
Industrial users	1.00	1.00/1.15(3)	1.15/1.45(3)	1.45
Other users(1)	1.00	1.00/1.15(3)	1.15/1.45(3)	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.

Currently, retail prices of natural gas and coal gas are subject to price control imposed by the PRC Government. There is no assurance that the prices will remain at recent or current levels or that they will increase in the future.

The following table sets forth the average selling prices for our distribution and sales of natural gas and coal gas, including VAT, for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
Average selling price of natural gas or coal gas per m³ (RMB)				
Hebi City	1.88	1.86	1.99	2.05
Xuchang City	2.04	2.09	2.23	2.34
Shangjie District, Zhengzhou City(1)	1.06	1.04	1.30	1.34

Note:

(1) Supplies coal gas.

The following table sets forth the average selling prices for our distribution and sales of CNG, including VAT, for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
Average selling price of CNG per m^3 (RMB)				
Hebi City	—(1)	3.2	3.2	3.2
Xuchang City	—(2)	—(2)	3.3	3.3

Notes:

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

(2) We started to generate revenue from our distribution and sales of CNG in Xuchang in May 2009.

Number of new connections completed

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our revenue generated from gas pipeline connections operation accounted for approximately 57.3%, 52.9%, 50.6%, 50.4% 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 2009 and 2010, we successfully connected approximately 17,000, 22,000, 42,000, 12,000 and 27,000 units of new users, respectively.

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. The connection fee for our residential users is based on a set fee per connection. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, the average connection fee per residential connection remained stable at RMB2,750, RMB2,792, 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, including the construction and installation plan, the raw materials specified by the customers and the size of the project.

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. Due to the increasing number of new residential, commercial and industrial buildings adopting natural gas as the main energy source, we believe that our revenue from transportation and sales of pipelined gas operation, particularly those from sales of natural gas, will be on a growing trend. From 1 January 2007 to 30 June 2010, our total gas pipeline connections grew from approximately 28,000 units of users to 137,000 units of users.

Cost of sales

Cost of sales of our operations primarily includes: (i) raw materials and consumables used, including natural gas and coal gas; (ii) engagement of construction and design services; (iii) depreciation on property, plant and equipment; (iv) employee benefit expense; and (v) other expenses. The following factors will impact our cost of sales:

- prices of raw materials purchased from our suppliers and subcontracting costs;

- the effectiveness of our cost reduction measures; and
- the effect of economies of scale as we improve transportation and sales capacity.

Any increase in prices that we are required to pay for raw materials may result in a less competitive position that we can offer to the market, particularly if we are unable to successfully apply for the price adjustment and pass on the additional costs to the consumers. Our ability to pass on part or all of our raw material cost increases to our customers largely depends on the retail prices set by the *Commodity Price Bureau* of each Operating City, or the *Price Control Bureau*. The portion of the increased raw material costs may not be recovered by us if we do not increase the price of pipelined gas accordingly and pass on such additional cost to our consumers, hence reducing our profitability.

The following table sets forth the volume and purchase cost of our purchased gases in the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
				(unaudited)	
Purchased gases					
Total volume (m^3 in thousand)	20,156	45,861	53,999	28,274	30,313
Purchase cost (RMB'000)	21,243	45,959	64,843	31,681	39,335

Finance costs

We finance a portion of our business operations and capital projects with short-term and long-term borrowings. As at 30 June 2010, our outstanding short-term and long-term borrowings amounted to RMB87.9 million. See "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness" in this Prospectus. Our borrowings incur interest. Interest rate fluctuations and the balance of our total borrowings will have an impact on our finance costs. We assumed a foreign currency loan denominated in U.S. dollars from local government as a consideration to acquire the Concession in Xuchang. To the extent that the Renminbi depreciates against any of these currencies, our finance costs on such loan will increase. As at 30 June 2010, our foreign currency borrowing, denominated in U.S. dollars, amounted to RMB6.4 million. We had net foreign exchange gains of RMB0.9 million and RMB0.8 million, respectively, in 2007 and 2008, and incurred net foreign exchange loss of RMB47,000 in 2009. For the six months ended 30 June 2009 and 2010, we had foreign exchange gains of RMB6,000 and RMB68,000, respectively. These changes were mainly caused by fluctuations in the value of the U.S. dollars in recent years. Please refer to "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and qualitative disclosures about market risk" in this Prospectus.

Corporate income tax

All of the Company's subsidiaries incorporated in the PRC are subject to PRC CIT, which has been provided based on the statutory income tax rate of the assessable income of each of such companies during the relevant periods as determined in accordance with the relevant PRC income tax rules and regulations. We did not derived any income from Hong Kong, the BVI and the Cayman Islands during the Track Record Period and hence, during the Track Record Period and as at the Latest Practicable Date, we were not subject to income taxes in such jurisdictions.

On 16 March 2007, the *National People's Congress* approved the *Corporate Income Tax Law of the People's Republic of China* (the new "CIT Law"). The applicable PRC CIT rates of Hebi Tian Lun Vehicle, Xuchang Tian Lun, Xuchang Tian Lun Vehicle and Shangjie Tian Lun were changed from 33% to 25% from 2008 onwards. Hebi Tian Lun became a sino-foreign joint venture in 2004, which was entitled to exemption from the PRC CIT for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from the enacted PRC CIT rate for the next three years (the "Five-Year Tax Concession"). As advised by Grandall Legal Group, the Five-Year Tax Concession was granted by *Hebi National Tax Bureau** (鶴壁市國家税務局), which was the appropriate and competent authority granting such tax concession. As the Five-Year Tax Concession started from 2007, the enacted tax rate applicable to Hebi Tian Lun in 2007, 2008 and 2009 is 0%, 0%, and 12.5% (being 50% of the enacted PRC CIT rate for 2009), respectively. As advised by Grandall Legal Group, the expected tax rate for Hebi Tian Lun will be 12.5% for the year ending 31 December 2010.

The Directors have confirmed that the subsidiaries of the Company in the PRC have made all the required tax filings under the relevant tax laws and regulations in the PRC, have paid all outstanding tax liabilities and are not subject to any dispute or potential dispute with the tax authorities in the PRC.

As a result of the foregoing, our income tax expense in 2007, 2008 and 2009 and the six months ended 30 June 2010 was RMB4.2 million, RMB6.9 million, RMB14.0 million and RMB10.0 million, respectively; the effective tax rate for the same periods was 33.6%, 21.2%, 22.7% and 23.4%, respectively.

Government policies regarding pricing of natural gas and coal gas

Our results of operations and financial condition may be affected by government policies regarding pricing of natural gas and coal gas. Natural gas and coal gas prices charged by us are subject to the approval of the *Commodity Price Bureau* of each Operating City, or the *Commodity Price Bureau*. We are entitled to determine the retail price of natural gas and coal gas, subject to a ceiling price imposed by the local governments. However, the local governments may introduce policies to adjust the ceiling price from time to time. To operate in line with the local government's policies, we would re-adjust our selling prices in accordance with new ceiling price introduced from time to time. We currently price natural gas supplied to end-users by a cost-plus pricing method. The selling price chargeable to end-users of natural gas consists mainly of sum of ex-factory price and transportation cost, both of which are regulated by the authorities and reasonable profits. Accordingly, our results of operations and financial condition may be affected by government policies. During the Track Record Period, the approved retail prices, inclusive of VAT, of natural gas and coal gas sold to different categories of users remained stable or experienced different levels of increase.

Seasonality factors

A substantial portion of our revenue is derived from transportation and sales of pipelined gas operation. The demand for natural gas and coal gas sales to residential, commercial and industrial users is seasonal. Our revenue and results of operations are therefore subject to seasonality. In 2009, approximately 64% of the total sales volume of our natural gas and coal gas occurred in the first and fourth quarters. These patterns reflect the higher demand for natural gas and coal gas for heating purposes during those periods.

Critical Accounting Policies, Accounting Estimates and Judgments

The discussion and analysis of our results of operations and financial condition is based on our combined financial information, which has been prepared in accordance with HKFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our combined financial information. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as the facts, circumstances and conditions may experience change or as a result of different assumptions.

Our management team considers the following factors in reviewing the respective combined financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies, as well as the sensitivity of reported results to changes in conditions and assumptions, are all factors to be considered when reviewing our financial information. Our significant accounting policies are summarized in Section II-2.2 to the Accountant's Report set out in Appendix I to this Prospectus. We believe the following critical accounting policy, estimates and judgments involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of VAT, return, rebates and discounts and after eliminating inter-company sales.

Gas pipeline connections operation

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.

Sale of gases

Revenue from the sale of gases is recognized on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the gas is delivered to customers and title has passed, and is based on the gas consumption derived from meter readings.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Rental income

Rental income from investment properties is recognized in the combined statements of comprehensive income on a straight-line basis over the terms of leases.

Current income taxes and deferred tax

Our subsidiaries that operate in the PRC are subject to applicable PRC CIT in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as our management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimate is changed.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, we had deferred tax assets of RMB4.5 million. RMB1.5 million, RMB1.2 million and RMB1.4 million, respectively. To the extent that it is probable that the taxable profit will be available against which the deductible temporary differences will be utilized, deferred tax assets are recognized for temporary differences arising from write-down of inventory and impairment provisions taken on receivables, accrued expenses, tax losses and depreciation. Should we be required to increase the tax rate, every 1% increment in tax rate will render a further write-up of deferred tax asset in the amount of RMB217,000, RMB100,000, RMB53,000 and RMB62,000, respectively.

Depreciation and amortization

Our management determines the estimated residual value, useful lives and related depreciation/amortization charges for the property, plant and equipment and intangible assets with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets. Our management will revise the depreciation and amortization charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of trade and other receivables

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability of trade and other receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, the past collection history of each counterparty and the current market condition.

