
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Tianjin Tianlian Public Utilities Company Limited, you should at once hand this circular, together with the enclosed forms of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for the sole purpose of the EGM, the H Shares Class Meeting and the Domestic Shares Class Meeting of Tianjin Tianlian Public Utilities Company Limited. This circular appears for information purposes only and does not constitute nor is it intended to constitute an offer to sell or a solicitation of an offer to buy or subscribe for any securities of Tianjin Tianlian Public Utilities Company Limited.



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

**VERY SUBSTANTIAL ACQUISITION
TREATED AS A REVERSE TAKEOVER AND
AN APPLICATION FOR NEW LISTING AND
CONNECTED TRANSACTION INVOLVING ACQUISITION OF ASSETS AND
ISSUE OF CONSIDERATION SHARES
CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY
WHITEWASH WAIVER APPLICATION
AMENDMENT OF ARTICLES OF ASSOCIATION
PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

Sponsor and Financial Adviser



Kingsway Group

Kingsway Capital Limited

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



TC Capital Asia Limited
天財資本亞洲有限公司

A letter from the Board dated 31 December 2010 is set out on pages 58 to 89 of this circular. A letter from the Independent Board Committee is set out on pages 90 to 91 of this circular. A letter from the Whitewash Independent Board Committee is set out on pages 92 to 93 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders is set out on pages 94 to 119 of this circular.

Notices dated 31 December 2010 convening the EGM and the Class Meetings to be held at Floor 9, Gangao Tower, 18 Zhengzhou Road, Heping District, Tianjin, PRC on 15 February 2011 (Tuesday) at 3:00 p.m., 3:30 p.m. and 4:00 p.m., respectively are set out on pages 422 to 432 of this circular.

Whether or not you are able to attend the meetings, you are reminded to complete the proxy forms enclosed with this circular, in accordance with the instructions printed thereon and send the relevant proxy forms to the registered office of the Company at Floor 9, Gangao Tower, 18 Zhengzhou Road, Heping District, Tianjin, PRC (for holders of Domestic Shares), or to the office of the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as practicable and in any event not later than 24 hours before the time appointed for holding of the Class Meetings and the EGM. Completion and return of the relevant proxy forms will not preclude you from attending and voting in person at the meetings or at any adjourned meetings should you so wish.

Reply slips for each of the EGM and the Class Meetings have also been enclosed. You are reminded to complete and sign the relevant reply slips (if you are entitled to attend the relevant meetings) and return the signed slips to the Company's principal place of business in the PRC at Floor 9, Gangao Tower, 18 Zhengzhou Road, Heping District, Tianjin, PRC on or before 27 January 2011 in accordance with the instructions printed thereon.

The Company is incorporated, and its businesses are located, in the mainland of the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in Appendix VIII and the section headed "Risk Factors" of this circular, respectively.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the date of posting and on the Company's website at <http://www.hklistco.com/8290>.

* For identification purpose only

31 December 2010

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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EXPECTED TIMETABLE

The following expected timetable is indicative only and is subject to change. If necessary, further announcement(s) in relation to revised timetable will be published as and when appropriate.

Latest time for lodging forms of proxy for the EGM and the Class Meetings	3:00 p.m., 3:30 p.m. and 4:00 p.m. for the EGM, H Shares Class Meeting and Domestic Shares Class Meeting, respectively, on 14 February 2011
EGM	3:00 p.m. on 15 February 2011
H Shares Class Meeting	3:30 p.m. (or immediately after conclusion or adjournment of the EGM) on 15 February 2011
Domestic Shares Class Meeting	4:00 p.m. (or immediately after conclusion or adjournment of the EGM and the H Shares Class Meeting) on 15 February 2011
Announcement of the results of the EGM and the Class Meetings to be published	15 February 2011
Expected date of completion of the Proposed Assets Transfer and issue of the Consideration Shares	on or before 30 April 2011
Announcement of completion of the Proposed Assets Transfer to be published	one day after completion of the Proposed Assets Transfer and issue of the Consideration Shares

SUMMARY

This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision on the Proposed Assets Transfer, Gas Supply Transaction, Whitewash Waiver, amendment of the Articles of Association and the proposed appointment of independent non-executive Director and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed “Risk Factors” of this circular carefully before making a decision on the Proposed Assets Transfer, Gas Supply Transaction and the Whitewash Waiver.

SUMMARY

Background

On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas the Transferred Assets at the consideration of RMB620,736,991.84. The Company will allot and issue the Consideration Shares to Tianjin Gas to satisfy the above consideration.

On 16 September 2009, Tianjin Gas and the Company entered into the Gas Supply Contracts in respect of the supply of natural gas by Tianjin Gas to the Group to cater for the gas demand attributable to the Transferred Assets for the period from the completion of the Proposed Assets Transfer to 31 December 2009 and the two years ending 31 December 2011. The Gas Supply Contracts are conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Contracts, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed.

Purpose of this circular

The purpose of this circular is to provide you with, among other things, (i) information on the Assets Acquisition Agreement; (ii) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Proposed Assets Transfer and the Gas Supply Transaction; (iii) a letter from the Whitewash Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Whitewash Waiver; (iv) a letter from the Independent Financial Adviser to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders containing its advice to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in respect of the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver; (v) Valuation Report of the Transferred Assets prepared in compliance with Rule 11 of the Takeovers Code; (vi) valuation report of the Enlarged Group’s interest in land and buildings; (vii) the letter from Kingsway in relation to their view on the qualification and experience of the Valuer and the Valuation Report; (viii) information on the proposed independent non-executive Director; (ix) proposed amendment of Articles of Association; (x) notices of the EGM and the Class Meetings; and (xi) other information as required by the GEM Listing Rules and the Takeovers Code.

SUMMARY

INFORMATION ABOUT THE TRANSFERRED ASSETS

The Transferred Assets consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users (which includes approximately 3,000 Industrial and Commercial Users and approximately 357,000 Domestic Users) as at 30 June 2010, the related machinery and electronic equipment and 40 vehicles. As advised by the Directors, the remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets mainly consisted of assets that were under construction at the time of identifying the assets to be transferred under the Assets Acquisition Agreement. The Directors advised that it was the commercial decision of the Company not to acquire these remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets due to the complexity involved in the novation of the underlying construction contracts in relation to such assets which would require third party consent and the difficulty involved in the preparation of a valuation for such assets.

As at 30 June 2010, as advised by the Directors, construction of part of the remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets has been completed and has commenced to supply piped gas to end users. As at the Latest Practicable Date, the Group has not formulated any plan or timetable to acquire the remaining part of the tangible assets and gas ancillary facilities that are not included in the Transferred Assets.

Tianjin Gas is the sole operator of natural gas in Hedong District and Heping District at which the Transferred Assets are located and Tianjin Gas has signed gas supply contracts with Industrial and Commercial Users in respect of the Transferred Assets. The Transferred Assets consist of part of the pipelines owned by Tianjin Gas in Hedong District and Heping District. When the Company takes over the Transferred Assets, the Company and Tianjin Gas will become the only two gas operators in Hedong District and Heping District. Tianjin Gas entered into written contracts for its supply of piped gas with the Industrial and Commercial Users but did not enter into any written contracts with the Domestic Users for the locations served by the Transferred Assets. Given the enormous number of Domestic Users and the relatively small transaction amount with each Domestic User, it is impractical and inefficient to enter into written contracts with each Domestic User. After the Company takes over the Transferred Assets, the Company will utilize the Transferred Assets to supply piped gas to the Domestic Users and the Industrial and Commercial Users and the Company will enter into new gas supply contracts with the Industrial and Commercial Users. The Company will notify the Domestic Users in writing of the change, but no written contract will be entered into between the Company and the Domestic Users.

After the completion of the Proposed Assets Transfer, the existing customers in Hedong District and Heping District, at which the Transferred Assets are located, have the right to purchase natural gas from other gas suppliers in Hedong District and Heping District if there are other gas suppliers available there. However, the Directors are of the view that as the existing customers have to construct new pipelines connecting their premises to the branch pipelines of other gas suppliers, which will incur extra costs to the existing customers, it will be unlikely for any existing customer not to utilize the same gas pipelines, which will be owned by the Company after the completion of the Proposed Assets Transfer, for the continuation of gas supplies.

SUMMARY

After the completion of the Proposed Assets Transfer, the Company would be the owner of the Transferred Assets and would have the right to construct new pipelines connected with the Transferred Assets to supply piped gas to new users. The Company could use the Transferred Assets and any newly constructed pipelines for the sale and supply of piped gas to the Industrial and Commercial Users, the Domestic Users and other new third party customers. The Company will purchase gas from Tianjin Gas and thereafter supply such gas to these customers. Please refer to the paragraph headed "Gas Supply Transaction" in the section headed "Connected Transactions" of this circular for details.

Opinion of value of the Transferred Assets

After a thorough analysis of the Transferred Assets and review of the information assembled by the Valuer, it is the Valuer's opinion that as at 31 August 2009, the market value in continued use of the Transferred Assets free of any encumbrances is reasonably represented by the amount RMB 624,900,000. There is no material difference between the market value in continued use of the Transferred Assets free of any encumbrances as at 31 August 2009 which is valued at RMB624,900,000 and as at 30 September 2010 which is valued at RMB595,700,000 as set out in the Valuation Report.

The Valuation Report, together with the letter from Kingsway in relation to their view on the qualification and experience of the Valuer and the Valuation Report, are set out in Appendix V of this circular.

CONSIDERATION

To satisfy the consideration of RMB620,736,991.84 under the Assets Acquisition Agreement, the Company will issue, in aggregate, 689,707,800 Domestic Shares as the Consideration Shares, representing an issue price of RMB0.9 (approximately HK\$1.02) per Domestic Share to Tianjin Gas. The issue price of RMB0.9 (approximately HK\$1.02) per Consideration Share represents:

- (i) a discount of approximately 15% over the closing price of HK\$1.20 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 13% over the average closing price of approximately HK\$1.174 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 11% over the average closing price of approximately HK\$1.14 per H Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 39% over the closing price of HK\$1.66 per H Share as quoted on the Stock Exchange on the Last Practicable Date.

SUMMARY

The Consideration Shares represented approximately 60.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 37.50% of the Company's enlarged issued share capital immediately after the issue of the Consideration Shares. As at the Latest Practicable Date, the closing price of the H Share was HK\$1.66 per Share. Assuming that the Consideration Shares, which are Domestic Shares, are also worth HK\$1.66 per Share, the total value of the Consideration Shares will be HK\$1,144.9 million in aggregate, which represents a premium to the total consideration of the Proposed Assets Transfer of 62.7% as at the Latest Practicable Date. Upon the completion of the Proposed Assets Transfer, the shareholding of Tianjin Gas in the Company would increase from approximately 22.08% to approximately 51.30%. The shareholding of the holders of H Shares would decrease from approximately 43.5% to approximately 27.19% upon completion of the Proposed Assets Transfer. As a result, the shareholding percentages of the existing Shareholders in the Company would be substantially diluted. As set out under the section headed "Letter from the Independent Financial Adviser" of this circular, although the issue price of the Consideration Shares represents a discount to the most recent market prices of the H Shares, taking into consideration that:

- (i) the H Shares were traded below the issue price of the Consideration Shares for 217 trading days out of 247 trading days over a year period prior to and including the Last Trading Day;
- (ii) the issue price per Consideration Share represents a premium of approximately 1.5%, 10.0% and 44.3% over the average closing price as quoted on the Stock Exchange for the last 50 consecutive trading days, 100 consecutive trading days and over a year period up to and including the Last Trading Day, respectively; and
- (iii) the Consideration Shares are Domestic Shares not tradable on the Stock Exchange nor on any other stock exchange which should be priced at a discount to tradable H Shares due to higher liquidity risk;

the Independent Financial Adviser considers the issue price of the Consideration Shares at a discount to the recent market price of the H Shares is fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. The Sponsor concurs with the view of the Independent Financial Adviser and the view of the Directors on the reasons for and benefits of the Proposed Assets Transfer.

As set out in Appendix IV, assuming that the Acquisition had been completed on 1 January 2009, the Enlarged Group would have recorded unaudited pro forma profit attributable to owner of the Company for the year ended 31 December 2009 amounting to approximately RMB126.7 million and unaudited pro forma net assets attributable to the owner of the Company as of 30 June 2010 of approximately RMB1,255.8 million. The earnings per Share of the Enlarged Group would have become RMB0.069 per Share (based on a total of 1,839,307,800 Shares after the issue of the Consideration Shares), as compared to the earnings per Share of the Group of RMB0.058 for the year ended 31 December 2009 (based on 1,149,600,000 Shares in issue). The net asset value per Share of the Enlarged Group would have become RMB0.68 (based on a total of 1,839,307,800 Shares after the issue of the Consideration Shares), as compared to the net asset value per Share of the Group of RMB0.58 as at 30 June 2010 (based on 1,149,600,000 Shares in issue).

SUMMARY

LISTING RULES IMPLICATIONS

(1) Connected transaction and very substantial acquisition

Tianjin Gas is one of the Promoters and as at the Latest Practicable Date held 253,809,687 Domestic Shares, representing approximately 22.08% shareholding of the Company. Therefore, Tianjin Gas is a substantial shareholder (as defined in the GEM Listing Rules). Pursuant to Rule 20.11(1) of the GEM Listing Rules, Tianjin Gas is a connected person of the Company. Pursuant to Rule 20.13(1) of the GEM Listing Rules, the Proposed Assets Transfer constitutes a connected transaction of the Company and, pursuant to Rule 20.14, the Gas Supply Transaction constitutes a continuing connected transaction of the Company.

As the applicable percentage ratios (as defined in the GEM Listing Rules) of the Proposed Assets Transfer are higher than 100%, the Proposed Assets Transfer constitutes a very substantial acquisition under Rule 19.06 of the GEM Listing Rules.

Therefore, the Proposed Assets Transfer and the Gas Supply Transaction will be subject to the reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules. Tianjin Gas and its associates shall abstain from voting on the resolution(s) in relation to the Proposed Assets Transfer and the Gas Supply Transaction at the EGM and the Class Meetings (where applicable).

(2) Reverse takeover and new listing application

As the Proposed Assets Transfer (if completed) which constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules would increase the shareholding of Tianjin Gas in the Company from approximately 22.08% to approximately 51.30%, it constitutes a reverse takeover under Rule 19.06(6) of the GEM Listing Rules and the Company is treated as if it were a new listing applicant. The Enlarged Group must be able to meet all the basic conditions set out in Chapter 11 of the GEM Listing Rules.

The new listing application has been made to the Listing Division. The Listing Division has given its approval in principle of the new listing application of the Company.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, Tianjin Gas owned approximately 22.08% of the existing issued share capital of the Company. Immediately following the issue of the Consideration Shares to Tianjin Gas upon completion of the Proposed Assets Transfer, the shareholding of Tianjin Gas in the Company will increase to approximately 51.30% of the enlarged issued share capital of the Company. Under Rule 26.1 of the Takeovers Code, Tianjin Gas would be required to make an unconditional mandatory general offer to acquire all issued Shares not already owned or agreed to be acquired by Tianjin Gas and parties acting in concert with it, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive.

SUMMARY

An application has been made by Tianjin Gas to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders of the Whitewash Waiver at the EGM by way of poll. Tianjin Gas and parties acting in concert with it will abstain from voting on the resolution for approving the Whitewash Waiver.

PROPOSED JOINT VENTURE BETWEEN TIANJIN GAS AND CHINA RESOURCES GAS (HK)

The Board has been informed by Tianjin Gas that on 28 June 2010, Tianjin Gas and China Resources Gas (HK) signed the Cooperation Agreement in connection with, inter alia, the proposed formation of the Proposed JV. The Cooperation Agreement is not legally binding until the formal joint venture agreement relating to, and the articles of association of, the Proposed JV is signed. Pursuant to the Cooperation Agreement, Tianjin Gas and China Resources Gas (HK) intend to set up the Proposed JV in the PRC. Tianjin Gas and China Resources Gas (HK) will own 51% and 49% respectively of the registered capital of the Proposed JV, which is expected to be in the range between RMB4 billion and RMB5 billion (subject to internal approval of each of Tianjin Gas and China Resources Gas (HK)). Tianjin Gas will contribute its share of registered capital by way of injection of its natural gas-related operational assets (which include, inter alia, the Domestic Shares held by Tianjin Gas) and China Resources Gas (HK) will contribute its share of registered capital by way of cash. It is intended that after establishment of the Proposed JV, all existing natural gas-related business of Tianjin Gas will be taken over by the Proposed JV. Each of Tianjin Gas and China Resources Gas (HK) agrees that each of them (including its controlled affiliates) and the Proposed JV (including listing company that it holds shares) will not compete with each other in the same industry and will not develop the same or competing business in the operational areas of the other parties. It is intended that the Proposed JV will use the Company as a public listing vehicle for consolidation of its natural gas and natural gas-related businesses and the assets and business of the Proposed JV will be injected into the Company, and Tianjin Gas and China Resources Gas (HK) undertake that after the establishment of the Proposed JV, the Proposed JV will ensure that the principal business of the Company shall not be changed. Tianjin Gas and China Resources Gas (HK) intended that the establishment of the Proposed JV would be completed in early November 2010.

However, Tianjin Gas advised that there would be a delay in the intended timetable as far as the disposal of its Shares in the Company to the Proposed JV is concerned and there was no agreed revised timetable in this regard as at the Latest Practicable Date. Tianjin Gas has indicated that it will not enter into any legally binding agreement concerning the disposal of its Shares in the Company before completion of the subscription of the Consideration Shares and the expiry of the six-month period from the date of the EGM approving the Proposed Assets Transfer. As contemplated under the Cooperation Agreement, Tianjin Gas also expects that it will be entitled to appoint a majority of the board of directors of the Proposed JV. Based on the above which are subject to the execution of the formal joint venture agreement relating to the Proposed JV, Tianjin Gas considers that it will control the Proposed JV and hence there will not be a change in control in the Company after the disposal of the Shares by Tianjin Gas to the Proposed JV. However, the finalized terms of the formal joint venture agreement relating to the Proposed JV are still under negotiation and Tianjin Gas and the Company will comply with all applicable laws, rules and regulations if and when any legally binding agreement is signed regarding the disposal of the Shares by Tianjin Gas to the Proposed JV.

SUMMARY

The Directors advised that, based on the proposed structure of the Proposed JV as contemplated under the Cooperation Agreement, if the Company acquires the assets and business of the Proposed JV or of Tianjin Gas in the future, the transaction may constitute a connected transaction of the Company and if so, depending on the size of the assets or business to be acquired, the transaction may be subject to the disclosure and independent shareholders' approval requirement under the GEM Listing Rules. The Company may acquire the assets and business of the Proposed JV or of Tianjin Gas by issuing new Shares as consideration or by cash. In the case of issuing Shares, it may cause a material dilution to the interests of the existing Shareholders. In the case of cash consideration, the Company may not have sufficient funds and may opt to raise funds by borrowing or placing new Shares, the latter may also lead to a material dilution to the interests of the existing Shareholders. As at the Latest Practicable Date, the formal joint venture agreement relating to the Proposed JV was still under negotiation, and there was no negotiation on the terms (in particular the type of assets or business to be acquired, the size of the consideration, the payment method and payment terms) as to such future acquisitions by the Company, Shareholders and investors are advised to exercise caution in the trading and dealing of the H Shares.

The Directors advised that, after making enquiry with Tianjin Gas, they were given to understand that, as at the Latest Practicable Date, although the principle is that all natural gas-related operational assets of Tianjin Gas would be injected into the Proposed JV under the Cooperation Agreement, no further agreement has been reached to define the precise scope of the natural gas-related business of Tianjin Gas that would be injected into the Proposed JV and there was no detail on the timetable for the injection of the assets and business of the Proposed JV to the Group. The Directors further confirmed that as at the Latest Practicable Date, the Company did not enter into any negotiation with Tianjin Gas for the scope of the assets and business of the Proposed JV to be injected into the Group.

The Directors advised that, the Company would only acquire the assets or business of the Proposed JV or of Tianjin Gas in the future if the Directors are of the view that (1) the proposed transaction would be entered into on normal commercial terms; (2) the terms would be fair and reasonable and in the interests of the Company and the Shareholders as a whole; (3) the Company has the resources to settle the relevant consideration; and (4) the transaction would comply with all applicable laws, rules and regulations, including but not limited to the GEM Listing Rules.

SUMMARY

As disclosed in the 2009 annual report of China Resources Gas Group Limited, China Resources Gas Group Limited, the holding company of China Resources Gas (HK), operates 27 city gas distribution businesses in 10 provinces including natural or petroleum gas pipelines, CNG filling stations and bottled LPG distribution through its subsidiaries in the PRC. The 27 cities that China Resources Gas Group Limited currently is operating do not include Tianjin. As at the Latest Practicable Date and as far as the Directors are aware, China Resources Gas (HK) did not have any gas-related operation in Tianjin. Based on the above, the Directors consider that there would not be any competition between the business of the Group and that of the Proposed JV in Tianjin. Each of Tianjin Gas and China Resources Gas (HK) agrees that each of them (including its controlled affiliates) and the Proposed JV (including listing company that it holds shares) will not compete with each other in the same industry and will not develop the same or competing business in the operational areas of the other parties. Accordingly, the Directors consider that there would be no competition of business between the Group, Tianjin Gas and China Resources Gas (HK) in future. Besides, the Board has established and adopted corporate governance procedures to avoid conflicts of interest of the Directors by providing, among other things, that (i) each Director is entitled to one vote at board meetings and decisions of the Board are passed by a majority of votes; (ii) in the event of any conflict of interests, such as where it involves the passing of resolutions in relation to transactions where any Director is materially interested, the relevant Director will abstain from voting and will not be counted in the quorum; and (iii) where it involves the passing of resolutions in relation to transactions with its controlling shareholder or its associates, the Director who holds directorship or senior management position in such controlling shareholder or its associates will be excused from the meeting for such matter, will abstain from voting and will not be counted in the quorum. The Board believes that the aforesaid corporate governance procedures will effectively prevent any potential conflict of interests in the board meeting of the Company.

SUMMARY OF FINANCIAL INFORMATION

The following sets out a summary of the financial information of the Group and of the Transferred Assets for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, and the unaudited pro forma financial information of the Enlarged Group. This summary should be read in conjunction with the accountants' report and the financial information of the Group set out in Appendix I to this circular, the third quarterly report of the Group for the nine months ended 30 September 2010 set out in Appendix II to this circular, the unaudited financial information of the Transferred Assets set out in Appendix III to this circular, and the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular.

SUMMARY

(a) The following table shows certain audited financial information of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	178,871	217,169	317,992	165,733
Cost of sales	(73,125)	(109,848)	(222,326)	(125,361)
Gross profit	105,746	107,321	95,666	40,372
Other income	3,780	10,180	6,816	3,279
Other gains and losses	59	284	1,711	(295)
Selling expenses	(42)	(57)	(27)	(13)
Administrative expenses	(12,822)	(33,715)	(14,045)	(7,280)
Share of results of associates	—	(28)	877	834
Finance costs	(2,406)	(2,260)	(2,094)	(1,062)
Profit before tax	94,315	81,725	88,904	35,835
Income tax expense	(31,980)	(21,385)	(22,537)	(9,112)
Profit for the year/period and total comprehensive income for the year/period	<u>62,335</u>	<u>60,340</u>	<u>66,367</u>	<u>26,723</u>
Profit for the year/period and total comprehensive income for the year/period attributable to:				
Owners of the company	62,335	60,475	66,367	26,723
Non-controlling interests	—	(135)	—	—
	<u>62,335</u>	<u>60,340</u>	<u>66,367</u>	<u>26,723</u>
Dividend per share (<i>RMB cents</i>)	—	1.5	—	—
Earnings per share — basic (<i>RMB cents</i>)	<u>6.30</u>	<u>5.40</u>	<u>5.80</u>	<u>2.32</u>

SUMMARY

- (b) **The following table shows the unaudited financial information of the Transferred Assets for the three years ended 31 December 2009 and for the six months ended 30 June 2010**

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
Gas sales	604,774	785,693	833,604	433,414	527,664
Gas connection income	19,457	25,001	22,236	12,531	7,590
Turnover	624,231	810,694	855,840	445,945	535,254
Cost of gas sales	455,352	553,797	620,780	306,608	380,462
Cost of gas connection	8,624	12,040	10,769	6,697	3,145
Depreciation	28,343	30,952	32,179	16,089	16,201
Total cost	492,319	596,789	663,728	329,395	399,808
Operating Profit	<u>131,912</u>	<u>213,905</u>	<u>192,112</u>	<u>116,550</u>	<u>135,446</u>

Notes:

The above financial information of the Transferred Assets in the past is limited and unaudited, which may not provide indication on the future operating results of the Transferred Assets after the completion of the Proposed Assets Transfer.

Pursuant to Rule 19.69(1)(a) and Rule 19.69(2) of the GEM Listing Rules, the Company is required to include in the circular the net profits (both before and after tax and extraordinary items) attributable to the assets which are the subject of the transaction for the two financial years immediately preceding the transaction.

The Directors advise that Tianjin Gas does not keep separate books and records for the Transferred Assets for the gas sales, gas connection income, cost of gas sales, cost of gas connection and depreciation of the Transferred Assets, which can be directly extracted from the general ledger of Tianjin Gas. Other general, selling and administrative expenses attributable to the Transferred Assets are indivisible from those of Tianjin Gas. As such, the net profit before tax figures of the Transferred Assets are not available.

SUMMARY

Given the above reasons, the Company has made an application for waiver from strict compliance with Rules 19.69(1) (a) and 19.69(2) of the GEM Listing Rules to the Stock Exchange and such waiver was granted. Shareholders and the general investing public are reminded to consider the risks in relation to the financial information of the Transferred Assets. Please refer to the paragraph headed “The financial information of the Transferred Assets is limited and may not be indicative to the future profitability of the Enlarged Group”, in the “Risk Factors” section of this circular.

In accordance with Rule 19.69(4)(b)(i) of the GEM Listing Rules, the Directors engaged Deloitte Touche Tohmatsu, the auditor of the Company, to perform certain factual findings procedures in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), in respect of the unaudited financial information of the Transferred Assets which were prepared using accounting policies consistent with those of the financial statements of the Company for the year ended 31 December 2009. The auditor agreed amounts included in the above unaudited financial information of the Transferred Assets including gas sales, gas connection income, cost of gas sales, cost of gas connection and depreciation prepared by the Company to the underlying books and records of Tianjin Gas or to amounts calculated based on the amounts recorded in the books and records of Tianjin Gas. The auditor reported the factual findings and found that such information has been properly compiled, derived or calculated from the underlying books and records of Tianjin Gas. The procedures performed by the auditor do not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA. Consequently, no assurance is provided by the auditor on the above unaudited financial information of the Transferred Assets.

SUMMARY

(c) Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

	Year ended 31 December 2009 <i>RMB'000</i>	Pro forma of adjustment transferred assets <i>RMB'000</i> (unaudited)	Other pro forma adjustments <i>RMB'000</i> (unaudited)	Pro forma total <i>RMB'000</i> (unaudited)
Turnover	317,992	855,840	—	1,173,832
Cost of sales	(222,326)	(620,780)	(98,685)	(992,520)
	—	(10,769)	(7,781)	—
	—	(32,179)	—	—
	95,666	192,112	(106,466)	181,312
Other income	6,816	—	—	6,816
Other gains and losses	1,711	—	—	1,711
Selling expenses	(27)	—	—	(27)
Administrative expenses	(14,045)	—	(5,143)	(19,188)
Finance costs	(2,094)	—	—	(2,094)
Share of results of associates	877	—	—	877
Profit before tax	88,904	192,112	(111,609)	169,407
Income tax expenses	(22,537)	—	(20,125)	(42,662)
Profit for the year and total comprehensive income for the year	<u>66,367</u>	<u>192,112</u>	<u>(131,734)</u>	<u>126,745</u>
Profit for the year and total comprehensive income for the year attributable to the owner of the Company	<u>66,367</u>	<u>192,112</u>	<u>(131,734)</u>	<u>126,745</u>

(d) Cashflow from operating activities of the Enlarged Group

The aggregate cashflow of the Enlarged Group generated from operating activities in the ordinary and usual course of business before changes in working capital and taxes paid for the two years ended 31 December 2009 amounted to more than HK\$20 million.

The audited cashflow statement of the Group is contained in Appendix I to the circular. No separate cashflow statement of the Transferred Assets can be prepared because it is not an entity and there is no separate books and record kept for the Transferred Assets. Nonetheless, the following cashflow information of the Transferred Assets has been prepared by the Company for the purposes of demonstrating the Enlarged Group can satisfy the requirement of Rule 11.12A(1) of the GEM Listing Rules:

SUMMARY

Cashflow information of the Transferred Assets

	2008 <i>(RMB'000)</i> (unaudited)	2009 <i>(RMB'000)</i> (unaudited)
Gas sales	785,693	833,604
Gas connection income	25,001	22,236
Turnover	810,694	855,840
Cost of gas sales	553,797	620,780
Cost of gas connection	12,040	10,769
Depreciation	30,952	32,179
Total cost	596,789	663,728
Operating profit	213,905	192,112
Depreciation	30,952	32,179
Operating cashflow before changes in working capital, taxes paid and operating expense	244,857	224,291
Estimated operating expense (<i>Note 2</i>)	(114,668)	(127,752)
Operating cashflow before changes in working capital and taxes paid	<u>130,189</u>	<u>96,539</u>

Notes:

- (1) The Directors of the Company engaged Deloitte Touche Tohmatsu, the auditor of the Company, to perform certain factual findings procedures in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), in respect of the above cash flow information of the Transferred Assets which were prepared using accounting policies consistent with those of the financial statements of the Company for the year ended 31 December 2009. The auditor agreed amounts included in the above cash flow information of the Transferred Assets including gas sales, gas connection income, cost of gas sales, cost of gas connection and depreciation prepared by the Company to the underlying books and records of Tianjin Gas or to amounts calculated based on the amounts recorded in the books and records of Tianjin Gas. The auditor reported the factual findings and found that such information including gas sales, gas connection income, cost of gas sales, cost of gas connection and depreciation has been properly compiled, derived or calculated from the underlying books and records of Tianjin Gas. In addition, the auditor checked the arithmetical accuracy of the estimated operating expense which is calculated based on the formula described in note 2 below. The procedures performed by the auditor do not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA. Consequently, no assurance is provided by the auditor on the above cash flow information of the Transferred Assets.
- (2) Since the operating expenses attributable to the Transferred Assets are indivisible due to the absence of separate books and records of these expenses kept for the Transferred Assets, an allocation ratio is applied and the Company calculated the estimated operating expense of Transferred Assets as the total operating expenses of Tianjin Gas multiplied by the ratio of the total revenue of Transferred Assets to the total revenue of Tianjin Gas. The Sponsor considered that such estimation methodology is reasonable because the operating expenses attributable by the Transferred Assets have a reasonable relationship with the revenue attributable by the Transferred Assets.

SUMMARY

Cashflow generated from operating activities of the Enlarged Group

A summary of the cash flow generated from operating activities in the ordinary and usual course of business before movement in working capital and taxes paid is presented below:

<i>(RMB'000)</i>	The existing Group (audited)	The Transferred Assets after allocation of estimated operating expense (unaudited)	The Enlarged Group (unaudited)
For the year ended 31 December 2008	101,095	130,189	231,284
For the year ended 31 December 2009	101,936	96,539	198,475
Total:	203,031	226,728	429,759

SUMMARY OF BUSINESS INFORMATION

The table below sets out the key information on the operation of the Group, the Transferred Assets and Tianjin Gas (excluding the Transferred Assets) as at 30 June 2010:

	The Group	The Transferred Assets	Tianjin Gas (excluding the Transferred Assets)
Operational location	Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區) ^(Note 1) , part of Xiqing District (西青區) ^(Notes 2, 4, 5) , part of Hangu District (漢沽區) ^(Notes 2, 4, 5) , part of Ninghe County (寧河縣) ^(Notes 2, 4, 5) in Tianjin and Jining City.	Part of Heping District (和平區) ^(Notes 3, 5) and part of Hedong District (河東區) ^(Notes 3, 5) in Tianjin	Hexi District (河西區) (excluding Xiao Hai Di (小海地)), part of Heping District (和平區) ^(Note 3) , part of Hedong District (河東區) ^(Note 3) , part of Xiqing District (西青區) ^(Notes 2, 4, 5) , part of Hangu District (漢沽區) ^(Notes 2, 4, 5) , part of Ninghe County (寧河縣) ^(Note 2, 4, 5) , Nankai District (南開區), Hebei District (河北區), Hongqiao District (紅橋區), Jinghai County (靜海縣), Tanggu District (塘沽區) ^(Note 2) , Dagang District (大港區) ^(Note 2) , Wuqing District (武清區), Baodi District (寶坻區), Ji County (薊縣) in Tianjin

SUMMARY

	The Group	The Transferred Assets	Tianjin Gas (excluding the Transferred Assets)
Major source of revenue	Gas connection (for the 2 years ended 31 December 2008) and sales of piped gas (for the year ended 31 December 2009 and the six months ended 30 June 2010)	Gas sales	Gas sales
Revenue (RMB'000) for the year ended 31 December 2009	over 300,000	over 800,000	over 1,000,000
Number of gas suppliers	1 in Tianjin and 2 in Jining City	1 ^(Note 6)	4
Approximate number of users	84,900 (including approximately 84,700 Domestic Users and 300 Industrial and Commercial Users)	360,000 (including approximately 357,000 Domestic Users and 3,000 Industrial and Commercial Users)	1,623,500 (including approximately 1,617,800 Domestic Users and 5,700 Industrial and Commercial Users)
The average gas sale per Domestic User for the year ended 31 December 2009 (RMB per user)	299	164	— ^(Note 7)
The average gas sale per Industrial and Commercial User for the year ended 31 December 2009 (RMB per user)	798,908	246,208	— ^(Note 7)
Approximate length of pipelines owned (km)	360	1,474	6,300

Notes:

- (1) The Directors advised that the part of Jinnan District that the Group is currently operating is not included in the Binhai New District.
- (2) Tianjin City originally comprised 18 districts and counties, including Heping District (和平區), Hedong District (河東區), Hexi District (河西區), Hebei District (河北區), Nankai District (南開區), Hongqiao District (紅橋區), Tanggu District (塘沽區), Hangu District (漢沽區), Dagang District (大港區), Dongli District (東麗區), Xiqing District (西青區), Jinnan District (津南區), Beichen District (北辰區), Wuqing District (武清區), Baodi District (寶坻區), Ji County (薊縣), Jinghai County (靜海縣) and Ninghe County (寧河縣). According to the Eleventh

SUMMARY

Five Year Plan of Binhai New District for the years 2006-2010, “Binhai New District” comprises several districts, including Tanggu District, Hangu District, Dagang District, Tianjin Economic and Technology Development Zone (天津經濟技術開發區), Bonded Zone of Tianjin Port (天津港保稅區), Tianjin Port (天津港), part of Dongli District and part of Jinnan District. In October 2009, the State Council of China approved that the Tanggu District, Hangu District and Dagang District will be officially merged into “Binhai New District” as a single administrative zone. After the merger, Tianjin City comprises 16 districts and counties, including Heping District, Hedong District, Hexi District, Hebei District, Nankai District, Hongqiao District, Binhai New District, Dongli District, Xiqing District, Jinnan District, Beichen District, Wuqing District, Baodi District, Ji County, Jinghai County and Ninghe County. In the opinion of the Directors, it is a common impression that “Binhai New District” includes also those areas that are located next to or near Tanggu District, Hangu District and Dagang District, such as Tianjin Economic and Technology Development Zone (天津經濟技術開發區), Bonded Zone of Tianjin Port (天津港保稅區), Tianjin Port (天津港), part of Dongli District and part of Jinnan District. The Group operates in part of Hangu District of Binhai New District, where operation was commenced after completion of the acquisition of the Hangu Assets from Tianjin Gas under the Hangu, Ninghe and Xiqing Assets Transfer Agreement, whilst Tianjin Gas (including Binhai Gas) operates in part of Hangu District, Tanggu District and Dagang District in Binhai New District and other gas operators operate in other parts of Binhai New District. As confirmed by the Directors, to the best of their knowledge some areas in Binhai New District were still under construction with no gas operator operating as at the Latest Practicable Date.