Description of Components of Results of Operations

Revenue

During the Track Record Period, we generate our revenue from transportation and sales of pipelined gas operation and gas pipeline connections operation. The following table sets forth the breakdown of the sources of our revenue from external sales for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Transportation and sales of pipelined gas operation	26,230	39.8	57,714	45.2	84,886	47.4	39,480	48.2	50,626	44.0
Gas pipeline connections operation	37,775	57.3	67,594	52.9	90,624	50.6	41,266	50.4	58,719	51.1
Others	1,883	2.9	2,349	1.9	3,713	2.0	1,123	1.4	5,605	4.9
Total revenue	**65,888**	**100.0**	**127,657**	**100.0**	**179,223**	**100.0**	**81,869**	**100.0**	**114,950**	**100.0**

Our revenue represents the net invoiced value of goods sold, after trade discounts (net of VAT). During the Track Record Period, we provided trade discounts for our large industrial and commercial users and CNG customers for our transportation and sales of pipelined gas operation.

Our principal subsidiaries are domiciled in China. All their revenues from external customers are domestically derived, and all the non-current assets are located in the PRC. There are no financial instruments, employment benefit assets or rights arising under insurance contracts.

Our revenue on a combined basis is presented after elimination of inter-company sales, if any. As a result, only income generated from sales made to external customers is accounted as our revenue in our combined results of operations.

Cost of sales

By type

Cost of sales represents the direct costs of production, which includes primarily raw materials costs, engagement of construction and design costs, depreciation and amortization expenses, employment benefit expense and other expenses. The following table sets forth the break down of our cost of sales, distribution cost and administrative expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Raw materials and consumables used	30,169	57,939	81,108	37,986	44,167
Changes in inventories of finished goods and work in progress	(3,433)	3,563	829	(59)	6,291
Depreciation on property, plant and equipment	4,645	6,023	6,574	3,173	3,798
Depreciation on investment properties	348	372	388	217	211
Amortization of lease prepayments	7	19	24	13	35
Amortization of intangible assets	729	746	717	360	360
Write-down of inventories	113	—	—	—	—
Employee benefit expense	2,754	4,039	5,317	2,445	3,300
Licensing fee for the exclusive operating rights for city pipeline network	—	1,100	1,100	550	550
Engagement of construction and design services	3,927	5,925	6,457	2,573	5,116
Transportation	320	329	419	96	229
Auditors' remuneration	43	42	54	20	34
Professional expenses	30	146	200	83	494
Advertising expenses	729	172	452	82	34
Entertainment expenses	190	357	484	158	356
Office expenses	505	610	719	246	170
Taxes	1,657	2,731	3,622	1,812	2,520
Other expenses	1,919	3,381	3,888	1,906	2,203
Total cost of sales, distribution cost and administrative expenses	**44,652**	**87,494**	**112,352**	**51,661**	**69,868**

The costs of raw materials and consumable used and change in inventories of finished goods and work-in-progress were the main component of our cost of sales, representing approximately 59.9%, 70.3%, 72.9%, 73.4% and 72.2%, respectively, of our total cost of sales for the year ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010. Raw materials and consumables used in our operations mainly include natural gas and coal gas, steel, pipelines, valves, pipeline connectors and accessories.

Engagement of construction and design services mainly comprises our subcontracting costs and the fees paid to our subcontractors, such as Hexiang Engineering, for construction and design services associated with our gas pipeline connections operation.

As to the costs of construction and installation of gas pipelines, if the gas pipelines were within the property lines of the properties belong to our customers, such costs were recognized as expenses. If the gas pipelines were outside of the property lines of our customers, the costs of construction and installation of such gas pipelines were capitalized as property, plant and equipment.

During the Track Record Period, our cost of sales also included traveling expenses, utilities and promotion expenses.

By operation

Costs of sales for each operation during the Track Record Period were as follows:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Cost of sales										
Transportation and sales of pipelined gas operation	25,724	69.2	52,624	67.8	72,899	72.6	35,519	76.6	44,340	70.4
Gas pipeline connections operation	10,679	28.7	22,993	29.6	26,028	25.9	9,996	21.6	16,799	26.7
Others	782	2.1	2,006	2.6	1,466	1.5	851	1.8	1,837	2.9
Total cost of sales	**37,185**	**100.0**	**77,623**	**100.0**	**100,393**	**100.0**	**46,366**	**100.0**	**62,976**	**100.0**

Our costs of sales on a combined basis are presented after elimination of inter-company transactions, if any. Hence, the costs of sales during the Track Record Period relating to our intra-company sale of CNG from Hebi Tian Lun to Hebi Tian Lun Vehicle and from Xuchang Tian Lun to Xuchang Tian Lun Vehicle have been eliminated.

The following table sets forth the per unit purchase price of natural gas and coal gas during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	RMB/m^3	RMB/m^3	RMB/m^3	RMB/m^3
Natural Gas				
Hebi City(1)				
Residential	1.38	1.38	1.38/1.44/1.49(2)	1.49/1.44/1.69(2)
Commercial	1.38	1.38	1.38/1.44/1.49(2)	1.49/1.44/1.69(2)
Industrial	1.38	1.38/1.78(2)	1.78/1.86(2)	1.86/1.78/2.13(2)
Xuchang City(1)				
Residential	1.36	1.36	1.36/1.42(2)	1.42/1.67(2)
Commercial	1.36	1.36	1.36/1.42(2)	1.42/1.67(2)
Industrial	1.36	1.36/1.76(2)	1.76/1.82(2)	1.82/2.11(2)
Coal Gas(1)	0.85	0.85/1.00(2)	1.00/1.30(2)	1.30

Notes:

(1) Represented the predetermined ex-factory price and pipeline transportation cost set by the NDRC.

(2) Prices were adjusted in their relevant year.

During the Track Record Period, our cost of natural gas and coal gas has gradually increased due to the price adjustments by the NDRC.

Gross profit

Our gross profit was RMB28.7 million, RMB50.0 million, RMB78.8 million, RMB35.5 million and RMB52.0 million for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively. Our profit margin was 43.6%, 39.2%, 44.0%, 43.4% and 45.2% for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively.

The following table sets forth the breakdown of gross profit and gross profit margin by each business segment during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
				(unaudited)	
Gross profit (RMB'000)					
Transportation and sales of pipelined gas operation	506	5,090	11,987	3,961	6,286
Gas pipeline connections operation	27,096	44,601	64,596	31,270	41,920
Others	1,101	343	2,247	272	3,768
Total gross profit	**28,703**	**50,034**	**78,830**	**35,503**	**51,974**
Gross profit margin (%)					
Transportation and sales of pipelined gas operation	1.9	8.8	14.1	10.0	12.4
Gas pipeline connections operation	71.7	66.0	71.3	75.8	71.4
Others	58.5	14.6	60.5	24.2	67.2
Average gross profit margin	**43.6**	**39.2**	**44.0**	**43.4**	**45.2**

The improvement of our gross profit margin for our transportation and sales of pipelined gas operation during the Track Record Period was mainly due to the improved operating leverage with increase in sales, in particular, the increase in our sales of pipelined gas to our commercial and industrial users were greater than the increase in our sales of pipelined gas to our residential users during the same periods. Our commercial and industrial users had a higher profit margin as compared with our sales of pipelined gas to our residential users. To the best knowledge and belief of our Directors, our high gross profit margins from our operations during the Track Record Period, especially our high profit margins from our gas pipeline connections operation, were consistent with industry norm.

The profit margin for our gas pipeline connections operation during the Track Record Period was relatively stable except for the decrease for the year ended 31 December 2008 as the terms of the agreements signed with our customers for the years ended 31 December 2007 and 2009 and the six months ended 30 June 2010 were better than those signed in 2008.

The following table sets forth the breakdown of gross profit and gross profit margin by each Operating City during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
				(unaudited)	
Gross profit (RMB'000)					
Hebi City	5,663	11,465	23,583	9,157	19,044
Xuchang City	22,066	33,856	38,776	22,575	26,274
Shangjie District, Zhengzhou City	974	4,713	16,471	3,771	6,656
Total gross profit	**28,703**	**50,034**	**78,830**	**35,503**	**51,974**
Gross profit margin (%)					
Hebi City	25.3	32.7	44.0	41.1	44.8
Xuchang City	61.8	54.8	52.7	58.7	52.5
Shangjie District, Zhengzhou City	12.6	15.3	31.6	17.8	29.7
Average gross profit margin	**43.6**	**39.2**	**44.0**	**43.4**	**45.2**

The ceiling of our gas selling prices and our increased cost of sales contributed to the fluctuation in our gross profit margin during the Track Record Period.

Distribution cost

Our distribution cost consists primarily of remunerations for our sales personnel and the promotional expenses in certain Operating Cities. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our distribution cost was RMB2.0 million, RMB1.6 million, RMB2.2 million, RMB0.7 million and RMB1.4 million, respectively.

Administrative expenses

Administrative expenses consist primarily of salaries and benefits of administrative and management staff, depreciation for our offices and travel expenses for our staff. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our administrative expenses were RMB5.5 million, RMB8.3 million, RMB9.7 million, RMB4.6 million and RMB5.5 million, respectively.

Other gains — net

Other gains — net mainly consist of gains on disposal of assets and waivers of liabilities due to Independent Third Parties, which represented the deduction of trade payables provided by our supplier for Xuchang Tian Lun, due to the inferior quality of gas pipes supplied to us. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our other gains — net were RMB824,000, RMB5,000, RMB671,000, RMB195,000 and RMB32,000, respectively.

Finance income

Finance income consists of net foreign exchange gains and interest income derived from bank deposits. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our finance income was RMB1.9 million, RMB1.9 million, RMB1.1 million, RMB0.5 million and RMB0.6 million, respectively.

Finance costs

Finance costs consist of financing payments on: (i) interests of bank loans and other borrowings; (ii) applicable bank charges; and (iii) net foreign exchange losses. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our finance costs were RMB11.5 million, RMB9.6 million, RMB7.1 million, RMB3.9 million and RMB2.8 million, respectively.

Finance costs — net

Finance costs — net represent the balance of finance income and finance costs. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, our finance costs net of finance income were RMB9.6 million, RMB7.8 million, RMB6.0 million, RMB3.4 million and RMB2.2 million, respectively.

Income tax expense

All the Company's subsidiaries incorporated in the PRC are subject to PRC CIT, which has been provided based on the statutory income tax rate of the assessable income of each of such companies during the relevant periods as determined in accordance with the relevant PRC income tax rules and regulations. The applicable PRC CIT rates of Hebi Tian Lun Vehicle, Xuchang Tian Lun, Xuchang Tian Lun Vehicle and Shangjie Tian Lun were changed from 33% to 25% from 2008 onwards. Hebi Tian Lun became a sino-foreign joint venture in 2004, which was entitled to the Five-Year Tax Concession. As the Five-Year Tax Concession started from 2007, the enacted tax rate applicable to Hebi Tian Lun in 2007, 2008 and 2009 was 0%, 0%, and 12.5% (being 50% of the enacted PRC CIT rate for 2009), respectively.