- (3) After the completion of the Proposed Assets Transfer, both the Group and Tianjin Gas will have operation in Hedong District and Heping District. The operation of Tianjin Gas in such districts mainly comprised the utilization of the remaining part of the tangible assets and gas ancillary facilities that are not included in the Transferred Assets that were under construction at the time of identifying the assets to be transferred under the Assets Acquisition Agreement. As at 30 June 2010, as advised by the Directors, construction of part of the remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets has been completed and has commenced to supply piped gas to end users by Tianjin Gas. Due to the nature of the piped gas supply business, which require fixed pipelines be installed and connected to the customers’ pipelines, it is practically infeasible for more than one set of pipelines connecting to the same customer’s pipeline. As such, there will not be overlapping between the customers of the Group with Tianjin Gas in Hedong District and Heping District in respect of the Transferred Assets after completion of the Proposed Assets Transfer and accordingly, Tianjin Gas and the Group will not be competing with each other in Hedong District and Heping District in the provision of piped natural gas to end users after completion of the Proposed Assets Transfer.
- (4) Both the Group and Tianjin Gas have operation in Xiqing District, Hangu District and Ninghe County. Pursuant to the Hangu, Ninghe and Xiqing Assets Transfer Agreement, the Company acquired from Tianjin Gas part of the fixed assets in Xiqing District, Hangu District and Ninghe County. The Directors advised that the assets that the Group did not acquire were still under construction as of the date of the Hangu, Ninghe and Xiqing Assets Transfer Agreement. The Directors further advised that the customers of the Group and Tianjin Gas in Xiqing District, Hangu District and Ninghe County are separated in terms of buildings connected to, and as of the Latest Practicable Date, there was no overlapping of customers between the Group and Tianjin Gas. Hence, the Group and Tianjin Gas are not in competition in these districts.
- (5) Pursuant to the Supplemental Non-Competition Agreement, Tianjin Gas undertakes that where business opportunities which may compete with the business of the Enlarged Group arises, or if Tianjin Gas desires to sell any of its existing piped gas business or the underlying assets for the piped gas business in Tianjin, Tianjin Gas shall give the Company’s notice in writing and the Company shall have a right of first refusal to take up such business opportunities. The Company shall only exercise the right of first refusal upon the approval of all the independent non-executive

SUMMARY

Directors (who do not have any interest in such proposed transactions). Pursuant to the Supplemental Non-Competition Agreement, regarding the assets which have not yet been transferred to the Company by Tianjin Gas in Hedong District, Heping District, Xiqing District, Hangu District and Ninghe County, the Company has the right to require and Tianjin Gas agreed to sell these assets to the Company at any time, subject to compliance with the applicable requirements under the relevant PRC laws as well as the GEM Listing Rules, at a price that is fair and reasonable, and acceptable to the independent non-executive Directors (who do not have any interest in such proposed transaction).

- (6) After the completion of the Proposed Assets Transfer, the Group will purchase gas from Tianjin Gas and the number of gas suppliers will become one. Currently, the operation of the Transferred Assets comprise part of Tianjin Gas' operation, as such, the number of suppliers of the Transferred Assets is the same as the number of suppliers of Tianjin Gas, which is four.
- (7) The Group is not able to disclose the average gas sales per user of Tianjin Gas. The PRC Legal Adviser advised that, according to the "Regulations on Financial and Accounting Reports of Corporations (企業財務會計報告條例)" implemented by the State Council, to request any corporation to provide its financial statements and its relevant data, one must support its request with relevant PRC laws, regulations or rules of the State Council. Any such request without the said basis could be rejected by the corporation. Since the Company could not provide any legal basis to request Tianjin Gas to disclose its financial statements, the PRC Legal Adviser advised that it would not be possible to obtain such approval from Tianjin Gas and its supervising authority.

INFORMATION ABOUT THE GROUP

Development of the Group

The Group began to invest in the construction of gas pipelines and sale of piped gas to Domestic Users and Industrial and Commercial Users in Xiao Hai Di of Hexi District and part of Jinnan District after obtaining approval from the Gas Management Office of Tianjin in December 1998. Pursuant to the agreement entered into between the Jining Branch and the Jining City Government dated 14 January 2003, the Jining Branch was granted the special operating permit to operate piped natural gas and LPG supply operations on an exclusive basis in Jining City. The Group started its business in Jining City by entering into a pipeline construction contract for customers' pipelines connection in April 2003.

Other than Xiao Hai Di of Hexi District, part of Jinnan District and Jining City, all existing Operational Locations of the Group were location(s) in Tianjin where Tianjin Gas originally operated. These locations later become the Operational Locations of the Group through acquisitions of pipelines and ancillary facilities by the Group from Tianjin Gas.

SUMMARY

The Directors are of the view that Tianjin City is a developed area where most districts are already covered by comprehensive piped gas network. As such, unlike a newly developed area where the Group has room to build new piped gas network itself, the Group has to purchase existing pipelines from other existing piped gas suppliers to expand its business in most of the districts in Tianjin City. When making decisions as to which location the Group wishes to expand, the Directors would consider various factors including the potential development of the locations and the capital commitment of the Group. The Directors would only acquire piped gas network from Tianjin Gas or other existing gas operators if the Directors consider that the acquisition would be in the interest of the business development of the Group and beneficial to the Shareholders as a whole.

The Directors believe that if the Group wishes to expand its supply of piped gas business into new locations in Tianjin in the future, which are the existing operational locations of Tianjin Gas, it may further acquire pipelines and ancillary facilities from Tianjin Gas in those locations that the Group wishes to expand and will comply with applicable GEM Listing Rules.

Revenue model of the Group

The Group is principally engaged in the operation and management of gas pipeline infrastructure and the sales and distribution of piped gas in the PRC. The Group's other operating activities include the sale of gas appliances, investment in gas supply projects and the provision of other services in connection with gas supply.

The Group's revenue profile consists of the following four revenue streams:

- **Gas connection fee**, one-off fee received from either property developers, individual existing residential units or commercial/industrial enterprises for providing piped gas connection, accounted for around 32.2% and 19.9% of the Group's total revenue for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.
- **Revenue from sales of gas**, the gas usage fee paid by the end users for consumption of gas, the Group's major revenue contributor since 2009. As the total number of users who are connected to the Group's pipelines continue to increase over time, the revenue from sales of gas to such users is expected to increase over time. As a result, it is expected that the revenue from sales of gas will continue to account for a significant portion of the Group's total revenue in the future.
- **Revenue from sales of appliances** currently accounts for an insignificant portion of the Group's total revenue of approximately 1%. This revenue stream is not expected to be a significant contributor to the Group's total revenue.
- **Revenue from provision of gas transportation services**, the gas transportation fee paid by Tianjin Gas for transmission of natural gas to end users and gas operators via the Gangnan Pipeline owned and managed by the Company. The Group commenced the provision of gas transportation services in 2009, and revenue in this connection was recognised in the year ended 31 December 2009. The revenue from gas transportation accounted for approximately 0.8% and 1.5% of the Group's total revenue for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.

SUMMARY

Revenue

The following table sets out the audited revenue by services categories of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	2007		For the year ended 31 December				For the six months ended 30 June			
	RMB'000	%	2008		2009		2009		2010	
			RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Gas connection	137,477	76.9	135,059	62.2	102,399	32.2	32,219	23.6	32,992	19.9
Sales of piped gas	35,200	19.7	74,381	34.2	206,219	64.9	99,759	73.0	125,459	75.7
Gas transportation	—	—	—	—	2,479	0.8	—	—	2,550	1.5
Sales of gas appliances	386	0.2	1,279	0.6	1,071	0.3	14	0	1,620	1.0
Construction of gas pipeline infrastructure (Note)	5,808	3.2	6,450	3.0	5,824	1.8	4,691	3.4	3,112	1.9
Total	178,871	100.0	217,169	100.0	317,992	100.0	136,683	100.0	165,733	100.0

Note: The Group as a gas supply operator has access to operate the gas pipeline infrastructure to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement and also carry out gas connection work to public. The Group has applied HK(IFRIC)-Int 12 “Service Concession Arrangements” which is effective for annual periods beginning on or after 1 January 2008. HK(IFRIC)-Int 12 provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services. In accordance with HK (IFRIC)-Int 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the infrastructure, this interpretation requires the operator to account for its revenue and costs in accordance with HKAS 11 “Construction Contracts” for the construction and upgrade services of the infrastructure and to account for the fair value of the consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 “Intangible Assets” to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the services in relation to the operation of the gas pipeline infrastructure in accordance with HKAS 18 “Revenue”. The above accounting treatment will also be applied to the Enlarged Group upon the completion of the Proposed Assets Transfer.

For the two years ended 31 December 2008, revenue from gas connection contributed to the majority of the total revenue of the Group, which accounted for approximately 76.9% and 62.2% of total revenue, respectively. For the year ended 31 December 2009 and for the six months ended 30 June 2010, revenue from sales of piped gas became the major source of revenue to the Group, which accounted for 64.9% and 75.7% respectively of the total revenue of the Group during the periods.

SUMMARY

- sales of piped gas

The sales of piped gas revenue has been increasing for the three years ended 31 December 2009 and for the six months ended 30 June 2010, as the Group expanded its Operational Locations by acquiring Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008, which have higher gas usage than the Group.

For the year ended 31 December 2008, sales of piped gas increased by 111.3%, because the Group completed the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008, and the gas usage in these newly acquired districts was much higher than the Group's areas under operation prior to the acquisition. For the year ended 31 December 2009, the sales of piped gas increased by 177.2% as compared to the same period in 2008, as the full-year revenue from the Hangu Assets, Ninghe Assets and Xiqing Assets II was recognised in 2009. For the six months ended 30 June 2010, the sales of piped gas increased by 25.8% compared to the same period in 2009 due to the increase in sales of piped gas of Hangu Assets, Ninghe Assets and Xiqing Assets II during the period.

Overall, the revenue from sales of piped gas has become a more significant revenue stream to the Group, accounted for approximately 19.7%, 34.2%, 64.9% and 75.7% of the total revenue of the Group, respectively, for the three years ended 31 December 2009 and the six months ended 30 June 2010.

- gas connection

The revenue from gas connection is an one-off income received from customers for providing piped gas connection, which depends on the size of the relevant property projects, the progress of urban development and property development in Tianjin City. For the year ended 31 December 2008, revenue from gas connection declined slightly by 1.8%, as there were delays in gas connection projects which were affected by the slowdown of general economic activities. For the year ended 31 December 2009, the revenue from gas connection decreased by 24.2% compared to the same period in 2008, mainly due to delay of new projects in 2009 and further delay of certain projects in 2008. For the six months ended 30 June 2010, the revenue from gas connection increased slightly by 2.4% compared to the same period in 2009. The Directors are of the view that, in general, gas connection revenue depends on the progress of urban development and property development in the Operational Locations, which is different from district to district and from year to year. The Directors expect that once the general economy recovers, there will be more gas connection projects and the gas connection revenue will also increase.

SUMMARY

Gross Profit Margin

The following table sets out the gross profit margin (*Note*) by each revenue stream of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	For the year ended 31 December		For the six months ended 30 June		
	2007	2008	2009	2009	2010
	%	%	%	%	%
Gas connection	75.7	68.1	71.6	77.4	71.8
Construction of gas pipeline infrastructure	9.1	9.1	9.1	8.5	8.2
Sales of piped gas	-0.4	5.9	10.9	9.9	11.8
Gas transportation	—	—	42.3	—	50.0
Sales of gas appliances	22.8	-1.6	22.4	42.9	19.3
Overall	59.1	49.4	30.1	25.8	24.4

Note:

The gross profit margin by revenue for the Group is calculated as the segment profit before tax divided by the segment revenue from external customers. The consolidated segment profit by revenue may be different from the overall gross profit of the Group because the segment profit before tax does not take into account of unallocated depreciation and expenses and the adjustment of bad debts.

For the three years ended 31 December 2009 and the six months ended 30 June 2010, the overall gross profit margin of the Group was 59.1%, 49.4%, 30.1% and 24.4%, respectively. The gas connection revenue enjoyed the highest gross profit margin among the various revenue streams of the Group, and as its proportion to total revenue declined in the Track Record Period, the overall gross profit margin of the Group also declined. For the year ended 31 December 2009 and the six months ended 30 June 2010, the sales of piped gas became the major source of revenue to the Group, resulting in a more evident decline in the overall gross profit margin of the Group when compared to the year ended 31 December 2008 and the six months ended 30 June 2009, respectively.

SUMMARY

Average Gas Sales Per User

The following table sets out the unaudited average gas sales for each type of users of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Domestic Users (per user)	174.8	150.6	299	158.2	159.2
Industrial and Commercial Users (per user)	253,607.5	288,509.3	798,907.5	392,624.4	482,702.6

As discussed in the sub-paragraph headed “sales of piped gas” under the paragraph headed “Revenue” above, the gas sales revenue of the Group has been in an increasing trend for the three years ended 31 December 2009 and the six months ended 30 June 2010, mainly driven by the completion of the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008. As noted in the table above, the average gas sales per Industrial and Commercial User of the Group has been increasing for the three years ended 31 December 2009 and the six months ended 30 June 2010. While the growth effect from acquisition was mostly recognised in the year ended 31 December 2009, for the six months ended 30 June 2010, the average gas sales per Industrial and Commercial Users continued to increase by 22.9% as compared to the corresponding period in the previous year as the total gas sales to Industrial and Commercial Users increased by approximately 29.1%. Overall, the Directors consider that the increase in average gas sales per Industrial and Commercial User was due to the increase in gas usage by such users, however, the gas usage of each Industrial and Commercial User may vary depending on its nature of business and business development, and as such the reason for change in gas sales of the Industrial and Commercial User of the Group varied.

As for average gas sales per Domestic User, there was a decrease in the average gas sales per Domestic User for the year ended 31 December 2008 compared with 2007. It was mainly because when calculating the average gas sales per user, only one month of revenue was recognised for the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008 but all users as of the end of the year in relation to those acquired assets were included in the number of Domestic Users. The average gas sales per Domestic User for the year ended 31 December 2009 was higher than that of 2008, mainly because the full-year revenue generated from the Hangu Assets, Ninghe Assets and Xiqing Assets II, which were acquired by the Group in November 2008, was recognized in 2009. For the six months ended 30 June 2010, since the growth impact from acquisition was mostly recognised in 2009, the average gas sales per Domestic User was only slightly higher than that of the same period in 2009.

SUMMARY

Capital Expenditure

The breakdown of the capital expenditure of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010 are set as below:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Construction of gas pipeline infrastructure	258	6,030	165,874 <i>(Note 1)</i>	12,000
Acquisition of assets from Tianjin Gas ^{<i>(Note 2)</i>}	—	89,517	—	—
Other capital expenditures ^{<i>(Note 3)</i>}	2,285	256	22,041	—
Total	<u>2,543</u>	<u>95,803</u>	<u>187,915</u>	<u>12,000</u>

Notes:

- (1) Representing the capital expenditure for the Gangnan Distribution Project and the Beihuan Pipeline Project.
- (2) Acquisition of assets from Tianjin Gas represents the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008.
- (3) Other capital expenditures consist of capital expenditure for electronic equipment, buildings and transportation equipment.

The estimated capital expenditure for the year ending 31 December 2011 of the Enlarged Group is approximately RMB40.0 million, comprising mainly the capital expenditure for the existing Group, while capital expenditure for the Transferred Assets is estimated to be negligible.