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC, in respect of earnings generated after 31 December 2007. Before the Corporate Reorganization, 80% equity interest of one of our subsidiaries in the PRC is held by Upsky Holding, a company incorporated in British Virgin Islands, and is subject to 10% withholding tax. We are therefore liable to withholding taxes on dividends to be distributed by such subsidiary established in the PRC in respect of earnings generated from 1 January 2008.

As a result of the foregoing, our income tax expense for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 was RMB4.2 million, RMB6.9 million, RMB14.0 million, RMB6.2 million and RMB10.0 million, respectively; the effective tax rate for the same periods was 33.6%, 21.2%, 22.7%, 23.1% and 23.4%, respectively. The decrease in effective tax rate during the same periods was mainly due to the decrease in the applicable PRC CIT rates of Hebi Tian Lun Vehicle, Xuchang Tian Lun, Xuchang Tian Lun Vehicle and Shangjie Tian Lun from 33% to 25% since 1 January 2008.

We did not have deferred income tax liability as at 31 December 2007 and 2008. As at 31 December 2009, deferred income tax liability of approximately RMB0.6 million has been recognized as the withholding tax that will be payable on the unremitted earnings of such subsidiary in the PRC. As at 30 June 2010, the withholding tax payable by us was RMB1.5 million. Accumulated losses attributable to Upsky Holdings amounted to approximately RMB9.3 million and RMB5.3 million as at 31 December 2007 and 2008, respectively. Unremitted earnings attributable to Upsky Holdings amounted to approximately RMB5.8 million as at 31 December 2009.

Profit attributable to equity holders of our Company

Profit attributable to equity holders of our Company for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 was RMB7.5 million, RMB23.5 million, RMB44.3 million, RMB19.2 million and RMB32.4 million, respectively. The margin of profit attributable to equity holders of our Company increased from 11.4% for the year ended 31 December 2007 to 18.4% for the year ended 31 December 2008 and further to 24.7% for the year ended 31 December 2009, and also increased from 23.5% for the six months ended 30 June 2009 to 28.2% for the six months ended 30 June 2010. Our margin of profit attributable to equity holders of our Company has been increasing during the Track Record Period mainly due to the enlargement of our scale of business, allowing us to enjoy a higher margin from economies of scale. For a detailed analysis of the fluctuation of the profit attributable to equity holders of our Company during the Track Record Period, please refer to "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of our operations" in this Prospectus.

Results of Our Operations

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our combined statements of comprehensive income:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Combined statements of comprehensive income										
Revenue	65,888	100.0	127,657	100.0	179,223	100.0	81,869	100.0	114,950	100.0
Cost of sales	(37,185)	(56.4)	(77,623)	(60.8)	(100,393)	(56.0)	(46,366)	(56.6)	(62,976)	(54.8)
Gross profit	28,703	43.6	50,034	39.2	78,830	44.0	35,503	43.4	51,974	45.2
Distribution cost	(1,978)	(3.0)	(1,553)	(1.2)	(2,236)	(1.2)	(715)	(0.9)	(1,402)	(1.2)
Administrative expenses	(5,489)	(8.3)	(8,318)	(6.5)	(9,723)	(5.4)	(4,580)	(5.6)	(5,490)	(4.8)
Other gains — net	824	1.3	5	0.0	671	0.4	195	0.2	32	0.0
Operating profit	22,060	33.5	40,168	31.5	67,542	37.7	30,403	37.1	45,114	39.2
Finance income	1,893	2.9	1,874	1.5	1,066	0.6	527	0.6	589	0.5
Finance costs	(11,465)	(17.4)	(9,625)	(7.5)	(7,063)	(3.9)	(3,913)	(4.8)	(2,805)	(2.4)
Finance costs — net	(9,572)	(14.5)	(7,751)	(6.1)	(5,997)	(3.3)	(3,386)	(4.1)	(2,216)	(1.9)
Profit before income tax	12,488	19.0	32,417	25.4	61,545	34.3	27,017	33.0	42,898	37.3
Income tax expense	(4,198)	(6.4)	(6,866)	(5.4)	(13,992)	(7.8)	(6,235)	(7.6)	(10,048)	(8.7)
Profit for the year/period	8,290	12.6	25,551	20.0	47,553	26.5	20,782	25.4	32,850	28.6
Other comprehensive income for the year/period, net of tax	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year/period	8,290	12.6	25,551	20.0	47,553	26.5	20,782	25.4	32,850	28.6
Profit and total comprehensive income attributable to:										
Equity holders of the Company	7,540	11.4	23,538	18.4	44,229	24.7	19,228	23.5	32,443	28.2
Minority interest	750	1.2	2,013	1.6	3,254	1.8	1,554	1.9	407	0.4
	8,290	12.6	25,551	20.0	47,553	26.5	20,782	25.4	32,850	28.6

Six months ended 30 June 2010 compared with six months ended 30 June 2009

Revenue

Our total revenue increased by 40.4% from RMB81.9 million for the six months ended 30 June 2009 to RMB115.0 million for the six months ended 30 June 2010. This increase was attributable to increases in revenue from both of our operations.

The revenue from our transportation and sales of pipelined gas operation increased by 28.2% from RMB39.5 million for the six months ended 30 June 2009 to RMB50.6 million for the six months ended 30 June 2010. Although the average selling price of CNG remained stable for the six months ended 30 June 2009 and 2010 and the average selling price of natural gas and coal gas increased slightly for the same periods, the sales volume of natural gas and CNG increased substantially from 11.4 million m^3 to 15.4 million m^3 and 1.3 million m^3 to 3.2 million m^3 for the same periods, respectively, and the sales volume of coal gas decreased from 14.8 million m^3 to 10.1 million m^3 for the same periods, respectively. Increase in sales volume was caused by the increased number of connections in residential, commercial and industrial users due to market demands, as well as the increase in the number of our CNG filling stations and CNG users.

The revenue from gas pipeline connections operation increased by 42.3% from RMB41.3 million for the six months ended 30 June 2009 to RMB58.7 million for the six months ended 30 June 2010. While the average connection fee remained unchanged in the first half of 2009 and 2010, the increase in revenue was mainly due to the increase in the number of new connections. The number of new connections to our pipeline networks increased substantially from approximately 80,000 units of users as at 30 June 2009 to 137,000 units of users as at 30 June 2010 because of increased market demands and continuous development in our Operating Cities.

Cost of sales

Our cost of sales increased by 35.8% from RMB46.4 million for the six months ended 30 June 2009 to RMB63.0 million for the six months ended 30 June 2010. Among a number of cost items, our costs for raw materials and consumable used and changes in inventories of finished goods and work-in-progress together increased from RMB37.9 million in the six months ended 30 June 2009 to RMB50.5 million for the six months ended 30 June 2010. The increase was primarily due to the increased sales volume of pipelined gas and increased connections of users. Our engagement of construction and design services increased from RMB2.6 million for the six months ended 30 June 2009 to RMB5.1 million for the six months ended 30 June 2010, which was in line with the increase in our revenue for the same period. The depreciation on property, plant and equipment increased slightly from RMB2.7 million for the six months ended 30 June 2009 to RMB3.4 million for the six months ended 30 June 2010.

The cost of sales from transportation and sales of pipelined gas operation increased by 24.8% from RMB35.5 million for the six months ended 30 June 2009 to RMB44.3 million for the six months ended 30 June 2010, mainly due to increased sales volume of pipelined gas, which further resulted in the increase in purchases for natural gas and coal gas.

The cost of sales for our gas pipeline connections operation increased by 68.1% from RMB10.0 million for the six months ended 30 June 2009 to RMB16.8 million for the six months ended 30 June 2010. The increase in cost of sales was because of an increase in the materials, labors and expenses used in the operation due to increased demand for the gas pipeline connections in our Operating Cities.

Gross profit

As a result of the foregoing, our gross profit increased by 46.4% from RMB35.5 million for the six months ended 30 June 2009 to RMB52.0 million for the six months ended 30 June 2010. Our gross profit margin increased from 43.4% for the six months ended 30 June 2009 to 45.2% for the six months ended 30 June 2010.

Gross profit for our transportation and sales of pipelined gas operation increased from RMB4.0 million for the six months ended 30 June 2009 to RMB6.3 million for the six months ended 30 June 2010, and the gross profit margin increased from 10.0% to 12.4% in the same period. The increase in the gross profit was primarily caused by an increase in our sales. The increase in gross profit margin was caused by: (i) the enlargement of our scale of business, allowing us to enjoy a higher margin from economies of scale; and (ii) the increase in our sales proportion of CNG, which has a relatively higher margin compared to our other gas products that we also sell as part of our transportation and sales of pipelined gas operation.

Gross profit for our gas pipeline connections operation increased from RMB31.3 million for the six months ended 30 June 2009 to RMB41.9 million for the six months ended 30 June 2010, and the gross profit margin decreased from 75.8% to 71.4% in the same period. The increase in the gross profit was primarily caused by increased connections of users from the six months ended 30 June 2009 to the six months ended 30 June 2010. The decrease in gross profit margin was caused by the increased connections in Hebi, which generally had the lowest gross profit margin among our Operating Cities.

Distribution cost

Our distribution cost increased by 96.1% from RMB0.7 million for the six months ended 30 June 2009 to RMB1.4 million for the six months ended 30 June 2010. The increase was primarily due to an increase in salary and benefits of our sales and marketing personnel.

Administrative expenses

Our administrative expenses increased by 19.9% from RMB4.6 million for the six months ended 30 June 2009 to RMB5.5 million for the six months ended 30 June 2010. The increase was primarily due to increases in headcounts and the average salaries and benefits of our administrative personnel.

Other gains — net

Other gains net of other expenses decreased significantly from RMB195,000 for the six months ended 30 June 2009 to RMB32,000 for the six months ended 30 June 2010. The decrease was primarily because of losses on disposal of property, plant and equipment of RMB18,000 during the period as compared to a gain of RMB115,000 for the six months ended 30 June 2009.