Special operating agreement

According to the Concession Measures, the Group is required to enter into a special operating agreement with the relevant local construction bureau in Tianjin. However, the relevant local construction bureau in Tianjin has not yet formulated the format of the special operating agreement and accordingly the Group was not required to execute a special operating agreement for its operations in Tianjin as at the Latest Practicable Date. Also, the Jining City Government has not yet promulgated the local administrative rules regarding the Concession Measures. Besides, the relevant construction bureau in Jining has not yet formulated the format of the special operating agreement and accordingly the Group was not required to execute a special operating agreement for its operations in Jining as at the Latest Practicable Date. The PRC Legal Adviser advised that as the non-execution of the special operating agreement in Tianjin and Jining is caused by the local policy, the operation of the Group in Tianjin and Jining would not be affected.

SUMMARY

INFORMATION ABOUT THE TRANSFERRED ASSETS

Revenue Model of the Transferred Assets

The Transferred Assets consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users as at 30 June 2010, the related machinery and electronic equipment and 40 vehicles.

The major component of the Transferred Assets, being the outdoor and domestic pipelines, have been constructed by Tianjin Gas since 1976.

The major revenue contributor in respect of the Transferred Assets during the Track Record Period was the gas usage fee paid by the end users for consumption of gas.

Revenue

The following table sets out the revenue by services categories of the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	(unaudited) RMB'000	%	(unaudited) RMB'000	%	(unaudited) RMB'000	%	(unaudited) RMB'000	%	(unaudited) RMB'000	%
Gas sales	604,774	96.9	785,693	96.9	833,604	97.4	433,414	97.2	527,664	98.6
Gas connection income	19,457	3.1	25,001	3.1	22,236	2.6	12,531	2.8	7,590	1.4
Total	624,231	100	810,694	100	855,840	100	445,945	100	535,254	100

For the three years ended 31 December 2009 and the six months ended 30 June 2010, gas sales contributed the majority of the revenue in relation to the Transferred Assets, accounted for 96.9%, 96.9%, 97.4% and 98.6%, respectively.

For each of the three years ended 31 December 2009 and the six months ended 30 June 2010, the largest customer in respect of the Transferred Assets accounted for approximately 47.9%, 51.8%, 47.7% and 38.8% of the unaudited turnover generated from the Transferred Assets.

During the Track Record Period, Tianjin Gas' largest customer in respect of the Transferred Assets was a State-owned enterprise. It is principally engaged in manufacturing of steel pipes in the PRC. A gas supply contract has been entered into between Tianjin Gas and the largest customer in respect of the Transferred Assets on 31 December 2008 for a term of two years i.e. from 31 December 2008 to 30 December 2010. Pursuant to the said gas supply contract, the largest customer in respect of the Transferred Assets agreed to purchase piped gas from Tianjin Gas. After the completion of the Proposed Assets Transfer, the Company will enter into new gas supply contract with such customer. Although the Group cannot ensure that such customer will enter into a new gas supply contract with the Company, the Directors consider that if such customer opts to purchase gas from other gas suppliers, it will have to construct new pipelines connecting its premises to the branch pipelines of other gas suppliers, hence extra costs will be incurred by such customer. As such, the Directors consider that it will be unlikely for such customer not to utilize the same gas pipelines for the continuation of gas supplies.

SUMMARY

Should the Enlarged Group not be able to enter the new gas supply contract with the largest customer of the Transferred Assets, the operation and the financial performance of the Enlarged Group may be materially adversely affected.

Gross Profit Margin

The following table sets out the gross profit margin by revenue stream in respect of the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Gas sales	20.0	25.6	21.7	25.5	24.8
Gas connection	55.7	51.8	51.6	46.6	58.6
Overall	21.1	26.4	22.4	26.1	25.3

Notes:

- (1) The gross profit margin for the Transferred Assets is calculated by dividing the difference of revenue and cost by the revenue as extracted from Appendix III to this circular. As there are no separate books and records kept for the Transferred Assets, certain expenses recorded in the books of Tianjin Gas which are directly attributable to the Transferred Assets cannot be reliably estimated. As such, the gross profit margin figures as shown above may not reflect the actual profitability of the Transferred Assets.
- (2) Depreciation is treated as the cost of sales of gas in calculating the gross profit margin.

For the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of the Transferred Assets was 21.1%, 26.4%, 22.4% and 25.3% respectively. For the Transferred Assets, the gas connection income enjoyed a higher gross profit margin than the gas sales, but the effect on the overall gross profit margin was small because it accounted for only a very small portion of the total revenue of the Transferred Assets.

Tianjin Gas purchases natural gas in bulk from gas producers while the Group purchases natural gas from Tianjin Gas. For the three years ended 31 December 2009 and the six months ended 30 June 2010, the unit price of gas purchased by the Group was higher than the unit price of gas purchased by Tianjin Gas. Thus, the costs of natural gas of the Group was higher and hence, the gross profit margin of the Group was lower than that of the Transferred Assets.

Upon completion of the Proposed Assets Transfer, the Group will purchase natural gas from Tianjin Gas to cater for the gas demand attributable to the Transferred Assets. Due to the reason as mentioned above, the gross profit margin of the Enlarged Group may be lower than the historical gross profit margin of the Transferred Assets in the future.

SUMMARY

Assuming that the Transferred Assets had been purchasing gas at a unit cost that was the same as the unit cost of the existing Group for the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of the Transferred Assets would have become:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
Gas Sales	6.0%	8.6%	9.8%	9.4%	10.9%
Gas Connection	55.7%	51.8%	51.7%	53.4%	58.6%
Overall	7.6%	10.0%	11.0%	10.4%	11.6%

Notes:

(1) The gross profit margin for the Transferred Assets is calculated by dividing the difference of revenue and cost by the turnover extricated from Appendix III to this circular, with the following assumptions and adjustments made to the cost of gas sales:

- the unit cost of gas is adjusted to be the same as the existing Group; and
- gas leakage is assumed to be 3%.

(2) Depreciation is treated as the cost of gas sales in calculating the gross margin.

Average Gas Sales Per User

The following table sets out the unaudited average gas sales for each type of users in relation to the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Domestic Users (per user)	166.6	164.6	163.8	87.4	92.7
Industrial and Commercial Users (per user)	179,123.7	231,640.1	246,207.5	128,566.1	153,967.7

The average gas sales per Domestic User in relation to the Transferred Assets remained relatively stable during each of the three years ended 31 December 2009. On the other hand, the average gas sales per Industrial and Commercial User in relation to the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010 had been in an increasing trend, which was mainly due to the increase in gas sales to Industrial and Commercial Users in each period. The average gas sales per Industrial and Commercial User increased by 29.3% and 6.3%, for the year ended 31 December 2008 and the year ended 31 December 2009, respectively, and by 19.8% for the

SUMMARY

six months ended 30 June 2010 as compared to the corresponding period in 2009. Overall, the Directors consider that the increase in average gas sales per Industrial and Commercial User of the Transferred Assets was due to the increase in gas usage by such users, however, every year the gas usage of each Industrial and Commercial User of the Transferred Assets may vary depending on its nature of business and business development and as such the reason for change in the gas sales of the Industrial and Commercial User of the Transferred Assets varied.

The Transferred Assets has a larger number of Industrial and Commercial Users than the Group and the average gas sales of these Industrial and Commercial Users had been lower than that of the existing Operational Locations of the Group. The Directors reviewed the gas sales data of the major customers of both the Group and the Transferred Assets, however, it would be difficult to generalize the reasons for the lower average gas sales of the Industrial and Commercial Users of the Transferred Assets as the gas usage of each customer varies depending on the nature of business and the business development of each customer.

As for Domestic Users, the Directors noted from the monthly gas usage data of 2009 that the Group's Domestic Users in the existing Operational Locations consumed more natural gas during the winter time compared with the Transferred Assets. Based on the Directors' knowledge and experience in natural gas industry in Tianjin City, the difference in average gas sales per Domestic User between the Group and the Transferred Assets may be due to the reason that some of the existing Operational Locations have not developed centralized heat supply facilities and the customers have to use natural gas to generate heat by themselves during winter.

The Directors currently estimate that the growth rates in Hedong District and Heping District, where the Transferred Assets are located, in each of the six months periods in 2011 and 2012 are expected to be lower than that in the existing Operational Locations as the existing Operational Locations are less urbanized districts with less developed pipeline networks than the urban districts in Tianjin (e.g. Hedong District and Heping District, where the Transferred Assets are located).

BUSINESS STRATEGIES

The Enlarged Group intends to expand its supply of natural gas business through expansion of its gas pipelines network and to maximize the returns for Shares. To achieve the above objectives, the Enlarged Group will pursue the strategies set out below:

- Expansion in existing Operational Locations
- Expansion of the gas pipelines network by acquisition
- Development of piped natural gas operations in Jining City
- Expansion in Binhai New District by capital injection in Binhai Gas, a subsidiary of Tianjin Gas
- Proposed transfer of listing of H Shares of the Company from GEM to the Main Board

For details, please refer to the section headed "Statement of Business Objective" to this circular.

SUMMARY

Future plan of Tianjin Gas

- Restructure the natural gas business via the Proposed JV with China Resources Gas (HK), subject to the formal joint venture agreement and the relevant regulatory and shareholders approval (if necessary)

REASONS FOR AND BENEFITS OF THE PROPOSED ASSETS TRANSFER

The Directors consider that the Group will benefit from the Proposed Assets Transfer. In particular, (i) the Proposed Assets Transfer will significantly increase the operation scale of the Group in terms of number of users and areas of operation; (ii) the Proposed Assets Transfer will broaden and diversify the Group's client base; (iii) the Proposed Assets Transfer will increase the market share of the gas business of the Group in Tianjin; (iv) the Transferred Assets are located in urban districts, where the local pipeline networks and other pipeline-related facilities have been fully developed, thus the Company does not have to inject additional capital to develop the relevant facilities; and (v) the Transferred Assets are profitable assets. Although the Transferred Assets have certain drawbacks such as, being relatively old and enjoyed lower average gas sales per user than that of the Group, overall, the Directors consider the benefits outweigh the drawbacks as the Directors expected that the Proposed Assets Transfer will bring in a substantial amount of stable gas sales income to the Enlarged Group. The Directors estimated that the investment in the Transferred Assets will breakeven in about 8 to 17 years. Besides, after the Proposed Assets Transfer is completed, Tianjin Gas will become the controlling shareholder of the Company (as defined in the GEM Listing Rules). Given the background of Tianjin Gas, the Directors consider that the strengthening of the relationship with Tianjin Gas will assist the Group in consolidating its market position in Tianjin. On the other hand, the Directors expected that the growth rate of the Group's gas connection fee income will inevitably decline as (i) the connection fee income is a one-off income from any single customers by its nature; and (ii) the Operational Locations will become more urbanized in the future and thus, less area is available for further development. The Directors further expected that due to the urbanisation of the Operational Locations, the proportion of the Group's revenue generated from the sales of gas will continue to increase in the future.

The Directors (including the independent non-executive Directors) consider that the Assets Acquisition Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Company after arm's length negotiation, and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR ENTERING INTO THE GAS SUPPLY CONTRACTS

Tianjin Gas is the only wholesale natural gas supplier in the Operational Locations of the Group as well as Heping District and Hedong District and was the largest gas operator in Tianjin for the year 2009. Upon completion of the Assets Acquisition Agreement, the Company will purchase natural gas from Tianjin Gas for selling to the end users in the relevant districts. The Directors expect the Transferred Assets would bring in a new and steady stream of income to the Company and broaden the Company's pipeline networking in Hedong District and Heping District of Tianjin at the same time. The Company has reviewed the gas supply agreement entered into between Tianjin Gas and its customer which is not connected to Tianjin Gas. The Directors are of the view that the terms under the Gas Supply Contracts are not less favourable than the terms provided by Tianjin Gas to its other customers.

SUMMARY

The Directors (including the independent non-executive Directors) consider that the terms of the Gas Supply Contracts were arrived at after arm's length negotiation between the parties. Having considered the abovementioned terms and reasons of entering into the Gas Supply Contracts, the Directors (including the independent non-executive Directors) consider that the Gas Supply Transaction is on normal commercial terms, and is entered into in the ordinary and usual course of business of the Company and that the terms of the Gas Supply Contracts are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Gas Supply Contracts comprise the 2009 Gas Supply Contract, the 2010 Gas Supply Contract and the 2011 Gas Supply Contract, all dated 16 September 2009. The Gas Supply Contracts are conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Contracts, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed. Accordingly, only the 2011 Gas Supply Contract will be tabled in the EGM for consideration by the Independent Shareholders.

COMPETITIVE STRENGTHS

The Directors believe that the Group possesses the following competitive strengths:

The Group possesses a management team with relevant expertise and experience

The executive Directors have years of practical experience in the planning, constructing and maintaining piped gas networks, and solid experience in delivering and marketing urban piped gas supply business in the PRC. The Directors are of the view that the Group possesses highly experienced and competent staff to fulfill its business objectives.

The Group's piped gas business is an industry encouraged by the PRC Government pursuant to its environmental protection policy

The PRC government has encouraged the use of more environmentally friendly forms of fuel such as natural gas to reduce air pollution and environmental damages caused by the combustion of coal, the traditional primary energy source in the PRC. In order to improve the pollution problem in Tianjin City, the Tianjin Municipal Government encourages the use of natural gas in the urban areas of Tianjin City. The Group is, therefore, able to benefit from the relevant environmental protection policies that encourage the use of natural gas.

The Group is well-positioned to capture the expanding piped gas market

The Directors believe that the Group's gas supply business in the Operational Locations in Tianjin City and in Jining City will experience substantial growth in the coming years.

SUMMARY

According to the “Forwarded Notice Regarding Views on Arrangement of Key Construction Projects of Tianjin City in 2009 (Jin Zheng Ban Fa (2009) No. 28) by the Municipal Development and Reform Commission and the Municipal Construction Committee” (轉發市發展改革委市建委關於我市2009年重點建設項目安排意見的通知津政辦發(2009)28號) issued by the Office of the Municipal Government in Tianjin (天津市人民政府辦公廳) on 10 March 2009, there are 11 ongoing property construction or infrastructure projects in the existing Operational Locations, Heping District and Hedong District, with a total investment of over RMB56 billion. Those projects are expected to be completed in 2010, 2011 or 2012 and are considered to be favourable to the development of the gas connection business in Tianjin City.

Furthermore, as stated in the working report issued by the Jining City Government in 2010, the government planned to accelerate the completion of the RMB4.0 billion infrastructure projects in Jining City, including but not limited to, continuation of construction of natural gas network and gas connection to properties and construction of new residential properties of an area of approximately 1,200,000 sq.m. in 2010.

For further details of the industry trend of the Group’s business, please refer to the section headed “Industry Overview” of this circular.

Pursuant to the Rules of Urban Gas Enterprise Administration in Tianjin (天津市燃氣管理條例) promulgated by the Committee of the People’s Congress of Tianjin (天津市人大委員會) on 22 October 1997 and subsequently amended on 24 May 2005, all new residential developments are required to have piped gas connections, which provides substantial opportunities to the Group.

The Group has an established track record of being a safe and reliable gas supply service provider

There has been no accident in connection with the Group’s business that has resulted in serious human injury or death since the Group commenced operations in 1998. The Group has the reputation as a safe and reliable gas supply service provider.

RISK FACTORS

RISKS RELATING TO THE TRANSACTION

- No assurance that the Proposed Assets Transfer will be completed

RISKS RELATING TO THE ENLARGED GROUP

- The decline in gross profit margin
- The financial information of the Transferred Assets is limited and unaudited and may not be indicative to the future profitability of the Enlarged Group
- The business, results of operations and financial condition of the Enlarged Group depend in large part on the relationship with Tianjin Gas

SUMMARY

- Reliance on specific areas and limitation on expansion of business area
- Credit risk and accounts receivable concentration of debtors of the Group
- The income generated from the Group's new revenue stream may not reach to a certain level that the Group expected
- Reliance on property development of regions where the Enlarged Group operates in
- Reliance on key management
- Changes in local policy in relation to special operating agreement
- The shareholding dilution of the existing Shareholders in the Company
- The controlling shareholder, Tianjin Gas, will have substantial influence over the Company
- The Company's capability to manage the Enlarged Group
- Price of piped natural gas are restricted by the relevant local commodity price bureau
- Seasonality of the business
- Reliance on major customers
- Competition with Tianjin Gas
- Limited insurance coverage
- The global financial markets have experienced significant deterioration and volatility recently, which may adversely affect business operations of the Enlarged Group

RISKS RELATING TO THE INDUSTRY

- Substitute products
- Operating in highly regulated industry
- Finite natural gas reserves in the PRC

RISKS RELATING TO THE PRC

- Changes in laws, regulations and policies
- Changes in foreign exchange regulations

SUMMARY

- Payment of dividends is subject to restrictions under PRC law
- The implementation of the PRC Labor Contract Law and the Implementation Regulation for the PRC Labor Contract Law may increase operating expenses of the Group and may adversely affect business and results of operations
- It may be difficult to enforce any judgments obtained from non-PRC courts against the Company or Directors, Supervisors or senior executives officers residing in the PRC
- Different regulatory framework
- Tax system in the PRC
- There may be an occurrence of a widespread public health problem

GENERAL

Kingsway has been appointed as the Sponsor in respect of the new listing application of the Company.