Finance income

Our finance income slightly increased by 11.8% from RMB0.5 million for the six months ended 30 June 2009 to RMB0.6 million for the six months ended 30 June 2010. The increase in finance income was primarily due to the increase in foreign exchange gains.

Finance costs

Our finance costs decreased by 28.3% from RMB3.9 million for the six months ended 30 June 2009 to RMB2.8 million for the six months ended 30 June 2010. The decrease in finance costs was primarily due to the decrease in average interest rate of outstanding balances of bank borrowings.

Finance costs — net

As a result of the foregoing two line items, our finance costs net of finance income decreased by 34.6% from RMB3.4 million for the six months ended 30 June 2009 to RMB2.2 million for the six months ended 30 June 2010.

Income tax expense

Our income tax expense increased by 61.2% from RMB6.2 million for the six months ended 30 June 2009 to RMB10.0 million for the six months ended 30 June 2010, which was primarily due to our increased taxable income for the six months ended 30 June 2010. Please refer to "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of components of results of operations — Income tax expense" in this Prospectus. Our effective income tax rate increased slightly from 23.1% for the six months ended 30 June 2009 to 23.4% for the six months ended 30 June 2010.

Profit for the year/period

As a result of the foregoing factors, our profit for the year/period increased by 58.1%, or RMB12.1 million, from RMB20.8 million for the six months ended 30 June 2009 to RMB32.9 million for the six months ended 30 June 2010.

Year ended 31 December 2009 compared with year ended 31 December 2008

Revenue

Our total revenue increased by 40.4% from RMB127.7 million for the year ended 31 December 2008 to RMB179.2 million for the year ended 31 December 2009. This increase was attributable to increases in revenue from both of our operations.

The revenue from our transportation and sales of pipelined gas operation increased by 47.1% from RMB57.7 million for the year ended 31 December 2008 to RMB84.9 million for the year ended 31 December 2009. Although the average selling price of CNG remained stable for the years ended 31 December 2008 and 2009 and the average selling price of natural gas and coal gas increased slightly for the same periods, the sales volume of natural gas and CNG increased substantially from 17.5 million m^3 to 24.2 million m^3 and 0.8 million m^3 to 3.9 million m^3 for the same periods, respectively, and the sales volume of coal gas decreased from 27.0 million m^3 to 24.6 million m^3 for the same periods, respectively. Increase in sales volume was caused by the increased number of connections in residential, commercial and industrial users due to market demands, as well as the increase in the number of our CNG filling stations and CNG users.

The revenue from gas pipeline connections operation increased by 34.1% from RMB67.6 million for the year ended 31 December 2008 to RMB90.6 million for the year ended 31 December 2009. While the average connection fee remained unchanged in 2008 and 2009, the increase in revenue was mainly due to the increase in the number of new connections. The number of new connections to our pipeline networks increased substantially from 67,383 units of users as at 31 December 2008 to 109,642 units of users as at 31 December 2009 because of increased market demands and continuous development in our Operating Cities.

Cost of sales

Our cost of sales increased by 29.3% from RMB77.6 million for the year ended 31 December 2008 to RMB100.4 million for the year ended 31 December 2009. Among a number of cost items, our costs for raw materials and consumable used and changes in inventories of finished goods and work-in-progress together increased from RMB61.5 million in 2008 to RMB81.9 million in 2009. The increase was primarily due to the increased sales volume of pipelined gas and increased connections of users. Our engagement of construction and design services increased from RMB5.9 million in 2008 to RMB6.5 million in 2009, which was in line with the increase in our revenue for the same period. The depreciation on property, plant and equipment increased slightly from RMB4.9 million in 2008 to RMB5.7 million in 2009.

The cost of sales from our transportation and sales of pipelined gas operation increased by 38.5% from RMB52.6 million for the year ended 31 December 2008 to RMB72.9 million for the year ended 31 December 2009. Such an increase was mainly due to increased sales volume of pipelined gas, which further resulted in the increase in purchases for natural gas and coal gas.

The cost of sales for our gas pipeline connections operation increased by 13.2% from RMB23.0 million for the year ended 31 December 2008 to RMB26.0 million for the year ended 31 December 2009. The increase in cost of sales was because of an increase in the materials, labors and expenses used in the operation due to increased demand for the gas pipeline connections in our Operating Cities.

Gross profit

As a result of the foregoing, our gross profit increased by 57.6% from RMB50.0 million for the year ended 31 December 2008 to RMB78.8 million for the year ended 31 December 2009. Our gross profit margin increased from 39.2% for the year ended 31 December 2008 to 44.0% for the year ended 31 December 2009.

Gross profit for our transportation and sales of pipelined gas operation increased from RMB5.1 million in 2008 to RMB12.0 million in 2009, and the gross profit margin increased from 8.8% to 14.1% in the same period. The increase in the gross profit was primarily caused by an increase in our sales. The increase in gross profit margin was caused by: (i) the enlargement of our scale of business, allowing us to enjoy a higher margin from economies of scale; (ii) less transporting loss we incurred in Hebi in 2009, compared to 2008 after refurbishment of certain damaged pipelines; (iii) increased selling price of our pipelined gases in 2009; and (iv) increase in our sales proportion of CNG, which has a relatively higher margin compared to our other gas products that we also sell as part of our transportation and sales of pipelined gas operation.

Gross profit for our gas pipeline connections operation increased from RMB44.6 million in 2008 to RMB64.6 million in 2009, and the gross profit margin increased from 66.0% to 71.3% in the same period. The increase in the gross profit was primarily caused by increased connections of users from 2008 to 2009. The increase in gross profit margin was caused by the increased connections in Xuchang, which generally incurred the highest gross profit margin among our Operating Cities.

Distribution cost

Our distribution cost increased by 44% from RMB1.6 million for the year ended 31 December 2008 to RMB2.2 million for the year ended 31 December 2009. The increase was primarily due to an increase in salary and benefits of our sales and marketing personnel.

Administrative expenses

Our administrative expenses increased by 16.9% from RMB8.3 million for the year ended 31 December 2008 to RMB9.7 million for the year ended 31 December 2009. The increase was primarily due to increases in headcounts and the average salaries and benefits of our administrative personnel.

Other gains — net

Other gains net of other expenses increased significantly from RMB5,000 for the year ended 31 December 2008 to RMB671,000 for the year ended 31 December 2009. The increase was primarily because the waiver of trade payables deduction of RMB444,000 in 2009, which were provided by our supplier to Xuchang Tian Lun, due to the inferior quality of gas pipes supplied to us.

Finance income

Our finance income decreased by 43.1% from RMB1.9 million for the year ended 31 December 2008 to RMB1.1 million for the year ended 31 December 2009. The decrease in finance income was primarily due to the decrease in foreign exchange gains.

Finance costs

Our finance costs decreased by 26.6% from RMB9.6 million for the year ended 31 December 2008 to RMB7.1 million for the year ended 31 December 2009. The decrease in finance costs was primarily due to the decrease in interests expenses as a result of reduction in on outstanding balances of bank borrowings.

Finance costs — net

As a result of the foregoing two line items, our finance costs net of finance income decreased by 22.6% from RMB7.8 million for the year ended 31 December 2008 to RMB6.0 million for the year ended 31 December 2009.

Income tax expense

Our income tax expense increased by 103.8% from RMB6.9 million for the year ended 31 December 2008 to RMB14.0 million for the year ended 31 December 2009, which was primarily due to our increased taxable income for the year ended 31 December 2009. Please refer to "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of components of results of operations — Income tax expense" in this Prospectus. Our effective income tax rate increased slightly from 21.2% for the year ended 31 December 2008 to 22.7% for the year ended 31 December 2009.

Profit for the year/period

As a result of the foregoing factors, our profit for the year/period increased by 86.1%, or RMB22.0 million, from RMB25.6 million for the year ended 31 December 2008 to RMB47.6 million for the year ended 31 December 2009.

Year ended 31 December 2008 compared with year ended 31 December 2007

Revenue

Our total revenue increased by 93.7% from RMB65.9 million for the year ended 31 December 2007 to RMB127.7 million for the year ended 31 December 2008. This increase was attributable to increases in revenue from our transportation and sales of pipelined gas operation, including commencement of our distribution and sales of CNG, and gas pipeline connections operation.

The revenue from our transportation and sales of pipelined gas operation increased by 120.0% from RMB26.2 million for the year ended 31 December 2007 to RMB57.7 million for the year ended 31 December 2008. Although the average selling price of natural gas increased slightly for the years ended 31 December 2007 and 2008 and the average selling price of coal gas decreased slightly for the same periods mainly due to the increase in sales to residential users, sales volume of natural gas increased substantially from 11.2 million m^3 to 17.5 million m^3 and sales volume of coal gas increased substantially from 7.5 million m^3 to 27.0 million m^3. Increase in sales volume was caused by the increased connection in residential, commercial and industrial users due to market demands and continuous urbanization of our Operating Cities. We also started to generate revenue from our distribution and sales of CNG in April 2008.

The revenue from our gas pipeline connections operation increased from RMB37.8 million for the year ended 31 December 2007 to RMB67.6 million for the year ended 31 December 2008. The increase in revenue was mainly due to the increase in the number of new connections. The connections to pipeline networks increased substantially from approximately 45,000 units of users as at 31 December 2007 to 67,000 units of users as at 31 December 2008 because of increased market demands and continuous development in our Operating Cities.

Cost of sales

Our cost of sales increased by 108.7% from RMB37.2 million for the year ended 31 December 2007 to RMB77.6 million for the year ended 31 December 2008. Among a number of cost items, our costs for raw materials and consumable used and changes in inventories of finished goods and work-in-progress together increased from RMB26.7 million in 2007 to RMB61.5 million in 2008. The increase was primarily due to the increased sales volume of pipelined gas and increased connections of users. In addition, our engagement of construction and design services increased from RMB3.9 million in 2007 to RMB5.9 million in 2008, which was in line with the increase in our revenue in 2009. The depreciation of property, plant and equipment increased from RMB3.6 million in 2007 to RMB4.9 million in 2008 also contributed to the increases in cost of sales during this period.

The cost of sales from our transportation and sales of pipelined gas operation increased by 104.6% from RMB25.7 million for the year ended 31 December 2007 to RMB52.6 million for the year ended 31 December 2008. Such an increase was mainly due to increased sales volume of pipelined gas, which further resulted in the increase in purchases of natural gas and coal gas. In addition, we were requested by local government in Shangjie in 2008 to refurbish our pipelines, which was a one-off cost and amounted to RMB1.0 million. Such request from the Shangjie District government was in relation to the celebration of its 50th anniversary of the establishment of the district for uplifting the environment of the city.

The cost of sales from our gas pipeline connections operation increased by 115.3% from RMB10.7 million for the year ended 31 December 2007 to RMB23.0 million for the year ended 31 December 2008. The increase in cost of sales was because of an increase in the materials, labors and expenses used in the operation due to increased demand for our gas pipeline connections in our Operating Cities.

Gross profit

As a result of the foregoing, our gross profit increased by 74.3% from RMB28.7 million for the year ended 31 December 2007 to RMB50.0 million for the year ended 31 December 2008. Our gross profit margin decreased from 43.6% for the year ended 31 December 2007 to 39.2% for the year ended 31 December 2008 because of a decrease in gross profit margin of our gas pipeline connections operation.

Gross profit for our transportation and sales of pipelined gas operation increased from RMB506,000 in 2007 to RMB5.1 million in 2008, and the gross profit margin increased from 1.9% to 8.8% in the same period. The increase in the gross profit was primarily caused by an increase in our pipelined gas sales volume from 2007 to 2008. The increase in gross profit margin was caused by the enlargement of our scale of business, allowing us to enjoy a higher margin from economies of scale.

Gross profit for our gas pipeline connections operation increased from RMB27.1 million in 2007 to RMB44.6 million in 2008, and the gross profit margin decreased from 71.7% to 66.0% in the same period. The increase in the gross profit was primarily caused by the increased connections of new users from 2007 to 2008. The decrease in gross profit margin was caused by the increase in the gas pipeline connections in Hebi City, which generally incurred lowest gross profit margin among three Operating Cities.

Distribution cost

Our distribution cost decreased by 21.5% from RMB2.0 million for the year ended 31 December 2007 to RMB1.6 million for the year ended 31 December 2008. The decrease was primarily because we ceased the promotional activities in Xuchang City in 2008, which was provided to our users upon commencement of our operations in Xuchang.

Administrative expenses

Our administrative expenses increased by 51.5% from RMB5.5 million for the year ended 31 December 2007 to RMB8.3 million for the year ended 31 December 2008. The increase was primarily due to an increase in headcounts and the average salaries and benefits of our administrative personnel.

Other gains — net

Other gains net of other expenses decreased by 99.4% from RMB824,000 for the year ended 31 December 2007 to RMB5,000 for the year ended 31 December 2008. The decrease was primarily because we made a business acquisition in 2007 and recorded the negative goodwill in the combined statements of comprehensive income for RMB293,000, and recorded gains on disposal of fixed assets of RMB514,000 in 2007 but incurred losses of RMB72,000 in 2008.

Finance income

Our finance income was RMB1.9 million for both the years ended 31 December 2007 and 2008.

Finance costs

Our finance costs decreased by 16.0% from RMB11.5 million for the year ended 31 December 2007 to RMB9.6 million for the year ended 31 December 2008. The decrease in finance costs was primarily due to a decrease in the interest expenses as a result of the decreased outstanding bank borrowing balances.

Finance costs — net

As a result of the foregoing two line items, our finance costs net of finance income decreased by 19.0% from RMB9.6 million for the year ended 31 December 2007 to RMB7.8 million for the year ended 31 December 2008.

Income tax expense

Our income tax expense increased by 63.6% from RMB4.2 million for the year ended 31 December 2007 to RMB6.9 million for the year ended 31 December 2008, which was primarily due to our increased taxable income for the year ended 31 December 2008. Please refer to "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of components of results of operations — Income tax expense" in this Prospectus. Our effective income tax rate decreased from 33.6% for the year ended 31 December 2007 to 21.2% for the year ended 31 December 2008.

Profit for the year/period

As a result of the foregoing factors, our profit for the year/period increased by 208.2%, or RMB17.3 million, from RMB8.3 million for the year ended 31 December 2007 to RMB25.6 million for the year ended 31 December 2008.

Accumulated deficit

As at 31 December 2007, we have an accumulated deficit of RMB20.3 million. Such deficit represented the net loss prior to our Track Record Period, which was carried forward to 2007.

Financial Position, Liquidity and Capital Resources

Our primary liquidity requirements are to use cash to invest in additional facilities and equipment, service our indebtedness, and fund working capital and normal recurring expenses. To date, we have financed our cash requirements through a combination of cash generated from operating activities, bank borrowings and proceeds of capital contributions from our shareholders. In the future, we expect to continue relying principally on cash flows from operations and bank borrowings to fund our working capital needs and will use the proceeds from the Global Offering to finance part of our business expansion.

Cash flow

Cash flows from operating activities represent the inflows of cash generated from our operations and the outflows of interest and income tax paid. Cash flows from investing activities primarily represent purchases of property, plant and equipment and investment properties and net cash outflow for an acquisition of business. Cash flows from financing activities primarily represent the proceeds from borrowings, capital injection and repayments of borrowings.

As at 30 June 2010, we had cash and cash equivalents of RMB82.9 million for the purpose of the combined statements of cash flows. Our cash and cash equivalents increased by RMB68.0 million as at 30 June 2010 as compared with RMB14.9 million as at 31 December 2009 was mainly due to the settlement of receivables from related parties. The following table sets forth the changes in cash flows 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	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Combined statements of cash flows					
Cash and cash equivalents at beginning of the year/ period	4,045	7,716	11,371	11,371	14,860
Net cash generated from operating activities	15,342	45,228	51,019	26,144	35,459
Net cash generated from/(used in) investing activities	12,446	(8,778)	(34,606)	(30,800)	41,725
Net cash (used in)/generated from financing activities	(24,117)	(32,795)	(12,924)	9,651	(9,182)
Cash and cash equivalents at end of the year/period	7,716	11,371	14,860	16,366	82,862

Cash flows from operating activities

For the six months ended 30 June 2010, we had net cash generated from operating activities of RMB35.5 million, consisting of cash generating from operations of RMB50.4 million, subtracted by income tax paid of RMB12.2 million and interest paid of RMB2.8 million. Our cash generated from operations consisted of cash flow from operating activities before adjustment for changes in working capital of RMB49.5 million and net adjustments for changes in working capital of RMB1.0 million. Net working capital adjustments reflected primarily on a decrease in advance from customers amounting to RMB7.2 million. Such adjustments were partly offset by: (i) a decrease in inventories amounting to RMB5.9 million; and (ii) a decrease in trade and other receivables amounting to RMB2.7 million.

For the six months ended 30 June 2009, we had net cash generated from operating activities of RMB26.1 million, consisting of cash generating from operations of RMB32.2 million, subtracted by income tax paid of RMB2.7 million and interest paid of RMB3.4 million. Our cash generated from operations consisted of cash flow from operating activities before adjustment for changes in working capital of RMB34.0 million and net negative adjustments for changes in working capital of RMB1.8 million. Net negative working capital adjustments reflected primarily on an increase of trade and other receivables amounting to RMB6.3 million. Such negative adjustments were partly offset by: (i) an increase in advance from customers amounting to RMB2.4 million; and (ii) an increase in trade and other payables amounting to RMB1.5 million.

For the year ended 31 December 2009, we had net cash generated from operating activities of RMB51.0 million, consisting of cash generating from operations of RMB69.9 million, subtracted by income tax paid of RMB11.9 million and interest paid of RMB7.0 million. Our cash generated from operations consisted of cash flow from operating activities before adjustment for changes in working capital of RMB74.6 million and net negative adjustments for changes in working capital of RMB4.7 million. Net negative working capital adjustments reflected primarily on: (i) an increase in trade and other receivables amounting to RMB0.6 million; (ii) a decrease in trade and other payables amounting to RMB0.3 million; and (iii) a decrease in advance from customers amounting to RMB5.6 million. Such negative adjustments were partly offset by a decrease in inventories amounting to RMB1.8 million.

For the year ended 31 December 2008, we had net cash generated from operating activities of RMB45.2 million, consisting of cash generating from operations of RMB58.5 million, subtracted by interest paid of RMB9.5 million and income tax paid of RMB3.8 million. Our cash generated from operations consisted of cash flow from operating activities before adjustment for changes in working capital of RMB47.3 million and net positive adjustments for changes in working capital of RMB11.2 million. Net positive working capital adjustments reflected primarily on: (i) a decrease in inventories amounting to RMB2.9 million, mainly consisting of gas pipeline materials; (ii) an increase in trade and other payables amounting to RMB7.5 million; and (iii) an increase in advance from customers amounting to RMB3.0 million.

For the year ended 31 December 2007, we had net cash generated from operating activities of RMB15.3 million, consisting of cash generating from operations of RMB26.7 million, subtracted by interest paid of RMB11.4 million and income tax paid of RMB9,000. Our cash generated from operations consisted of cash flow from operating activities before adjustment for changes in working capital of RMB27.0 million and net negative adjustments for changes in working capital of RMB0.3 million. Net negative working capital adjustments reflected primarily on: (i) an increase in trade and other receivables amounting to RMB3.7 million; (ii) a decrease in trade and other payables amounting to RMB1.3 million; (iii) an increase in inventories amounting to RMB3.2 million; and (iv) an increase in advance from customers amounting to RMB7.8 million.

Cash flows from investing activities

For the six months ended 30 June 2010, our net cash inflow from investing activities was RMB41.7 million. Our net cash inflow from investing activities mainly consists of net repayments from related parties amounting to RMB50.8 million, partly offset by purchase of property, plant and equipment and investment properties amounting to RMB9.1 million.

For the six months ended 30 June 2009, our net cash used in investing activities was RMB30.8 million. Our net cash outflow for investing activities mainly consists of net repayments to related parties amounting to RMB24.3 million and purchase of property, plant and equipment and investment properties amounting to RMB6.8 million.