TC Capital Asia Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee, to the Whitewash Independent Board Committee and the Independent Shareholders in connection with the terms of the Proposed Assets Transfer, proposed grant of the specific mandate to issue Shares and Gas Supply Transaction (including the related proposed cap). It will also advise the Whitewash Independent Board Committee on the fairness and reasonableness of the Proposed Assets Transfer contemplated in the Whitewash Waiver.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES

Under the Assets Acquisition Agreement, the Company will issue, in aggregate, 689,707,800 Domestic Shares as the Consideration Shares to Tianjin Gas. The Company will seek the grant of a specific mandate from the Independent Shareholders at the EGM and Class Meetings to allot and issue new Domestic Shares to satisfy the allotment.

PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Subject to completion of the Assets Acquisition Agreement, the Directors have proposed to amend the Articles of Association to reflect the increase in the registered capital of the Company and the increase in the number of Domestic Shares of the Company.

In light of the proposed appointment of an additional independent non-executive Director, the Board has proposed to amend Article 88 of the Articles of Association which provides, inter alia, that the Board shall comprise of nine Directors to the effect that the Board shall comprise of ten Directors.

SUMMARY

PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

The Board has nominated Mr. Tam Tak Kei, Raymond for election as an additional independent non-executive Director at the EGM. The particulars of Mr. Tam, which are required to be disclosed pursuant to the GEM Listing Rules, are set out in Appendix VII to this circular.

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Shares, and the Gas Supply Transaction (including the related proposed annual cap), as well as the advice and recommendations of the Independent Financial Adviser set out in the section headed “Letter from the Independent Financial Adviser” of this circular, considers that the terms of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue new Domestic Shares, and the Gas Supply Transaction (including the related proposed annual cap) are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Gas Supply Transaction is on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM and the Class Meetings (where applicable) to approve, among other things, the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Domestic Shares, and the Gas Supply Transaction (including the related proposed annual cap). The “Letter from the Independent Board Committee” is set out on pages 90 to 91 of this circular and the “Letter from the Independent Financial Adviser” is set out on pages 94 to 119 of this circular.

The Whitewash Independent Board Committee, having considered the terms of the Proposed Assets Transfer and the Whitewash Waiver, as well as the advice and recommendations of the Independent Financial Adviser set out in the section headed “Letter from the Independent Financial Adviser” of this circular, considers that the terms of the Proposed Assets Transfer and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Whitewash Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM and the Class Meetings to approve, among other things, the Whitewash Waiver. The “Letter from the Whitewash Independent Board Committee” is set out on pages 92 to 93 of this circular and the “Letter from the Independent Financial Adviser” is set out on pages 94 to 119 of this circular.

On the basis of the information set out in this circular, the Directors (including members of the Independent Board Committee and of the Whitewash Independent Board Committee) consider that the passing of the resolutions for (1) the Proposed Assets Transfer, (2) the proposed grant of the specific mandate to issue Domestic Shares, (3) the Whitewash Waiver, (4) the Gas Supply Transaction (including the related proposed annual cap), (5) the proposed amendment on the Articles of Association, and (6) the appointment of Mr. Tam Tak Kei, Raymond as an independent non-executive Director, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend that the Shareholders vote in favour of the resolutions set out in the EGM and the Class Meetings at the end of this circular.

DEFINITIONS

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

“2007 Pipeline Design Agreement”	the pipeline design agreement dated 15 June 2007 and entered into between Design Institute and the Company in respect of provision of pipeline design service by Design Institute to the Company for the three years ended 31 December 2009
“2009 Gas Supply Contract”	the conditional gas supply contract dated 16 September 2009 and entered into between Tianjin Gas and the Company in respect of the supply of natural gas by Tianjin Gas to the Company for the Transferred Assets for the period from the completion of the Proposed Assets Transfer to 31 December 2009. As the 2009 Gas Supply Contract is conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders, the 2009 Gas Supply Contract has lapsed
“2010 Gas Supply Contract”	the conditional gas supply contract dated 16 September 2009 and entered into between Tianjin Gas and the Company in respect of the supply of natural gas by Tianjin Gas to the Company for the Transferred Assets for the 12 months ending 31 December 2010. As the 2010 Gas Supply Contract is conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders, the 2010 Gas Supply Contract has lapsed
“2010 Pipeline Design Agreement”	the pipeline design agreement dated 27 October 2009 and entered into between the Company and Design Institute in respect of provision of pipeline design service by Design Institute to the Company for the three years ending 31 December 2012
“2011 Gas Supply Contract”	the conditional gas supply contract dated 16 September 2009 and entered into between Tianjin Gas and the Company in respect of the supply of natural gas by Tianjin Gas to the Company for the Transferred Assets for the 12 months ending 31 December 2011
“Announcement”	the announcement of the Company dated 5 October 2009 in relation to, inter alia, the Proposed Assets Transfer and application for Whitewash Waiver
“Articles of Association”	the articles of association of the Company
“Assets Acquisition Agreement”	the conditional assets acquisition agreement dated 16 September 2009 and entered into between the Company being the purchaser and Tianjin Gas being the vendor in respect of the acquisition of the Transferred Assets by the Company from Tianjin Gas as amended and supplemented by the Supplemental Agreement

DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Beihuan Pipeline”	high pressure gas pipeline under construction extending from the cross point of Dong Jin Road (東金路) and Yang Bei Road (楊北公路) in Dongli District (東麗區), Tianjin to the cross point of Xin Gang No.8 Road (新港八號路) and Yue Jin Road (躍進路) in Tanggu District (塘沽區), Tianjin, measuring approximately 29 km
“Beihuan Pipeline Project”	the construction of Beihuan Pipeline
“Binhai Gas”	天津市濱海燃氣有限公司 (Tianjin Binhai Gas Limited*), a company incorporated with limited liability on 24 October 2005 in the PRC and owned as to 30.55% by the Company, as to 41.67% by Tianjin Gas and as to 27.78% by Tianjin Infrastructure
“Binhai New District”	a new district in Tianjin located along the eastern sea coast of Tianjin which covers an area of approximately 2,270 km ² and according to the website of the Tianjin Municipal People’s Government as at 26 November 2010, comprised Tanggu District, Hangu District, Dagang District, Tianjin Economic and Technology Development Zone (天津經濟技術開發區), Bonded Zone of Tianjin Port (天津港保稅區), Tianjin Port (天津港), part of Dongli District and part of Jinnan District.
“Business Day(s)”	Monday to Friday (excluding public holiday(s))
“Board”	the board of Directors
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China Resources Gas (HK)”	China Resources Gas (Hong Kong) Investment Limited (華潤燃氣(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of China Resources Gas Group Limited, which is a company incorporated in Bermuda with limited liability and the shares of which are listed and traded on the main board of the Stock Exchange (Stock Code: 01193)
“Class Meetings”	the H Shares Class Meeting and Domestic Shares Class Meeting to consider and approve, inter alia, the Assets Acquisition Agreement and the Whitewash Waiver
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

* for identification purpose only

DEFINITIONS

“Company”	天津天聯公用事業股份有限公司 (Tianjin Tianlian Public Utilities Company Limited*), whose H Shares are listed and traded on GEM (Stock Code: 08290)
“Company Law” or “PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法) adopted at the Fifth Session of the Standing Committee of the Eighth National People’s Congress on 29 December 1993, which became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“Concession Measures”	the Municipal Utility Concession Administrative Measures (《市政公用事業特許經營管理辦法》) issued by the Ministry of Construction of the PRC in May 2004
“Conditions Precedent”	the conditions precedent to the completion of Assets Acquisition Agreement as set out in the Assets Acquisition Agreement as amended by the Supplemental Agreement
“Consideration Shares”	the 689,707,800 Domestic Shares to be issued to Tianjin Gas to satisfy the consideration under the Assets Acquisition Agreement
“Cooperation Agreement”	the cooperation agreement dated 28 June 2010 signed between Tianjin Gas and China Resources Gas (HK)
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission*)
“Design Institute”	天津市煤氣工程設計院 (Tianjin Gas Engineering Design Institute*), a wholly owned subsidiary of Tianjin Gas
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary domestic share(s) of nominal value of RMB0.10 each in the registered capital of the Company which are subscribed for in RMB
“Domestic Shares Class Meeting”	the class meeting of the holders of Domestic Shares to be held on 15 February 2011 to consider and approve, inter alia, the Assets Acquisition Agreement and the Whitewash Waiver
“Domestic Users”	common domestic users of piped gas
“EGM”	the extraordinary general meeting of the Company for the Shareholders to be held on 15 February 2011 to consider and approve, inter alia, the Assets Acquisition Agreement, the 2011 Gas Supply Contract, the Whitewash Waiver, and related transactions

* for identification purpose only

DEFINITIONS

“Enlarged Group”	the Group and the Transferred Assets
“Entrusted Construction Agreement”	the entrusted construction agreement dated 6 October 2008 and entered into between the Company and Tianjin Gas in relation to the Entrusted Construction
“Entrusted Construction”	the entrustment of Tianjin Gas by the Company to construct the Entrusted Projects
“Entrusted Projects”	the two construction projects, namely the Beihuan Pipeline Project and the Gangnan Distribution Project entrusted to Tianjin Gas by the Company
“Executive”	the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or his delegates
“First Sales Branch”	天津市燃氣集團有限公司第一銷售分公司 (First Sales Branch of Tianjin Gas Group Company Limited*), a branch of Tianjin Gas
“Gangnan Pipeline”	high pressure gas pipeline extending from Dazhangtuo (大張坨) underground gas storage exit in Dagang District (大港區), Tianjin connected to the cross point of Hangang Highway (漢港公路) and Jingu Highway (津沽公路) of Bin Hai Zhong You Gas Pipeline (濱海中油輸氣管線) in Jinnan District (津南區), Tianjin, measuring approximately 22 km
“Gangnan Distribution Project”	the construction of Gangnan Pipeline
“Gas Purchase Agreements”	three sets of gas purchase agreements all dated 27 October 2009 in respect of renewal of the supply of natural gas by Tianjin Gas to the Group for the period from 1 January 2010 to 31 December 2010, 1 January 2011 to 31 December 2011, and 1 January 2012 to 31 December 2012 to cover the gas demand for the Group’s current operation and are independent from the Gas Supply Contracts
“Gas Supply Contracts”	the 2009 Gas Supply Contract, the 2010 Gas Supply Contract and the 2011 Gas Supply Contract
“Gas Supply Transaction”	the proposed sale and purchase of natural gas between Tianjin Gas as vendor and the Company as purchaser under the 2011 Gas Supply Contract
“Gas Transportation Contract”	the natural gas transportation contract dated 2 July 2009 and entered into between Tianjin Gas and the Company

* for identification purpose only

DEFINITIONS

“Gas Transportation Fee(s)”	the natural gas transportation fee(s) payable by Tianjin Gas to the Company pursuant to the Gas Transportation Contract
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guangxi Zhuang Autonomous Region”	廣西壯族自治區 (Guangxi Zhuang Autonomous Region*), an autonomous region located in the southwest of the PRC
“Guizhou Mining”	貴州津維礦業投資有限公司 (Guizhou Jinwei Mining Investment Company Limited*), a limited liability company established in the PRC on 23 July 2008 and an associated company of the Group
“Hangu Assets”	part of the fixed assets (including pipe network, machinery equipment and ancillary facilities of pipe network) of Hangu Sales Office purchased by the Company from Tianjin Gas under the Hangu, Ninghe and Xiqing Assets Transfer Agreement
“Hangu District”	漢沽區 (Hangu District*), located in Tianjin, the PRC
“Hangu, Ninghe and Xiqing Assets Transfer Agreement”	the asset transfer agreement dated 6 June 2008 and entered into between the Company being the purchaser and Tianjin Gas being the vendor in respect of the disposal of the Hangu Assets, Ninghe Assets and Xiqing Assets II by Tianjin Gas to the Company
“Hangu Sales Office”	天津市燃氣集團有限公司第三銷售分公司漢沽營業所 (Hangu Sales Office of Third Sales Branch of Tianjin Gas*), a sales office of Tianjin Gas
“Hedong District”	河東區 (Hedong District*), located in Tianjin, the PRC
“Hedong District Sales Offices”	天津市燃氣集團有限公司第一銷售分公司河東營業所 (Hedong District Sales Offices of First Sales Branch of Tianjin Gas*), a sales office of Tianjin Gas
“Heping District”	和平區 (Heping District*), located in Tianjin, the PRC
“Heping District Sales Offices”	天津市燃氣集團有限公司第一銷售分公司和平營業所 (Heping District Sales Offices of First Sales Branch of Tianjin Gas*), a sales office of Tianjin Gas
“Hexi District”	河西區 (Hexi District*), located in Tianjin, the PRC

* for identification purpose only

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign invested share(s) of nominal value of RMB0.10 each in the share capital of the Company, which are listed on GEM and subscribed for and traded in HK\$
“H Shares Class Meeting”	the class meeting of the holders of H Shares to be held on 15 February 2011 to consider and approve, inter alia, the Assets Acquisition Agreement and the Whitewash Waiver
“Independent Board Committee”	an independent board committee of the Board comprising all independent non-executive Directors, namely Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric
“Independent Financial Adviser”	TC Capital Asia Limited, the independent financial adviser to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders and a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
“Independent Shareholders”	Shareholders other than (i) Tianjin Gas and its concert parties, its subsidiaries and their respective associates; and (ii) Shareholders who are involved in or interested in the transaction contemplated in the Assets Acquisition Agreement, the 2011 Gas Supply Contract and the Whitewash Waiver
“Independent Third Party”	a party who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules)
“Industrial and Commercial Users”	industrial and commercial users of piped gas including enterprises, institutions and governmental authorities
“Inner Mongolia Autonomous Region”	內蒙古自治區 (Inner Mongolia Autonomous Region*), an autonomous region located in the north of the PRC
“Jining Branch”	天津天聯公用事業股份有限公司集寧分公司 (Jining Branch Office of Tianjin Tianlian Public Utilities Company Limited*), a branch office of the Company established in Jining City, the PRC on 12 November 2002

* for identification purpose only

DEFINITIONS

“Jining City”	集寧市 (Jining City*), a city situated in the central-west region of Inner Mongolia Autonomous Region
“Jining Company”	烏盟乾生天聯公用事業有限責任公司 (Kin Sang Tianlian Public Utilities Company Limited*), a limited liability company established in the PRC on 2 January 2003 and owned as to 60% by the Company and as to 40% by Kin Sang Company Limited (烏盟乾生實業有限責任公司). Jining Company was under de-registration process as at the Latest Practicable Date
“Jining Project”	the provision of piped gas by the Group in Jining City as described under the section headed “Business of the Group” in this circular
“Jinnan District”	津南區 (Jinnan District*), located in Tianjin, the PRC
“Kingsway”	Kingsway Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities as defined in Schedule 5 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the financial adviser to the Company and sponsor to the new listing application of the Company
“Last Trading Day”	16 September 2009, being the last trading day on which the H Shares were traded on the Stock Exchange prior to suspension of trading in the H Shares pending the publication of the Announcement
“Latest Practicable Date”	28 December 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Leason Investment”	Tianjin Leason Investment Group Company Limited (天津市聯盛投資集團有限公司*), a Promoter
“Main Board”	the stock market operated by the Stock Exchange in parallel with GEM, for the avoidance of doubt, the Main Board excludes GEM
“Mandatory Provisions”	到境外上市公司章程必備條款 (the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas*), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former PRC Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems of the PRC on 27 August 1994
“Ms. Liang”	Ms. Liang Jing Qi, a Promoter
“Ms. Tang”	Ms. Tang Jie, a Promoter and an executive Director

* for identification purpose only

DEFINITIONS

“Ninghe Assets”	part of the fixed assets (including pipe network, machinery equipment and ancillary facilities of pipe network) of Ninghe Sales Office purchased by the Company from Tianjin Gas under the Hangu, Ninghe and Xiqing Assets Transfer Agreement
“Ninghe County”	寧河縣 (Ninghe County*), located in Tianjin, the PRC
“Ninghe Sales Office”	天津市燃氣集團有限公司第三銷售分公司寧河營業所 (Ninghe Sales Office of Third Sales Branch of Tianjin Gas*), a sales office of Tianjin Gas
“NSSF”	全國社會保障基金理事會 (National Social Security Fund Council of the PRC*)
“Operational Location(s)”	location(s) in the PRC where any member of the Group operates the provision of piped gas business, which as at the Latest Practicable Date, included locations in Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區), Ninghe County (寧河縣) in Tianjin City and Jining City where the pipelines of the Group are connected with customers’ pipelines, and after completion of the Assets Acquisition Agreement, will also include locations in Heping District and Hedong District in Tianjin City where the gas supplied to the users are connected through the Transferred Assets
“Placing”	the placing of 170,060,000 H Shares by the Company to certain Independent Third Parties in March 2008
“PRC” or “China”	the People’s Republic of China which, for the purposes of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s of Republic of China and Taiwan
“PRC Legal Adviser”	J. D. Hands Law Firm, the PRC legal adviser to the Company
“PRC Valuer”	Tianjin Huaxia Jinxin Assets Appraisal Limited* (天津華夏金信資產評估有限公司), an Independent Third Party and a firm with asset valuation qualification in the PRC
“Promoter(s)”	Leason Investment, Tianjin Beacon, Tianjin Gas, Ms. Tang and Ms. Liang, all of them being promoters of the Company
“Proposed Assets Transfer”	the proposed transfer of the Transferred Assets from Tianjin Gas to the Company as contemplated under the Assets Acquisition Agreement
“Proposed JV”	the proposed joint venture company (tentative name: 津燃華潤燃氣有限公司) intended to be established in the PRC by Tianjin Gas and China Resources Gas (HK) contemplated under the Cooperation Agreement

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DEFINITIONS

“RMB”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Sub-division”	the sub-division of the domestic shares in issue from one domestic share of the Company of par value RMB1.00 each to ten domestic shares of par value RMB0.10 each as approved by the Shareholders on 28 August 2002
“Share(s)”	shares of the Company, including Domestic Share(s) and H Share(s), unless specified otherwise
“Shareholder(s)”	holder(s) of Share(s)
“Special Regulations”	國務院關於股份有限公司境外募集股份及上市的特別規定 (the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies*) promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
“Sponsor” or “Financial Adviser”	Kingsway
“State” or “PRC Government”	the government of the PRC
“State-owned Shares Reduction Measures”	減持國有股籌集社會保障資金管理暫行辦法 (the Provisional Measures on Administration of the Reduction of State-owned Shares for Raising Social Security Funds*) promulgated by the State Council on 12 June 2001
“State Council”	中華人民共和國國務院 (the State Council of the PRC*)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Supplemental Agreement”	A supplemental agreement dated 28 December 2010 entered into between the Company and Tianjin Gas to amend and supplement certain terms of the Assets Acquisition Agreement

* for identification purpose only

DEFINITIONS

“Supplemental Non-Competition Agreement”	A supplemental agreement dated 28 December 2010 entered into between the Company and Tianjin Gas to amend and supplement certain terms of the non-competition agreement dated 9 December 2003 entered into between the Company and Tianjin Gas
“Takeovers Code”	Code on Takeovers and Mergers
“Third Sales Branch”	天津市燃氣集團有限公司第三銷售分公司 (Third Sales Branch of Tianjin Gas Group Company Limited*), a branch of Tianjin Gas
“Tianjin Beacon”	天津燈塔塗料有限公司 (Tianjin Beacon Coatings Co., Ltd*), formerly known as Tianjin Tsinlien Investment & Trade Company Limited (天津津聯投資貿易有限公司), a State-owned company established under the laws of the PRC with limited liability, which held 10.27% of the issued share capital of the Company as at the Latest Practicable Date. It is ultimately owned by the Tianjin Municipal Government. Its principal activities are investment holding and management of invested companies and associates, wholesale and retail of a variety of commodity goods and import and export of commodity and technology goods
“Tianjin Gas”	天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited*), a State-owned enterprise established in the PRC with limited liability and owned by the Tianjin Municipal Government
“Tianjin Infrastructure”	天津市公用基礎設施建設公司 (Tianjin Public Infrastructure Construction Company*), a State-owned enterprise established in the PRC, and a wholly-owned subsidiary of Tianjin Gas
“Tianjin Investment”	天津天聯投資有限公司 (Tianjin Tianlian Investment Company Limited*), a limited liability company established in the PRC on 25 January 2008 and wholly-owned by the Company
“Tianlian Company”	天津市天聯天然氣有限公司 (Tianjin Tianlian Gas Company Limited*), a limited company incorporated in the PRC on 16 December 1998 and was converted into a joint stock limited company and whose name was changed to the Company’s present name 天津天聯公用事業股份有限公司 (Tianjin Tianlian Public Utilities Company Limited*) with effect from 29 December 2001
“Track Record Period”	the three financial years ended 31 December 2009 and the six months ended 30 June 2010

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DEFINITIONS

“Transferred Assets”	part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 km, domestic pipelines connected to approximately 360,000 users, the related machinery and electronic equipment and 40 vehicles, particulars of which are set out in the Assets Acquisition Agreement
“Transmission Branch”	天津市燃氣集團有限公司輸配分公司 (Transmission Branch of Tianjin Gas Group Company Limited*), a branch of Tianjin Gas
“Valuation Report”	a valuation report on the Transferred Assets dated 30 September 2010 issued by the Valuer
“Valuer”	Asset Appraisal Limited, an independent firm of qualified valuers who are members of The Hong Kong Institute of Surveyors
“Wanshun Real Estate”	天津市萬順置業有限公司 (Tianjin Wanshun Real Estate Company Limited*), a limited liability company established in the PRC on 30 July 2001 and a substantial shareholder of the Company
“Whitewash Independent Board Committee”	an independent board committee of the Board comprising a non-executive Director, namely Mr. Gong Jing, and three independent non-executive Directors, namely Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric, who have no direct and indirect interest in the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver
“Whitewash Waiver”	a waiver from the obligation of Tianjin Gas and its concert parties to make a mandatory offer under Rule 26 of the Takeovers Code pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code as a result of the allotment and issue of the Consideration Shares
“Xiao Hai Di”	小海地 (Xiao Hai Di*), located in Hexi District
“Xiqing Assets I”	part of fixed assets (including structures, pipe network, machinery equipment, electronic equipment and vehicles) of Xiqing Sales Office purchased by the Company from Tianjin Gas under the Xiqing Asset I Transfer Agreement
“Xiqing Assets II”	part of the fixed assets (including pipe network, machinery equipment and ancillary facilities of pipe network) of Xiqing Sales Office purchased by the Company from Tianjin Gas under the Hangu, Ninghe and Xiqing Assets Transfer Agreement

* for identification purpose only

DEFINITIONS

“Xiqing Asset I Transfer Agreement”	the asset transfer agreement dated 27 September 2006 and entered into between the Company being the purchaser and Tianjin Gas being the vendor in respect of the disposal of Xiqing Assets I by Tianjin Gas to the Company
“Xiqing Sales Office”	天津市燃氣集團有限公司第三銷售分公司西青營業所 (Xiqing Sales Office of Third Sales Branch of Tianjin Gas*), a sales office of Tianjin Gas
“%”	percentage
“kg”	kilogram
“km”	kilometer
“km ² ” or “sq.km”	square kilometer
“m”	metre
“m ² ” or “sq.m.”	square metre
“m ³ ”	cubic metre
“sq.ft.”	square feet

In this circular, the English names of the PRC entities or enterprises are translation of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding then.

For the purpose of this circular, translations of RMB into Hong Kong dollars is made for illustration purpose only at the exchange rate of HK\$1 to RMB0.88 for illustration purpose only. Such conversion shall not be construed as representations that amounts in Renminbi were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.

** for identification purpose only*

GLOSSARY

In this circular, the following words and expressions have the following meanings:

“butane”	a hydrocarbon gas (碳氢氣) that is found in natural gas or refined from crude oil
“branch pipeline(s)”	pipelines which are laid underneath roads or streets connecting pressure regulating stations with customers’ pipelines
“compressed natural gas” or “CNG”	natural gas that is compressed to high density through imposing high-pressure to facilitate the ease and efficiency of transportation
“customers’ pipeline(s)”	pipelines which are connecting pressure regulating stations or branch pipelines with the customers’ gas appliances
“GDP”	gross domestic product
“heat content”	the amount of energy released when certain fuel is being burnt, which is measured in unit of joule
“joule”	measurement unit of heat content per unit of fuel
“LNG” or “liquefied natural gas”	natural gas which is converted into liquid form through application of high pressure and cooling
“LPG”	liquefied petroleum gas, being petroleum gas composed primarily of propane (丙烷) and butane (丁烷), which is converted into liquid form through application of high pressure and cooling. LPG is a by-product of oil extraction and refining operations
“main pipeline(s)”	pipeline(s) laid underneath major roads or streets connecting a gas source with pressure regulating stations
“methane”	methane (甲烷) — meth — CH ₄ is a colorless, flammable, nontoxic gas with a sweet, oil type odor. It is one of the raw materials used in the production of ethanol (乙醇), methyl chloride (氯甲烷), methylene chloride (二氯甲烷), and is also used to produce ammonia and acetylene. High purity methane is burned to form a high quality carbon black which is used in a variety of electronic components. The chief source of methane is natural gas, which contains from 50 to 90 percent methane, depending on the source. Other valuable chemicals derived from methane include methanol (甲醇), chloroform (氯仿), carbon tetrachloride (四氯化碳), and nitromethane (硝基甲烷)

GLOSSARY

“natural gas”	a fossil fuel with a combustible mixture of hydrocarbon compounds composed primarily of methane, but also containing small amounts of other gases including ethane (乙烷), propane (丙烷), butane (丁烷) and pentane (戊烷), and usually found in deep underground reservoirs formed by porous rocks
“piped gas”	gas transmitted to end users through pipelines and “piped natural gas” shall be constructed accordingly
“propane”	a hydrocarbon gas that is found in natural gas or refined from crude oil. It has a boiling point of minus 43.8 degrees Fahrenheit and is used for heating and industrial applications
“watt”	measurement unit of electrical power

CORPORATE INFORMATION

Registered address in the PRC	Weishan Road Chang Qing Science Industry and Trade Park Jinnan District Tianjin PRC
Headquarter and principal place of business in the PRC	Floor 9, Gangao Tower 18 Zhengzhou Road He Ping District, Tianjin PRC
Principal place of business in Hong Kong	1004, Wing On Plaza Mody Road Tsim Sha Tsui Kowloon Hong Kong
Website	http://www.hklistco.com/8290
Company secretary	Mr. Kwok Shun Tim, <i>CPA, ACCA MSC LLM</i>
Qualified accountant	Mr. Kwok Shun Tim, <i>CPA, ACCA MSC LLM</i>
Compliance officer	Mr. Jin Jian Ping
Authorised representatives	Mr. Dong Hui Qiang Room 902, 2nd Door Block 1 Xinliju Xinwenhua Garden Fuan Avenue Heping District Tianjin, PRC Mr. Kwok Shun Tim 1004, Wing On Plaza Mody Road Tsim Sha Tsui Kowloon, Hong Kong
Members of audit committee	Professor Zhang Yu Li (<i>Chairman</i>) Mr. Luo Wei Kun Mr. Chan Shun Kuen, Eric

CORPORATE INFORMATION

Members of remuneration committee	Mr. Sun Bo Quan (<i>Chairman</i>) Mr. Luo Wei Kun Mr. Chan Shun Kuen, Eric
Principal bankers	Agricultural Bank of China Tianjin Gang Ao Sub-branch PRC Industrial Bank Co., Ltd Tianjin He Xi Sub-branch PRC
Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited 17M/F Hopewell Centre 183 Queen's Road East, Hong Kong

DIRECTORS

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Jin Jian Ping	Room 401, 3rd Door Block 3 Shuxiangyuan Wandezhuang Avenue Nankai District Tianjin, PRC	Chinese
Mr. Dong Hui Qiang	Room 902, 2nd Door Block 1 Xinliju Xinwenhua Garden Fuan Avenue Heping District Tianjin, PRC	Chinese
Mr. Bai Shao Liang	No. 14, Wenxing Lane North Dagu Road Heping District Tianjin, PRC	Chinese
Ms. Tang Jie	401, Block 25 Senmiao Apartment Pingshan Road Hexi District Tianjin, PRC	Chinese

DIRECTORS

Name	Address	Nationality
<i>Non-executive Director</i>		
Mr. Sun Bo Quan (<i>Chairman</i>)	Room 804, 1st Door Pujiang Building Pukou Road Hexi District Tianjin, PRC	Chinese
Mr. Gong Jing	No. 8 Fusheng East Lane Main Street Taoyuan Village Tianjin, PRC	Chinese
<i>Independent non-executive Directors</i>		
Professor Zhang Yu Li	Room 105, 2nd Door Block 12, Xinan Estate Nankai University Nankai District Tianjin, PRC	Chinese
Mr. Luo Wei Kun	Room 404, 1st Door No.8 Huaiqing Lane 2nd Road of Nankai District Tianjin, PRC	Chinese
Mr. Chan Shun Kuen, Eric	Room 2013, Pok Chi House Pok Hong Estate Shatin, Hong Kong	Chinese

PARTIES INVOLVED

Sponsor and Financial Adviser	Kingsway Capital Limited 5/F, Hutchison House 10 Harcourt Road Central Hong Kong
Legal advisers to the Company	As to Hong Kong law: Loong & Yeung Suites 2001-2005, 20th Floor Jardine House 1 Connaught Place Central, Hong Kong As to the PRC law: J.D. Hands Law Firm A1009-1010 ICTC 59 Machang Road, Hexi District Tianjin 300203 PRC
Auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35/F, One Pacific Place 88 Queensway Hong Kong
Property valuer	Asset Appraisal Limited Room 802, 8/F On Hong Commercial Building 145 Hennessy Road Wanchai, Hong Kong
Independent Financial Adviser to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders	TC Capital Asia Limited Suite 1904, 19/F Tower 6, The Gateway Harbour City Kowloon, Hong Kong
Compliance Adviser	Kingsway Capital Limited 5/F, Hutchison House 10 Harcourt Road Central Hong Kong

STATEMENT OF BUSINESS OBJECTIVE

The principal objectives of the Enlarged Group are to expand its supply of natural gas business through expansion of its gas pipelines network and to maximize the returns for Shareholders. To achieve these objectives, the Enlarged Group will pursue the strategies set out below.

Expansion in existing Operational Locations

The Enlarged Group will continue to supply piped natural gas to the existing Operational Locations in Tianjin City, namely, locations in Xiao Hai Di of Hexi District, part of Jinnan District, Xiqing District, Hangu District and Ninghe County in Tianjin City. The Enlarged Group will aim at expansion by constructing new pipelines and connecting to more users in the existing Operational Locations.

Expansion of the gas pipelines network by acquisition

The Enlarged Group will seek to expand its gas pipelines network by mergers and acquisitions, if suitable assets (including but not limited to those assets owned by Tianjin Gas) or suitable targets are identified.

On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company has agreed to acquire the Transferred Assets. The Transferred Assets consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users as at 30 June 2010, and the related machinery and electronic equipment and 40 vehicles.

Upon completion of the Proposed Assets Transfer, the Transferred Assets will be owned by the Enlarged Group. The Enlarged Group will provide piped gas to the users connected by the Transferred Assets.

The Directors currently estimate that the growth rates in Hedong District and Heping District, where the Transferred Assets are located, in each of the six months periods in 2011 and 2012 are expected to be lower than that in the existing Operational Locations as the existing Operational Locations are less urbanized districts with less developed pipeline networks than the urban districts in Tianjin (i.e. Hedong District and Heping District where the Transferred Assets are located).

Development of piped natural gas operations in Jining City

Apart from its natural gas operation in Tianjin City, the Group will also continue to explore and develop its natural gas operation in Jining City.

As Jining City is located in northern China, higher consumption rate of fuel is needed to maintain normal living under the cold weather. Therefore, the Group expects that the amount of natural gas consumption for domestic and industrial use will rise at a fast pace. For each of three years ended 31 December 2009 and the six months ended 30 June 2010, the Group had approximately 270, 420, 750 and 1,360 users, respectively, in Jining City, and the revenue generated for the same periods amounted to approximately RMB3.3 million, RMB1.5 million, RMB9.3 million and RMB3.9 million respectively, represented 1.8%, 0.7%, 2.9% and 2.4% of the Group's revenue in the corresponding periods.

STATEMENT OF BUSINESS OBJECTIVE

In view of the increasing trend of the revenue generated from Jining Branch in the past, the Directors expect that the number of new connections will be approximately 3,000 users and 6,000 users respectively for the two years ending 31 December 2012.

Expansion in Binhai New District by capital injection in Binhai Gas, a subsidiary of Tianjin Gas

The Company has entrusted Tianjin Gas to construct the Gangnan Pipeline and the Beihuan Pipeline, which are high pressure gas pipelines in Tianjin City for transporting gas to Binhai New District. The Gangnan Distribution Project was completed in May 2009 while the Beihuan Pipeline Project is still under construction. The Beihuan Pipeline Project is expected to be completed in early 2011.

On 2 July 2009, the Company entered into the Gas Transportation Contract with Tianjin Gas, pursuant to which the Company agreed to allow Tianjin Gas to transmit natural gas to gas operators and end users via the Gangnan Pipeline and the Beihuan Pipeline owned and managed by the Company. In return, Tianjin Gas agreed to pay to the Company the Gas Transportation Fees. For further details of the Gas Transportation Contract, please refer to the section headed “Connected Transactions” of the circular. The Group commenced the provision of gas transportation services in 2009, and the actual gas transportation fees received by the Group was approximately RMB2.5 million and RMB2.6 million for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Tianjin Gas is the controlling shareholder of Binhai Gas. Binhai Gas is a company engaged in the sales and distribution of natural gas in Binhai New District, Tianjin City. As at the Latest Practicable Date, the Company had 30.55% of equity interests in Binhai Gas whilst Tianjin Gas and Tianjin Infrastructure had 41.67% and 27.78% of equity interests in Binhai Gas respectively. As Tianjin Infrastructure is a wholly-owned subsidiary of Tianjin Gas, Tianjin Gas directly or indirectly had 69.45% of equity interests in Binhai Gas. As at 30 June 2010, Binhai Gas has developed approximately 10 industrial and commercial consumers and 1,680 domestic consumers. Binhai Gas has also been delegated with the exclusive rights to supply natural gas to Tianjin Port and Lingang Industrial Zone (both located in Binhai New District) by Tianjin Gas. The Enlarged Group will seek expansion in the Binhai New District by capital injection in Binhai Gas to increase its shareholding.