For the year ended 31 December 2009, our net cash used in investing activities was RMB34.6 million. Our net cash outflow for investing activities mainly consists of purchase of property, plant and equipment and investment properties amounting to RMB13.5 million, and net repayments to related parties amounting to RMB21.3 million.

For the year ended 31 December 2008, our net cash used in investing activities was RMB8.8 million. Our net cash outflow for investing activities mainly consists of purchase of property, plant and equipment and investment properties amounting to RMB13.2 million, partly offset by net repayments from related parties amounting to RMB5.4 million.

For the year ended 31 December 2007, our net cash received from investing activities was RMB12.4 million. Our net cash inflow from investing activities mainly consists of: (i) purchase of property, plant and equipment and investment properties amounting to RMB14.1 million; (ii) net repayments from related parties amounting to RMB35.3 million; and (iii) net cash outflow for an acquisition of a business of RMB9.5 million for the business acquisition of Zhengzhou Shangjie Gas Limited on 31 July 2007.

Cash flow from financing activities

For the six months ended 30 June 2010, our net cash used in financing activities was RMB9.2 million. Our net cash used in financing activities mainly consists of: (i) payment of dividends amounting to RMB30.5 million; and (ii) repayment of borrowing amounting to RMB22.7 million; partly offset by proceeds from borrowing of RMB35.0 million.

For the six months ended 30 June 2009, our net cash generated from financing activities was RMB9.7 million. Our net cash generated from financing activities mainly consists of proceeds from borrowings amounting to RMB19.5 million, partly offset by repayment of borrowings of RMB9.8 million.

For the year ended 31 December 2009, our net cash used in financing activities was RMB12.9 million. Our net cash used in financing activities mainly consists of repayments of borrowings of RMB47.0 million, which was partly offset by proceeds from borrowings of RMB34.1 million.

For the year ended 31 December 2008, our net cash used in financing activities was RMB32.8 million. Our net cash used in financing activities mainly consists of: (i) repayments of borrowings of RMB56.7 million, which was partly offset by proceeds from borrowings of RMB22.0 million; (ii) the settlement of liability assumed from the acquisition of business of RMB8.1 million; and (iii) capital injection of RMB10.0 million from our shareholders.

For the year ended 31 December 2007, our net cash used in financing activities was RMB24.1 million. Our net cash used in financing activities mainly consists of: (i) repayments of borrowings of RMB53.9 million, which was partly offset by proceeds from borrowings of RMB20.0 million; (ii) the settlement of liability assumed from the acquisition of a business of RMB8.2 million; and (iii) capital injection of RMB18.0 million from our shareholders.

Working capital

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations.

Our current assets primarily consist of trade and other receivables, inventories and cash and cash equivalents. Our current liabilities primarily consist of trade and other payables, advance from customers and borrowings. We manage our working capital by closely monitoring the level of our trade and other payables as well as inventory level. We also intend to improve our profitability by improving operating cash flows. Our cash position consist primarily of cash in hand and bank balances, less restricted cash as guarantee deposits for issuance of letters of credits.

As at 30 June 2010, we had cash and bank balances of RMB82.9 million. As at 30 June 2010, we had borrowings in the aggregate amount of RMB87.9 million made available to us. Taking into account our cash and cash equivalent on hand, cash generated from our future operations and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital to meet our present and future financial requirement for at least 12 months from the date of this Prospectus.

We had net current liabilities of RMB56.4 million, RMB49.9 million, RMB21.2 million and RMB18.9 million as at 31 December 2007, 2008 and 2009 and 30 June 2010. The relatively large current liabilities during the Track Record Period were due to our reliance on short-term financing in respect of our capital investment prior to 2007 which was funded by bank borrowings and carried forward to the Track Record Period. As at 31 December 2007, 2008, 2009 and 30 June 2010, majority of our current liabilities were advances from customers, which mainly came from our gas pipeline connections operation. Such advances will be recognized as revenue upon completion of the respective project and the connection of the gas to the customer, thereby created the relatively large current liabilities. As to our reliance on short-term financing during the Track Record Period, such reliance was due to our expectation at the time that the interest rate for the bank loans will gradually decrease and hence short-term financing will provide us the opportunity to lower our finance cost. The decrease of the net current liabilities during the period was mainly due to the continuous historical profit and cash flows generated from our Group's operation, which decreased our need for bank loans to finance our capital investment. As at 30 September 2010, we had net current liabilities of RMB31.5 million. The increase of the net current liabilities from RMB18.9 million as at 30 June 2010 to RMB31.5 million as at 30 September 2010 was mainly due to the repayment of non-current bank borrowings of RMB29.0 million. Notwithstanding our general practice to receive advance payment from users of our gas pipeline connections operation, before the risks have been transferred to the users, we do not recognize the relevant revenue and the received cash was recorded as advances from customers.

The practice of obtaining advances from customers is one of the measures of our working capital management to ensure our cash flow for the provision of the gas pipeline connections and to minimize the risk of bad and doubtful debts. Furthermore, we will improve our net current liabilities position by: (i) generating continuous cash flows from our operations; (ii) obtaining longer term debts and equity financing; and (iii) controlling our capital expenditure. In order to control our capital expenditure, before making material investment decisions, we will consider: (i) the current and future cash requirement for capital expenditure and working capital purposes; (ii) the appropriate contingent capital needed; (iii) the expected payback period of the potential investment; and (iv) our assessment on our ability to raise additional debt and equity financing in light of the current and the future market conditions.

The following table sets forth our current assets, current liabilities and net current liabilities for the dates indicated:

	As at 31 December			As at 30 June	As at 30 September
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	22,486	19,548	17,700	11,777	10,264
Trade and other receivables	43,486	45,332	70,752	15,489	19,272
Prepaid income tax	—	—	—	—	102
Restricted cash	500	—	—	—	—
Cash and cash equivalent	7,716	11,371	14,860	82,862	45,905
Total current assets	74,188	76,251	103,312	110,128	75,543
Current liabilities					
Trade and other payables	46,281	48,740	39,473	37,800	33,855
Advance from customers	45,661	48,690	43,046	35,893	48,139
Current income tax liabilities	313	475	1,634	205	—
Borrowings	38,334	28,254	40,400	52,500	25,000
Dividend payable	—	—	—	2,632	—
Total current liabilities	130,589	126,159	124,553	129,030	106,994
Net current liabilities	**(56,401)**	**(49,908)**	**(21,241)**	**(18,902)**	**(31,451)**

The changes of the balance of net current liabilities as at the respective dates were consistent with the expansion of our business operations during the Track Record Period.

Trade Receivables, Inventories and Trade Payables Turnover

Trade and other receivables

Our trade and other receivables mainly represent the credit sales of our products, less impairment provision, and receivables due from related parties. The following table sets forth the breakdown of our trade and other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	9,050	10,031	9,943	10,599
Bills receivable	—	—	400	150
Prepayments	1,200	2,354	2,246	1,499
Receivables due from related parties	43,773	41,689	55,440	433
Other receivables	2,396	4,191	3,994	4,079
Less: Provision for impairment of other receivables	(1,271)	(1,271)	(1,271)	(1,271)
Less: non-current portion of receivables from related parties	(11,662)	(11,662)	—	—
	43,486	**45,332**	**70,752**	**15,489**

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost less allowance for impairment of doubtful debts. Provision for impairment of trade and other receivables is determined based on the evaluation of collectability of trade and other receivables. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, the past collection history of each counterparty and the current market condition. Such provisions were for individually impaired receivables relating to customers that were in default or delinquency of payments. As at 31 December 2007, 2008 and 2009 and 30 June 2010, we had an provision for impairment of other receivables of RMB1.3 million, RMB1.3 million, RMB1.3 million and RMB1.3 million, respectively. Such provision for impairment of other receivables represents other receivables of Henan Tian Lun Engineering Investment of RMB773,000 in aggregate assumed by Hebi Tian Lun under the concession agreement between Henan Tian Lun Engineering Investment and Hebi Construction Committee and an outstanding advance of RMB498,000 from Xuchang Tian Lun to Xuchang Shuang Li made in 2005, which are more than 5 years past due and are, in the opinion of the Directors, not likely to be collected. Other than such provision for impairment of other receivables, there is no other provision for impairment of receivables or bad debts written off during the Track Record Period. We do not hold any collateral or other credit enhancements over such amount.

The credit period generally granted to customers in relation to our transportation and sales of pipelined gas operation is from ten to 90 days. In circumstances of credit sales, to manage the credit risk in respect of trade and other receivables, we have policies in place to ensure that sales are made to customers with appropriate credit history and we perform periodic credit evaluations of our customers, and generally do not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, we maintain a provision for impairment of receivables and actual losses incurred have been within management's expectation. The total amount of such trade receivables as at 31 December 2007, 2008 and 2009 and 30 June 2010 were RMB9.1 million, RMB10.0 million, RMB9.9 million and RMB10.6 million, representing approximately 12.2%, 13.2%, 9.6% and 9.6% of our total current assets as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

The following table sets forth the aged analysis of our trade receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Less than 30 days	4,147	4,818	7,427	5,576
31 days to 90 days	301	1,387	1,443	2,879
91 days to one year	4,404	2,466	194	1,155
Over one year	198	1,360	879	989
	9,050	**10,031**	**9,943**	**10,599**

Average turnover days of trade receivables for a period is derived by dividing the average trade receivables by revenue for the period and multiplying by 360 days for a 12-month period or by 180 days for a six-month period. The average turnover days of trade receivables were 33.1, 26.9, 20.1 days and 16.1 days for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. The average turnover days of our trade receivables decreased primarily because our revenue increased during the Track Record Period, especially our revenue from our gas pipeline connections operation, which represented the recognition of the advances received from our customers as revenue upon completion or the "fire-ignition ceremony", and hence our revenue during the same periods increased but our balance of the trade receivables remained stable as at the dates indicated.

The subsequent settlement of our trade receivables as at 30 June 2010 up to 30 September 2010 amounts to approximately RMB9.5 million.