The Company will continue to increase the capital injection in Binhai Gas. The total capital injection for the two years ending 31 December 2012 is estimated at approximately RMB100 million.

STATEMENT OF BUSINESS OBJECTIVE

Proposed transfer of listing of H Shares of the Company from GEM to the Main Board

The Shareholders at the extraordinary general meeting and separate class meetings held on 29 October 2008 approved the special resolutions, among other things, making of the relevant applications for the proposed transfer of listing of H Shares of the Company from GEM to the main board of the Stock Exchange (“Transfer of Listing”). As advised by the PRC Legal Adviser, the aforesaid shareholders’ approval remains valid. On 11 December 2009, the listing application for the transfer of listing of H Shares from GEM to the Main Board has been submitted to the CSRC and the said listing application has been approved by the CSRC on 10 November 2010. As advised by the PRC Legal Adviser, the aforesaid approval by the CSRC will remain valid upon the completion of the Proposed Assets Transfer and the change in shareholding of Tianjin Gas in the Company as a result of the issue and allotment of the Consideration Shares immediately after the completion of the Proposed Assets Transfer. As at the Latest Practicable Date, the Company has not yet filed the application to the Stock Exchange for the transfer of listing of its H Shares from GEM to the Main Board. The Directors believe that the Transfer of Listing will be beneficial to the future growth, financing flexibility and business development of the Enlarged Group as a whole.

Implementation targets

	Six months ending 30 June 2011	Six months ending 31 December 2011	Six months ending 30 June 2012	Six months ending 31 December 2012
Expansion in existing Operational Locations	<ul style="list-style-type: none"> • To expand gas pipeline connections in the Group’s existing Operational Locations • Estimated number of new connections of approximately 6,000 users 	<ul style="list-style-type: none"> • To expand gas pipeline connections in the Group’s existing Operational Locations • Estimated number of new connections of approximately 5,000 users 	<ul style="list-style-type: none"> • To expand gas pipeline connections in the Group’s existing Operational Locations • Estimated number of new connections of approximately 4,000 users 	<ul style="list-style-type: none"> • To expand gas pipeline connections in the Group’s existing Operational Locations • Estimated number of new connections of approximately 6,000 users
Expansion of gas pipelines network via acquisitions	<ul style="list-style-type: none"> • To expand gas pipeline connections in the new operational locations in Hedong District and Heping District in Tianjin City • Estimated number of new connections of approximately 4,500 users 	<ul style="list-style-type: none"> • To expand gas pipeline connections in the new operational locations in Hedong District and Heping District in Tianjin City • Estimated number of new connections of approximately 6,000 users 	<ul style="list-style-type: none"> • To expand gas pipeline connections in the new operational locations in Hedong District and Heping District in Tianjin City • Estimated number of new connections of approximately 4,000 users 	<ul style="list-style-type: none"> • To expand gas pipeline connections in the new operational locations in Hedong District and Heping District in Tianjin City • Estimated number of new connections of approximately 7,200 users
Development of piped natural gas operations in Jining City	<ul style="list-style-type: none"> • To make new connections within Jining • Estimated number of new connections of approximately 1,400 users 	<ul style="list-style-type: none"> • To make new connections within Jining • Estimated number of new connections of approximately 1,600 users 	<ul style="list-style-type: none"> • To Make new connections within Jining • Estimated number of new connections of approximately 3,000 users 	<ul style="list-style-type: none"> • To Make new connections within Jining • Estimated number of new connections of approximately 3,000 users

STATEMENT OF BUSINESS OBJECTIVE

	Six months ending 30 June 2011	Six months ending 31 December 2011	Six months ending 30 June 2012	Six months ending 31 December 2012
Expansion in Binhai New District				
Gas transportation via Gangnan Pipeline and Beihuan Pipeline	Transmission of gas of approximately 500 million m ³	Transmission of gas of approximately 740 million m ³	Transmission of gas of approximately 750 million m ³	Transmission of gas of approximately 800 million m ³
Capital injection in Binhai Gas	Invest further capital of approximately RMB40 million in Binhai Gas			Invest further capital of approximately RMB60 million in Binhai Gas
Transfer of Listing	To complete	—	—	—

Bases and Assumptions

The Enlarged Group's business objectives set out above are based on the following general assumptions:

- there will be no material changes in the existing political, legal, fiscal, economic and market conditions in the PRC;
- there will be no material changes in factors, such as existing laws and regulations, and market regulations of piped natural gas industry;
- the Enlarged Group will not encounter any disruption in shortages of upstream natural gas in the future;
- the Enlarged Group will be able to recruit and retain adequate number of qualified staff required for implementing the business plan;
- there will be no material differences in the funding required for the Enlarged Group's future development plans and the present level estimated by the management;
- the Enlarged Group will be able to raise through bank borrowings, internal funds or otherwise for implementing these business plans; and
- there will not be any disasters, acts of God, political or other events which will seriously affect the Enlarged Group's businesses or operations, or result in material losses to the Enlarged Group's property or infrastructure.

LETTER FROM THE BOARD



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

Executive Directors:

Mr. Jin Jian Ping
Mr. Dong Hui Qiang
Ms. Tang Jie
Mr. Bai Shao Liang

Legal Address:

Weishan Road
Chang Qing Science
Industry and Trade Park
Jinnan District Tianjin

Non-executive Directors:

Mr. Sun Bo Quan (*Chairman*)
Mr. Gong Jing

Principal Place of Business in the PRC:

Floor 9, Gangao Tower
18 Zhengzhou Road
He Ping District
Tianjin

Independent Non-executive Directors:

Professor Zhang Yu Li
Mr. Luo Wei Kun
Mr. Chan Shun Kuen, Eric

31 December 2010

To Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
TREATED AS A REVERSE TAKEOVER AND
AN APPLICATION FOR NEW LISTING AND
CONNECTED TRANSACTION INVOLVING ACQUISITION OF ASSETS AND
ISSUE OF CONSIDERATION SHARES
CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY
WHITEWASH WAIVER APPLICATION
AMENDMENT OF ARTICLES OF ASSOCIATION
PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

INTRODUCTION

On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas the Transferred Assets at the consideration of RMB620,736,991.84. The Company will allot and issue the Consideration Shares to Tianjin Gas to satisfy the above consideration.

* For identification purpose only

LETTER FROM THE BOARD

On 16 September 2009, Tianjin Gas and the Company entered into the Gas Supply Contracts in respect of the supply of natural gas by Tianjin Gas to the Group to cater for the gas demand attributable to the Transferred Assets for the period from the completion of the Proposed Assets Transfer to 31 December 2009 and the two years ending 31 December 2011. The Gas Supply Contracts are conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Contracts, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed.

The purpose of this circular is to provide you with, among other things, (i) information on the Assets Acquisition Agreement; (ii) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Proposed Assets Transfer and the Gas Supply Transaction; (iii) a letter from the Whitewash Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Whitewash Waiver; (iv) a letter from the Independent Financial Adviser to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders containing its advice to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in respect of the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver; (v) Valuation Report of the Transferred Assets prepared in compliance with Rule 11 of the Takeovers Code; (vi) valuation report of the Enlarged Group's interest in land and buildings; (vii) the letter from Kingsway in relation to their view on the qualification and experience of the Valuer and the Valuation Report; (viii) information on the proposed independent non-executive Director; (ix) proposed amendment of Articles of Association; (x) notices of the EGM and the Class Meetings; and (xi) other information as required by the GEM Listing Rules and the Takeovers Code.

ASSETS ACQUISITION AGREEMENT

Date : 16 September 2009

Parties : The Company; and
Tianjin Gas

On 16 September 2009, the Company as purchaser and Tianjin Gas as vendor entered into the Assets Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire and Tianjin Gas conditionally agreed to sell the Transferred Assets.

On 28 December 2010, the Supplemental Agreement has been entered into between the Company and Tianjin Gas to amend and supplement certain conditions precedents of the Assets Acquisition Agreement.

CONDITIONS PRECEDENT TO THE ASSETS ACQUISITION AGREEMENT

The Assets Acquisition Agreement, as amended by the Supplemental Agreement, is conditional on, inter alia:

1. the approval by way of poll from the Independent Shareholders in respect of the Assets Acquisition Agreement and the Proposed Assets Transfer and the Whitewash Waiver at the EGM and the Class Meetings;

LETTER FROM THE BOARD

2. the approval from the relevant regulatory authorities (if any) on the issue of the Consideration Shares;
3. the granting of the Whitewash Waiver by the Executive;
4. the approval of the Listing Division of the Stock Exchange of new listing application filed by the Company as a result of the Proposed Assets Transfer;
5. the filing of the valuation report on the value of the Transferred Assets prepared by the PRC Valuer by Tianjin Gas with Tianjin State-owned Assets Administrative Bureau (天津市人民政府國有資產監督管理委員會); and
6. the approval by Tianjin State-owned Assets Administrative Bureau (天津市人民政府國有資產監督管理委員會) of the application filed by Tianjin Gas regarding the subscription of the Company's Shares by Tianjin Gas with its fixed assets.

None of the above conditions can be waived by the parties. The Assets Acquisition Agreement shall become effective upon fulfillment of the above conditions.

As at the Latest Practicable Date, the filing requirement under item 5 has been fulfilled, and the Tianjin State-owned Assets Administrative Bureau has given its approval under item 6 above.

CONSIDERATION

In compliance with the relevant PRC rules and regulations in relation to a disposal of State-owned assets, Tianjin Gas has commissioned the PRC Valuer to prepare a valuation report on the value of the Transferred Assets. The aforesaid valuation report was prepared by adopting the depreciated replacement cost approach. On the other hand, the Company has appointed the Valuer to issue the Valuation Report which was prepared by adopting the depreciated replacement cost approach, details of the Valuation Report are set out in Appendix V headed "Valuation Report of the Transferred Assets" to this circular. The consideration of RMB620,736,991.84 under the Assets Acquisition Agreement was determined after arm's length negotiation by the Company and Tianjin Gas. In the course of negotiation, the Company has considered the valuation figure contained in a preliminary draft of the Valuation Report. According to the final Valuation Report, the valuation of the Transferred Assets is approximately RMB595,700,000 as at 30 September 2010. There is no material difference between the preliminary draft and the final version of the Valuation Report so far as the valuation is concerned. Based on the information as extracted from the management accounts of Tianjin Gas provided by the management of the Group, the original cost of the Transferred Assets to Tianjin Gas was approximately RMB757.0 million and the book value of which as at 30 June 2009 was approximately RMB564.6 million. Upon completion of the Proposed Assets Transfer, the Transferred Assets will be recognized as non-current assets under the Group's consolidated balance sheet and are subject to depreciation/amortisation and any revenue derived from and expenses incurred by the Transferred Assets will be included in the Group's consolidated income statement.

LETTER FROM THE BOARD

To satisfy the above consideration, the Company will issue, in aggregate, 689,707,800 Domestic Shares as the Consideration Shares, at an issue price of RMB0.9 (approximately HK\$1.02) per Domestic Share to Tianjin Gas. The issue price of RMB0.9 (approximately HK\$1.02) per Consideration Share represents:

- (i) a discount of approximately 15% to the closing price of HK\$1.20 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 13% to the average closing price of approximately HK\$1.174 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 11% to the average closing price of approximately HK\$1.14 per H Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 39% to the closing price of HK\$1.66 per H Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately 60.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 37.50% of the Company's enlarged issued share capital immediately after the issue of the Consideration Shares. As at the Latest Practicable Date, the closing price of the H Share was HK\$1.66 per H Share. Assuming that the Consideration Shares, which are Domestic Shares, are also worth HK\$1.66 per Share, the total value of the Consideration Shares will be HK\$1,144.9 million in aggregate, which represents a premium over the total consideration of the Proposed Assets Transfer of 62.7% as at the Latest Practicable Date. Upon the completion of the Proposed Assets Transfer, the shareholding of Tianjin Gas in the Company would increase from approximately 22.08% to approximately 51.30%. The shareholding of the holders of H Shares would decrease from approximately 43.5% to approximately 27.19% upon completion of the Proposed Assets Transfer. As a result, the shareholding percentages of the existing Shareholders in the Company would be substantially diluted. As set out under the section "Letter from the Independent Financial Adviser", although the issue price of the Consideration Shares represents a discount to the recent market prices of the H Shares, taking into consideration that:

- (i) the H Shares were traded below the issue price of the Consideration Shares for 217 trading days out of 247 trading days over a year period prior to and including the Last Trading Day;
- (ii) the issue price per Consideration Share represents a premium of approximately 1.5%, 10.0% and 44.3% over the average closing price as quoted on the Stock Exchange for the last 50 consecutive trading days, 100 consecutive trading days and over a year period up to and including the Last Trading Day, respectively; and
- (iii) the Consideration Shares are Domestic Shares not tradable on the Stock Exchange nor on any other stock exchange which should be priced at a discount to tradable H Shares due to higher liquidity risk;

LETTER FROM THE BOARD

the Independent Financial Adviser consider the issue price of the Consideration Shares at a discount to the recent market price of the H Shares is fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. The Sponsor concurs with the view of the Independent Financial Adviser and the view of the Directors on the reasons for and benefits of the Proposed Assets Transfer.

The Consideration Shares shall include all rights to receive in full all dividends and other distributions, if any, declared on or after the date of their allotment, subject to provisions in the Articles of Association.

INFORMATION ABOUT THE TRANSFERRED ASSETS

The Transferred Assets consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users (which included approximately 3,000 Industrial and Commercial Users and approximately 357,000 Domestic Users) as at 30 June 2010, the related machinery and electronic equipment and 40 vehicles. As advised by the Directors, the remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets mainly consisted of assets that were under construction at the time of identifying the assets to be transferred under the Assets Acquisition Agreement. The Directors advised that it was the commercial decision of the Company not to acquire these remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets due to the complexity involved in the novation of the underlying construction contracts in relation to such assets which would require third party consent and the difficulty involved in the preparation of a valuation for such assets.

As at 30 June 2010, as advised by the Directors, construction of part of the remaining part of tangible assets and gas ancillary facilities that are not included in the Transferred Assets has been completed and has commenced to supply piped gas to end users. As at the Latest Practicable Date, the Group has not formulated any plan or timetable to acquire the remaining part of the tangible assets and gas ancillary facilities that are not included in the Transferred Assets.

Tianjin Gas is the sole operator of natural gas in Hedong District and Heping District at which the Transferred Assets are located and Tianjin Gas has signed gas supply contracts with the Industrial and Commercial Users in locations served by the Transferred Assets. The Transferred Assets consist of part of the pipelines owned by Tianjin Gas in Hedong District and Heping District. When the Company takes over the Transferred Assets, the Company and Tianjin Gas will become the only two gas operators in Hedong District and Heping District. Tianjin Gas entered into written contracts for its supply of piped gas with the Industrial and Commercial Users but did not enter into any written contracts with the Domestic Users for the locations served by the Transferred Assets. Given the enormous number of Domestic Users and the relatively small transaction amount with each Domestic User, it is impractical and inefficient to enter into written contract with each Domestic User. After the Company takes over the Transferred Assets, the Company will utilize the Transferred Assets to supply piped gas to the Domestic Users and the Industrial and Commercial Users and the Company will enter into new gas supply contracts with the Industrial and Commercial Users. The Company will notify the Domestic Users in writing of the change, but no written contract will be entered into between the Company and the Domestic Users.

LETTER FROM THE BOARD

After the completion of the Proposed Assets Transfer, the existing customers in Hedong District and Heping District, at which the Transferred Assets are located, have rights to purchase natural gas from other gas suppliers in Hedong District and Heping District if there are other gas suppliers in Hedong District and Heping District. However, the Directors are of the view that as the existing customers have to construct new pipelines connecting their premises to the branch pipelines of other gas suppliers, which will incur extra costs to the existing customers, it will be unlikely for any existing customer not to utilize the same gas pipelines, which will be owned by the Company after the completion of the Proposed Assets Transfer, for the continuation of gas supplies.

After the completion of the Proposed Assets Transfer, the Company would be the owner of the Transferred Assets and would have the right to construct new pipelines connected with the Transferred Assets to supply piped gas to new users. The Company could use the Transferred Assets and any newly constructed pipelines for the sale and supply of piped gas to the Industrial and Commercial Users, the Domestic Users and other new third party customers. The Company will purchase gas from Tianjin Gas and thereafter supply such gas to these customers. Please refer to the paragraph headed "Gas Supply Transaction" in the section headed "Connected Transactions" of this circular for details.

Due to gas leakage from the pipelines of the Transferred Assets during its normal course of operation and the discrepancy in the gas meters' readings, the Company and Tianjin Gas agreed that the value of the volume of gas to be purchased from Tianjin Gas by the Company will be calculated using the following formula:

The actual volume of gas sold by the Company to other third party customers/97%

Opinion of value of the Transferred Assets

After a thorough analysis of the Transferred Assets and review of the information assembled by the Valuer, it is the Valuer's opinion that as at 31 August 2009, the market value in continued use of the Transferred Assets free of any encumbrances is reasonably represented by the amount RMB 624,900,000. There is no material difference between the market value in continued use of the Transferred Assets free of any encumbrances as at 31 August 2009 and as at 30 September 2010 which is valued at RMB595,700,000 as set out in the Valuation Report.