Inventories

Our inventories consist of materials for gas pipelines, consumables, work in progress and finished pipelined network, substantially all of which are related to our gas pipeline connections operation. For our transportation and sales of pipelined gas operation, because we transport the pipelined gas we purchase from our suppliers to our customers directly, almost no inventory is recorded. The following table sets forth the components of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Materials for gas pipelines	6,240	6,984	5,956	6,336
Consumables	139	20	29	17
Work in progress	8,944	6,453	6,589	5,424
Finished pipelined network	7,163	6,091	5,126	—
	22,486	**19,548**	**17,700**	**11,777**

Inventories are stated at the lower cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprised materials for gas pipelines, direct labor, other direct costs and related production overheads, based on normal operating capacity. It excludes borrowing costs. Net realizable value is estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Write-down for declines in value of inventories are determined on an item-by-item basis when the carrying value of the inventories is higher than their net realizable value. In some circumstances where items of inventories have similar purposes or end uses and relate to the same product produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product, write-down for decline in value of inventories may be determined on an aggregate basis for that group of similar or related items of inventories. For large quantity and low value items of inventories, write-down is made based on classes of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale.

The cost of inventories recognized as our expense and included in cost of sales amounted to RMB26.7 million, RMB61.5 million, RMB81.9 million, RMB37.9 million and RMB50.5 million for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively. Write-down of inventories recognized in our cost of sales in the combined statements of comprehensive income amounted to RMB113,000 for the year ended 31 December 2007.

As substantially all of our inventories are related to our gas pipeline connections operation, our average turnover days of inventories for a period is derived by dividing the average inventory, including allowance for inventory value decline and obsolescence, by cost of sales in respect of our transportation and sales of pipelined gas operation for the period and multiplying by 360 days for a 12-month period or by 180 days for a six-month period. Other than the write-down of inventories made in 2007 of RMB113,000 for obsolete materials from our acquisition of Shangjie Tian Lun, we have not made any other write-down of inventories during the Track Record Period as the inventories are mainly pipes associated with our gas pipeline connections operation. These pipes have a long shelf life and generally will not be written-down for a few years, and thus a lower risk of write-down. Our Directors confirm that such practice is adequate given the low risk of write-down of our inventories.

Our average turnover days of inventory decreased from 677.2 days in 2007 to 329.1 days in 2008, to 257.6 days in 2009 and further to 157.9 days in for six months ended 30 June 2010 primarily because of our successful inventory control policy, our improvement in efficiency to complete our pipeline connection constructions and that whilst our revenue from our gas pipeline connections operations has increased, our trade receivables and our credit terms with our customers remained stable during the same periods.

The subsequent sales/usage of our inventory as at 30 June 2010 up to 30 September 2010 is approximately RMB7.5 million.

Trade and other payables

Our trade and other payables mainly comprise amounts due to related parties, trade payables and other payables. Our trade and other payables increased from RMB46.3 million as at 31 December 2007 to RMB48.7 million as at 31 December 2008. Our trade and other payables decreased to RMB39.5 million as at 31 December 2009 and further decreased to RMB37.8 million as at 30 June 2010.

The following table sets forth the aged analysis of our trade payables, including amounts due to a related party which were trade in nature, as at the dates indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	3,375	6,885	6,345	5,394
31 days to 90 days	2,786	1,929	2,918	4,807
91 days to one year	1,302	2,501	2,245	2,954
One year to two years	1,660	621	1,138	621
Two years to three years	1,648	634	274	153
Over three years	310	1,373	716	600
	11,081	**13,943**	**13,636**	**14,529**

Our suppliers generally grant us a credit period from ten to 90 days. Average turnover days of trade payables for a period is derived by dividing the average trade payables by cost of sales for the period and multiplying by 360 days for a 12-month period or by 180 days for a six-month period. Our turnover days of trade payables were 97.7, 58.0, 49.4 days and 40.3 days for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. The decreased average turnover days of our trade payables was primarily due to our increased cost of sales and relatively stable balance of trade payables.

The subsequent settlement of our trade payables as at 30 June 2010 up to 30 September 2010 amounts to RMB6.6 million.

Advance from customers

As at 31 December 2007, 2008 and 2009 and 30 June 2010, our advances from customers amounted to RMB45.7 million, RMB48.7 million, RMB43.0 million and RMB35.9 million, respectively. We generally request advances from customers in relation to our gas pipeline connections operation, which, to the best knowledge and believe of our Directors, is the industry practice. Such advances from customers will be recognized as revenue 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". Generally, it takes up to approximately six months after we receive the advances from our customers before construction will commence (the "Duration"). The length of the Duration is largely dependent on at what stage our customers choose to engage us for their projects. Depending on the size of our customers' projects and their financial ability, some customers prefer to engage us at an early stage of their projects, leading to a longer Duration, while other customers tend not to engage us until a latter stage of their projects, usually immediately before we commence the gas pipeline construction work, hence, resulting in a shorter Duration. Furthermore, 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 project and whether the customer is residential, commercial or industrial user, also including property developer. Please also refer to Note 2.2.19(a) of the Accountant's Report in Appendix I to this Prospectus.

Key financial ratios

Our current assets divided by current liabilities, or current ratio, was 0.57, 0.60, 0.83 and 0.85 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. Our current assets after subtraction of inventories divided by current liabilities, or quick ratio, was 0.40, 0.45, 0.69 and 0.76 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The increase of the current ratio and quick ratio was mainly due to the decrease of the bank borrowings and improvement of our working capital management and cash position generated from sales during the same periods.

Gearing ratio is calculated by dividing net debt by total capital as at each balance sheet date. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity plus net debt. Our gearing ratios as at 31 December 2007, 2008 and 2009 and 30 June 2010 were 0.81, 0.55, 0.35 and 0.04, respectively. We had total borrowings of RMB123.8 million, RMB88.5 million, RMB75.6 million and RMB87.9 million as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively, and the weighted average interest rate of our bank borrowings at each of the periods were 8.0%, 7.6%, 8.2% and 6.7%, respectively. The decrease in the gearing ratio as at each of 31 December 2007, 2008 and 2009, was mainly due to the decrease in our bank borrowings and the decrease in gearing ratio as at 30 June 2010 was mainly due to the repayment of borrowings and settlement of balances with related parties.

Return on equity, ROE, is calculated by dividing net profit for the period by total equity amounts as at the end of such period. Our return on equity for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 was 30.1%, 40.5%, 43.0% and 27.9%, respectively. As we had only very limited non-operating income and gains, which were interests from bank loans, our relatively higher ROE is based on high gross profit margin, which is mainly due to the relatively high proportion of profit generated from our gas pipeline connections operation and high asset turnover rate, which is due mainly to our relatively large amount of sales, and indicates our strong financial position, operating efficiency and profitability. Our increase of ROE was mainly due to the increase of our net profit from our transport and sales of pipelined gas operation and our gas pipeline connection operation during the relevant period.

Capital expenditures

Our principal requirements for capital expenditures are in relation to the expansion of our facilities, major maintenance, modernization of our existing facilities and equipment for our operations, as well as business acquisitions. Our capital expenditures with respect to the purchases of property, plant and equipment, land use rights, intangible assets and business acquisition were RMB40.3 million, RMB14.0 million, RMB14.2 million and RMB8.8 million for the years ended 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. Our capital expenditure for the year ended 31 December 2007 was high compared to that of 2008 and 2009, primarily due to our acquisition of all the State-owned assets owned by Zhengzhou Shangjie Gas Limited for a cash consideration of RMB9,500,000 and the assumption of a loan amounted to RMB16,260,000. Please refer to the paragraph headed "History and Corporate Structure — Shangjie Tian Lun" for further details of the transaction.

Indebtedness

The following table sets forth our borrowings for the periods indicated:

	As at 31 December			As at 30 June	As at 30 September
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Non-current					
Bank borrowings					
Pledged (1)	3,000	—	—	—	—
Guaranteed (2)	75,800	54,400	29,000	29,000	—
Other borrowings (3)	6,672	5,858	6,242	6,397	6,312
Total non-current borrowings	85,472	60,258	35,242	35,397	6,312
Current					
Bank borrowings					
Pledged (1)	4,000	6,000	15,000	25,000	25,000
Guaranteed (2)	32,400	21,400	25,400	27,500	—
Other borrowings (3)	1,934	854	—	—	—
Total current borrowings	38,334	28,254	40,400	52,500	25,000
Total borrowings	**123,806**	**88,512**	**75,642**	**87,897**	**31,312**

Notes:

(1) All these bank borrowings were secured by our property, plant and equipment, investment properties and the exclusive operating rights for city pipeline network in Hebi City of Henan Province.

(2) As at 31 December 2007 and 2008, such bank borrowings were guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, which are our related companies, and an Independent Third Party (which had been dissolved after the restructuring of the Independent Third Party's holding company). Our Directors confirm that before commencement of the process of dissolution of the Independent Third Party guarantor, we had replaced the relevant guarantee by the guarantees provided by Henan Tian Lun Real Estate and Henan Tian Lun Engineering Investment. As advised by Grandall Legal Group, the dissolution of the Independent Third Party guarantor will not have any legal implications to our Company and the relevant bank borrowings.

As at 31 December 2009, such bank borrowings were guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, which are our related companies.

As at 30 June 2010, such bank borrowings were guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, which are our related companies, and Mr. Zhang Yingcen, one of our owners.

(3) The other borrowings represented borrowings from local government assumed by us to acquire the exclusive operating rights for city pipeline network in Xuchang City of Henan Province in 2003.

Our total bank loans decreased from RMB115.2 million as at 31 December 2007 to RMB81.8 million as at 31 December 2008, and decreased from RMB81.8 million as at 31 December 2008 to RMB69.4 million as at 31 December 2009, mainly due to the settlement of our outstanding bank loans with cash from operations to decrease our finance cost. Our total bank loans increase from RMB69.4 million as at 31 December 2009 to RMB81.5 million as at 30 June 2010, mainly due to the refinancing with lower interest bank loans, and decreased from RMB81.5 million as at 30 June 2010 to RMB25.0 million as at 30 September 2010, mainly due to the repayment of bank borrowings guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, which are our related companies, and Mr. Zhang Yingcen, one of our owners, in preparation for Listing.

Under the loan agreements for our subsisting bank borrowings, the restrictive covenants may include: (i) the restriction to dissipate assets to evade its repayment obligations; (ii) funds raised from the loan cannot be used for repaying other debt obligations; and (iii) prior to the repayment of the loan, there cannot be any reduction in capital or winding up of the company.

As confirmed by the Directors, during the subsistence of the bank borrowings and other borrowings mentioned above and up to the Latest Practicable Date, there was no delay or default in repayment of such borrowings. As at the Latest Practicable Date, we do not have any unutilized bank facilities.

Other than as disclosed in the paragraph headed "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness" in this Prospectus and apart from intra-group liabilities and normal trade payables, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdraft and liabilities under acceptance or other similar indebtedness, debenture, mortgage, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities at the close of business as at 30 September 2010. Saved as disclosed in this Prospectus, the Directors confirm that there has not been any material adverse change of our indebtedness as at the Latest Practicable Date.

Contingent liabilities

As at the Latest Practicable Date, we did not have significant contingent liabilities.

Commitments

Capital commitments

Capital expenditure contracted for at the end of each reporting period, but not yet incurred, is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	823	—	1,944	777

The source of funding of our capital commitments were mainly cash flows from operating activities and financing activities such as bank loans.

Licensing fee commitments

The following table sets forth our licensing fee commitments for the periods indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	1,100	1,100	1,100	1,100
Later than one year and no later than five years	4,400	4,400	4,400	4,400
Later than five years	22,000	20,900	19,800	19,250
	27,500	**26,400**	**25,300**	**24,750**

Off-balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has: (i) made guarantees; or (ii) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to our Company, or that engages in leasing, hedging, or research and development arrangements with our Company.

During the Track Record Period, we did not have any material off-balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and foreign exchange rates and changes in the selling prices for our main products and costs of raw materials. We manage our exposure to these and other market risks through regular operating and financial activities.

Foreign exchange risk

Our operations are within the PRC with all of the transactions settled in RMB, except for certain borrowings are settled in U.S. dollars. Our assets and liabilities that are subject to foreign exchange rate risk include bank deposits and borrowings that are denominated in Hong Kong dollars and U.S. dollars. We currently do not have a foreign currency hedging policy, and we manage our foreign currency risk by closely monitoring the movement of the foreign currency rates.

The following table sets forth the sensitivity analysis of an increase/decrease of 5% in RMB against U.S. dollars and Hong Kong dollars, with all other variables held constant, as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of each reporting period. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end of reporting period. If there is a 5% increase/decrease in RMB against U.S. dollars and Hong Kong dollars, the effect on the profit before income tax is as follows:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
		RMB'000		RMB'000
Increase of 5% RMB against US$ and HK$				
— Increase of 5% in profit before income tax	617	512	488	591
Decrease of 5% RMB against US$ and HK$				
— Decrease of 5% in profit before income tax	(617)	(512)	(488)	(591)

Cash flow and fair value interest rate risk

As we have no significant interest-bearing assets other than cash and cash equivalents and certain receivables due from Henan Tian Lun Real Estate, our income and operating cash flows are substantially independent of changes in market interest rates.

Our interest-rate risk arises from bank loans. Loans borrowed at variable rates expose us to cash flow interest-rate risk. Loans borrowed at fixed rates expose us to fair value interest-rate risk. As at 31 December 2007, 2008 and 2009 and 30 June 2010, our bank loans were all borrowed at variable rates. We currently do not use any interest rate swaps to hedge our exposure to interest rate risk.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, if interest rates on borrowings had been ten base-point higher/lower with all other variables held constant, profit before income tax for the year will be RMB1,139,000, RMB954,000, RMB697,000 and RMB274,000 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Our maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, and trade and other receivables.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, all of our bank deposits are deposited in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk.

We generally request advances from our customers. In the case of credit sales, to manage the credit risk in respect of trade and other receivables, we perform ongoing credit evaluations of our counterparties' financial condition and generally do not require collateral from our customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, we maintain a provision for doubtful accounts and actual losses incurred have been within management's expectation.

Liquidity risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. We expect to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders or initial public offering.

The following table sets forth our financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one year	Between one and two years	Between two and five years	Over five years
	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2010				
Bank borrowings	56,667	19,833	10,849	—
Other borrowings	116	574	1,695	10,702
Trade and other payables(1)	36,425	—	—	—
As at 31 December 2009				
Bank borrowings	44,970	20,843	11,377	—
Other borrowings	—	289	1,711	11,042
Trade and other payables(1)	38,223	—	—	—
As at 31 December 2008				
Bank borrowings	33,345	29,566	32,853	—
Other borrowings	854	—	1,436	11,618
Trade and other payables(1)	47,697	—	—	—
As at 31 December 2007				
Bank borrowings	45,268	29,021	62,799	—
Other borrowings	1,934	913	924	13,027
Trade and other payables(1)	45,564	—	—	—

Note:

(1) Trade and other payables include trade payables, amounts due to related parties and other payables as stated in Note 15 of the Accountant's Report as set out in Appendix I to this Prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2010. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Company had the Global Offering been completed as at 30 June 2010 or at any future dates.

	Combined net tangible assets attributable to equity holders of our Company as at 30 June 2010(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company per Share(3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$1.52 for each Offer Share	85,544	231,078	316,622	0.40	0.46
Based on the Offer Price of HK$2.05 for each Offer Share	85,544	315,332	400,876	0.50	0.58

Notes:

(1) The combined net tangible assets attributable to equity holders of our Company as at 30 June 2010 has been extracted from the Accountant's Report set out in Appendix I to this Prospectus which is based on our audited combined net assets attributable to our equity holders of RMB114.7 million with an adjustment for the intangible assets of RMB29.1 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price range of HK$1.52 per Share and HK$2.05 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of the Shares that may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 798,000,000 Shares were in issue assuming that the Global Offering had been completed on 30 June 2010 but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.

(4) By comparing the valuation of our Company's property interests of RMB37,880,000 as set out in Appendix IV to this Prospectus and the unaudited net book value of these properties as at 30 September 2010, the net revaluation surplus is approximately RMB8.7 million, which has not been included in the above net tangible assets attributable to equity holders of our Company as at 30 June 2010. The revaluation of our property interests will not be incorporated in our financial information. If the revaluation surplus is to be included in our financial information, an additional depreciation charge of approximately RMB0.5 million per annum related to buildings, investment properties and lease prepayments would be recorded.

(5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 30 June 2010.

(6) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.86022 prevailing on 20 October 2010.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

On the bases and assumptions as set forth in Appendix III to this Prospectus, and in the absence of unforeseen circumstances, we forecast that our consolidated profit attributable to equity holders of our Company for the year ending 31 December 2010 will be not less than RMB66.1 million.

The profit forecast has been prepared by our Directors based on our audited combined results for the six months ended 30 June 2010 as well as unaudited management accounts for the two months ended 31 August 2010 and the forecast of the consolidated results for the remaining four months ending 31 December 2010. The profit forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountant's Report, dated the date of this Prospectus, and the text of which is set out in Appendix I to this Prospectus.

DIVIDEND POLICY

After completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend will require the approval of our Board of Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board of Directors will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our financial results;
- shareholders' interests;
- general business conditions, strategies and future expansion needs;
- our Company's capital requirements;
- the payment of cash dividends by our Company's subsidiaries to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors the Board of Directors may deem relevant.

No dividend has been paid or declared by our Company since its incorporation. Dividends disclosed for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 represent dividends declared or proposed by our relevant subsidiaries out of their retained earnings to the then equity holders of the respective companies, after eliminating intra-group dividends.

On 26 March 2010, in accordance with the resolutions of the owners of Xuchang Tian Lun, Xuchang Tian Lun Vehicle, and Hebi Tian Lun Vehicle, and the board of directors of Hebi Tian Lun, retained earnings of approximately RMB29,330,000, RMB158,000, RMB1,110,000 and RMB13,158,000, respectively, were appropriated to the then equity holders of the respective companies. Among such dividends, approximately RMB33,087,000 in total were appropriated to Henan Tian Lun Engineering Investment, and the remaining were appropriated to our Company's relevant subsidiaries. The dividends appropriated to Henan Tian Lun Engineering Investment were accounted for as an appropriation of retained earnings in our combined financial information for the six months ended 30 June 2010. As at 30 September 2010, the dividends of RMB33,087,000 appropriated in Henan Tian Lun Engineering Investment has been paid.

In July 2010, in accordance with resolutions of shareholders of Shangjie Tian Lun, retained earnings of approximately RMB7,339,000 and RMB816,000 were appropriated to Hebi Tian Lun and the minority shareholder of Shangjie Tian Lun, respectively. Such dividend was paid in August 2010.

RELATED PARTY TRANSACTIONS

With respect to related parties transactions as set out in Note 31 of the Accountant's Report attached as Appendix I to this Prospectus, our Directors have confirmed that the transactions were conducted on arm's length basis, normal commercial terms and entered into in our ordinary course of business. Prior to listing, we have settled all of the non-trade balances with related parties. Please refer to Notes 31 and 32 of the Accountant's Report attached as Appendix I to this Prospectus for details of the subsequent settlement of non-trade balances with related parties.

DISTRIBUTABLE RESERVES

As our Company was only incorporated on 20 May 2010 and has not been involved in any significant business transactions other than Corporate Reorganization, there were no reserves available for distribution to shareholders as at 30 June 2010.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuation firm, has valued the properties owned and leased by us as at 30 September 2010. Details relating to our property interests and the text of the letters, summaries of values and valuation certificates are set out in Appendix IV to this Prospectus.

A reconciliation of the net book value of the relevant buildings, investment properties and lease prepayments as at 30 June 2010 to their fair value as at 30 September 2010 as stated in Appendix IV to this Prospectus is set forth as follows:

	Buildings, investment properties and lease prepayments
	RMB'000 (unaudited)
Net book value as at 30 June 2010	27,743
Movements for the period ended from 1 July 2010 to 30 September 2010	
— Additions	1,880
— Depreciation	(398)
Net book value as at 30 September 2010	29,225
Revaluation Surplus	8,655
Valuation as at 30 September 2010 as per Appendix IV to this Prospectus	37,880

NO MATERIAL ADVERSE CHANGE

Save as disclosed in "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness" and "— Dividend Policy", we have confirmed that there has been no material adverse change in our financial position since 30 June 2010 (being the date to which our Company's latest combined financial results were prepared, as set out in the Accountant's Report in Appendix I to this Prospectus).