Kingsway has reviewed the Valuation Report and is of the opinion that the Valuation Report has been made after due care and consideration and is satisfied that the Valuer has the qualifications and experience to undertake the valuation.

The Valuation Report, together with the letter from Kingsway in relation to their view on the qualification and experience of the Valuer and the Valuation Report, are set out in Appendix V headed "Valuation Report of the Transferred Assets" to this circular.

LETTER FROM THE BOARD

TRANSFERRED ASSETS

The Transferred Assets consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users as at 30 June 2010, the related machinery and electronic equipment and 40 vehicles.

The major component of the Transferred Assets, being the outdoor and domestic pipelines, have been constructed by Tianjin Gas since 1976.

The major revenue contributor in respect of the Transferred Assets during the Track Record Period was the gas usage fee paid by the end users for consumption of gas.

The revenues primarily derived from the Transferred Assets are connection fees charged for the initial connection and charges for gas usage. For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, Tianjin Gas recorded an unaudited turnover of approximately RMB624.2 million, RMB810.7 million, RMB855.8 million and RMB535.3 million respectively in respect of the Transferred Assets. Unaudited gas connection fees in respect of the Transferred Assets accounted for approximately 3.1%, 3.1%, 2.6% and 1.4% of Tianjin Gas's unaudited turnover in respect of the Transferred Assets for each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively. Unaudited sales of gas in respect of the Transferred Assets accounted for approximately 96.9%, 96.9%, 97.4% and 98.6% of Tianjin Gas's unaudited turnover in respect of the Transferred Assets for each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively.

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, Tianjin Gas's unaudited operating profit generated from the Transferred Assets was approximately RMB131.9 million, RMB213.9 million, RMB192.1 million and RMB135.4 million respectively.

LETTER FROM THE BOARD

AREAS OF OPERATIONS



LETTER FROM THE BOARD

Existing area of operations

Hedong District, Tianjin

As at 30 June 2010, Tianjin Gas has made gas connections through the Transferred Assets to approximately 267,800 users in Hedong District. As at 30 June 2010, Tianjin Gas's main and branch pipelines in Hedong District have a total length of approximately 1,078,000 m.

Tianjin Gas has obtained all necessary approvals for its operations in respect of the Transferred Assets in Hedong District.

Heping District, Tianjin

As at 30 June 2010, Tianjin Gas has made gas connections through the Transferred Assets to approximately 92,800 users in Heping District. As at 30 June 2010, Tianjin Gas's main and branch pipelines in Heping District have a total length of approximately 396,000 m.

Tianjin Gas has obtained all necessary approvals for its operations in respect of the Transferred Assets in Heping District.

The PRC Legal Adviser confirmed that the Fuel Gas Operation Licence held by the Company allows the Company to conduct gas supply operations in respect of the Transferred Assets in Hedong District and Heping District and the Group is not required to obtain any further approval or licenses for its operation in respect of the Transferred Assets.

Gas

Tianjin

Tianjin Gas is the only wholesale natural gas supplier in Heping District and Hedong District, both located in Tianjin. Conditional upon completion of the Proposed Assets Transfer and approval by the Independent Shareholders, Tianjin Gas will supply piped gas to the Company for the Transferred Assets under the Gas Supply Contracts, details of which are set out in the paragraph headed "Gas Supply Contracts" in the section headed "Connected Transactions" of this circular.

LETTER FROM THE BOARD

SALES AND MARKETING

Income generated from the Transferred Assets is derived primarily from the sales of piped gas in the PRC. The unaudited sales of piped gas in respect of the Transferred Assets attributed to approximately 96.9%, 96.9%, 97.4% and 98.6% of the turnover in respect of the Transferred Assets for the three financial years ended 31 December 2009 and the six months ended 30 June 2010. The unaudited connection fee income in respect of the Transferred Assets accounted for approximately 3.1%, 3.1%, 2.6% and 1.4% of the turnover generated from the Transferred Assets for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively. All sales revenue of Tianjin Gas in respect of the Transferred Assets are settled in RMB.

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the largest customer in respect of the Transferred Assets accounted for approximately 47.9%, 51.8%, 47.7% and 38.8% of the unaudited turnover generated from the Transferred Assets. During the Track Record Period, Tianjin Gas' largest customer in respect of the Transferred Assets was a State-owned enterprise. It is principally engaged in manufacturing of steel pipes in the PRC. A gas supply contract has been entered into between Tianjin Gas and the largest customer in respect of the Transferred Assets on 31 December 2008 for a term of two years i.e. from 31 December 2008 to 30 December 2010. Pursuant to the said gas supply contract, the largest customer in respect of the Transferred Assets agreed to purchase piped gas from Tianjin Gas. After the completion of the Proposed Assets Transfer, the Company will enter into new gas supply contract with such customer. Although the Group cannot ensure that such customer will enter into a new gas supply contract with the Company, the Directors consider that if such customer opts to purchase gas from other gas suppliers, it will have to construct new pipelines connecting its premises to the branch pipelines of those other gas suppliers, hence extra costs will be incurred by such customer. As such, the Directors consider that it will be unlikely for such customer not to utilize the same gas pipelines for the continuation of gas supplies. For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, Tianjin Gas's five largest customers in respect of the Transferred Assets accounted for 71.5%, 76.6%, 75.5% and 63.5% respectively of Tianjin Gas's unaudited turnover in respect of the Transferred Assets. The five largest customers in respect of the Transferred Assets for each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010 are not connected with any of the Directors, Promoters, chief executives, and any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) of the Company or any of their respective associates.

Tianjin Gas's principal customers in respect of the Transferred Assets can be classified into two broad categories, namely (I) connection fee-based customers and (II) gas users.

LETTER FROM THE BOARD

(I) Connection fee-based customers

The connection fee-based customers in respect of the Transferred Assets can be further sub-categorized into two major types of customers, namely (i) property developers; and (ii) commercial and industrial customers.

Property developers

According to the Rules of Urban Gas Enterprise Administration in Tianjin (天津市燃氣管理條例) promulgated by the Committee of the People's Congress of Tianjin (天津市人大委員會) on 22 October 1997 and subsequently amended on 24 May 2005, all new residential developments are required to have piped gas connections. Tianjin Gas liaises with the property developers to arrange for the construction of pipeline network to new residential developments which are covered by the Transferred Assets. Such connection fees, which are determined by the total floor area of the household units, are collected by installment from the property developers based on the stage of completion of the pipeline construction work. Tianjin Gas is entitled to receive full payment of connection fees before commencement of gas supply.

Commercial and industrial customers

Tianjin Gas has entered into connection contracts with commercial and industrial customers for the connection of gas to their premises which are covered by the Transferred Assets. Tianjin Gas liaises with the commercial and industrial customers to arrange for the construction of pipeline network to the commercial and industrial customers' premises. Such connection fees, which are determined on a case by case basis, are collected by lump sum or installments based on the stage of completion of the pipeline construction work. Tianjin Gas is entitled to receive full payment of connection fees before commencement of gas supply.

(II) Gas users

Gas users can also be sub-categorized into two types of users, namely Domestic Users and Industrial and Commercial Users.

During the Track Record Period, the number of Domestic Users in respect of the Transferred Assets represented over 99% of the total number of Tianjin Gas's gas users in respect of the Transferred Assets.

LETTER FROM THE BOARD

The gas sales revenue of the Transferred Assets derived from Domestic Users and Industrial and Commercial Users during the Track Record Period are set as below:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Domestic Users	59,342	58,806	58,543	33,120
Industrial and Commercial Users	545,432	726,887	775,061	494,544
Total	<u><u>604,774</u></u>	<u><u>785,693</u></u>	<u><u>833,604</u></u>	<u><u>527,664</u></u>

Tianjin Gas's meter-taking staff pays visit to the Industrial and Commercial Users for the purpose of recording meter reading on a monthly basis (except for those users who purchase pre-paid cards from Tianjin Gas). Based on the meter reading, the amount of gas fee due from such users will be calculated. The fee collection staff will then collect gas fee from the Industrial and Commercial Users in accordance with the calculation on the next day. The Industrial and Commercial Users can settle the amount due by cash, cheque or bank transfer. As an internal control procedure to cross-check the meter-taking record made by the meter-taking staff, the fee collection staff will take another meter record when paying visit to the Industrial and Commercial Users for fee collection purpose.

As for the Domestic Users, Tianjin Gas's meter-taking staff pays visit to such users on a bi-monthly basis (except for those users who purchase pre-paid cards from Tianjin Gas). When visiting the Domestic Users, meter-taking staff will bring along a portable electronic machine in which the meter-reading record of the relevant user in the previous month would be stored. The meter-taking staff will on-site input the meter record of the current month into the portable electronic machine, through which an invoice in duplicate will be generated. The Domestic Users can settle the amount due by cash, debit card or credit card. As an internal control procedure, Tianjin Gas's staff will pay visit to the user on a random basis to test check whether there is any discrepancy between the readings recorded on by the gas fee collecting staff and the gas meter installed in the users' household.

Both Industrial and Commercial Users and Domestic Users can purchase credit values for natural gas (to be stored in pre-paid cards) from Tianjin Gas. The users first have to be equipped with gas meters specifically designed for the use of pre-paid cards.

LETTER FROM THE BOARD

Sales and Operation upon completion of the Proposed Assets Transfer

The Enlarged Group will hold all the relevant licences that are material to its business operations and will have sufficient operation capacity in terms of capital, equipment and employees to operate its businesses independently.

The Directors are satisfied that the Company will have independent access to the Industrial and Commercial Users and Domestic Users upon completion of the Proposed Assets Transfer, and will be able to conduct sales under its own sales team retained by the Company and the new staff members to be recruited by the Group. The Company will also engage its own agents for the sale of its products when it deems necessary and appropriate. These measures will ensure the smooth transfer of the relevant customer base of Tianjin Gas in relation to the Transferred Assets to the Enlarged Group.

In order to minimise the administrative inconvenience to the users, the Group has authorised Tianjin Gas, as a temporary measure, to collect gas fees from the users in certain Operational Locations that the Group has acquired the relevant operating assets (being Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II) from Tianjin Gas in the past. Tianjin Gas pays such gas fees in a lump sum to the Group every month. In addition, the maintenance work of such acquired assets is being carried out by Tianjin Gas for the Group. Since there was no maintenance work required for the pipelines of Xiqing Assets I, which were acquired in October 2006, the amounts incurred by Tianjin Gas to carry out the maintenance work for the Group were nil for the two years ended 31 December 2008. The maintenance cost (including those for Hangu Assets, Ninghe Assets and Xiqing Assets II which were acquired in November 2008) in the year of 2009 and for the first half of 2010 was less than RMB500,000, the amount which the Directors consider is minimal. Since Tianjin Gas has to carry out regular maintenance for its own pipeline network, it is more efficient that the maintenance work for the Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II to be carried out by Tianjin Gas. As confirmed by the Directors, the Company intends to take over the meter-taking, fee collection and maintenance work in relation the Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II after completion of the Proposed Assets Transfer and it is expected that such take over can be implemented three weeks after completion of the Proposed Assets Transfer.

The Company intends to (a) recruit approximately 620 new staff to carry out meter-taking, fee collection and maintenance work in respect of Xiqing Assets I, Hangu Assets, Ninghe Assets, Xiqing Assets II and the Transferred Assets. Approximately 500 new staff will be responsible for operation in respect of the Transferred Assets (among them approximately 250 and 150 new staff will be responsible for carrying out the meter-taking, fee collection and maintenance work in respect of the Transferred Assets respectively); (b) enter into gas supply contracts with the Industrial and Commercial Users directly; and (c) utilize the operation records (including mainly the customer database) of the Transferred Assets provided by Tianjin Gas to ensure the smooth operation of gas supply in respect of Transferred Assets from Tianjin Gas to the Company.

LETTER FROM THE BOARD

The Group has formed its own maintenance team to carry out the maintenance work in Xiao Hai Di of Hexi District, part of Jinnan District as well as Jining District although in a smaller scale. The Group expects to recruit 120 new staff, with an annual salaries of approximately RMB50,000 per staff, to be responsible for the collection of the gas fees and to carry out maintenance work in Xiqing District, Hangu District and Ninghe County. Additional 150 new staff will be recruited, with an annual salaries of approximately RMB50,000 per staff, to be responsible for the maintenance work of the Transferred Assets. On top of recruiting the 620 new staff, Mr. Jin Jian Ping, the executive Director, is a senior engineer. In addition, Mr. Zheng Tai Qi and Ms. Zhang Zhi Hua, both being the senior management of the Company, are senior engineers who have worked in Tianjin Gas previously. With their working experience in Tianjin Gas and the 620 new staff to be recruited, the Directors are of the view that the Company has the expertise and resources to handle the maintenance work itself after the completion of the Proposed Assets Transfer.

If the Group takes on the meter-taking, fee collection and maintenance work in relation to the Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II, the total costs is estimated to be approximately RMB6 million per year, which comprised mainly staff costs.

The Directors advised that the 620 new staff members are proposed to be recruited by open recruitment which may include individuals previously employed by Tianjin Gas to carry out similar duties in Heping District and Hedong District if such individuals take the initiative to apply for the job openings and successfully pass the job interviews to be carried out by the Group. The Directors confirm that there is currently no arrangement between Tianjin Gas and the Group for transfer of staff from Tianjin Gas to the Group.

There is no written agreement on the novation of existing customers in relation to the Transferred Assets to the Group and it is not a term of the Assets Acquisition Agreement that the existing customers served by the Transferred Assets will be transferred to the Group. The Sponsor is of the view that the Proposed Assets Transfer does not constitute a novation of customers from Tianjin Gas to the Group, as there is no written agreement on such novation. However, as these existing customers are connected by the pipelines which are part of the Transferred Assets, the Directors consider that it will be unlikely for any customer not to utilize the same gas pipelines for the continuation of gas supply after the completion of the Proposed Assets Transfer.

Upon completion of the Proposed Assets Transfer, the scale of operation and the number of gas users of the Enlarged Group will become substantially larger than those of the existing Group. The Directors believe, given that the Group has substantial experience in the operation and management of gas pipeline infrastructure and the sales and distribution of piped gas, the Group will be capable of managing the operation of the Transferred Assets. In addition, the recruitment of additional staff as mentioned above will enable the Group to cope with the expanded business scale. Given the experience of the Group, the Directors are confident that the Group will be able to manage the business operation of the Enlarged Group smoothly.

LETTER FROM THE BOARD

PRICING

The gas tariff and connection fees in Tianjin City are regulated by Tianjin Municipal Commodity Price Bureau (天津市物價局) of the Tianjin Municipal Government. Both Tianjin Gas and the Group charge gas tariff and connection fees on their customers in accordance with the rate set by the Tianjin City Commodity Price Bureau. The maximum gas tariff for supply of natural gas for residential use has been fixed at RMB2.2 per m³ since 1 August 2006. Pursuant to the “Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City” (《關於我市調整工業用天然氣銷售價格的通知》津價商 [2007] 263號) issued by Tianjin Commodity Price Bureau dated 30 November 2007, the classifications of pricing of natural gas was revised from “residential use” and “non-residential use” to “residential use”, “industrial use” and “other use”. Please see below for a summary of the gas tariff after the revision:—

Effective Date	Classification of pricing			Relevant Notice
	Residential use	Industrial use	Other use	
10 November 2007	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.0 per m ³ to RMB2.4 per m ³	“Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City” (《關於我市調整工業用天然氣銷售價格的通知》津價商[2007] 263號)
1 May 2009	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	“Notice in relation to adjustment of natural gas tariff of certain uses in Tianjin City” (《關於我市調整部份天然氣銷售價格的通知》津價商[2009] 93號)
1 June 2010	RMB2.0 per m ³	RMB2.75 per m ³ to RMB3.15 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	“Notice in relation to adjustment of natural gas tariff of non-domestic use in Tianjin City” (《關於我市調整非居民用天然氣銷售價格的通知》津價管[2010] 110號)

The maximum connection fee for new residential apartments and luxury houses are RMB28 per m² and RMB40 per m² respectively throughout the Track Record Period. The maximum fee charged on commercial and industrial users is determined on a case by case basis.

LETTER FROM THE BOARD

PURCHASES

The main categories of cost of sales of the Transferred Assets are purchase of natural gas from natural gas suppliers and sub-contracting fees paid to qualified pipeline infrastructure sub-contractors.

For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the largest supplier in respect of the Transferred Assets is a natural gas supplier which accounted for approximately 66.9%, 74.6%, 79.0% and 70.2% of the total purchase of Tianjin Gas for the corresponding periods. For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the five largest suppliers in respect of the Transferred Assets accounted for approximately 97.6%, 98.3%, 97.7% and 97.3% of the total purchase of Tianjin Gas, respectively. None of these five largest suppliers are connected with any of the Directors, Supervisors, Promoters, chief executives, and any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) of the Company or any of their respective associates.

INTELLECTUAL PROPERTY RIGHTS

There is no significant intellectual property rights in relation to the Transferred Assets.

COMPETITION

Tianjin Gas has the right to operate piped natural gas operations on a non-exclusive basis in Heping District and Hedong District and it is the sole operator of piped natural gas supply in Heping District and Hedong District.

Even though Tianjin Gas has only obtained the approval to operate the gas supply businesses in Heping District and Hedong District on a non-exclusive basis, the Directors confirm that there are no other competitors that have been authorised to engage in the piped gas supply operations in Heping District and Hedong District.

Due to the nature of the piped gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, the Directors believe that it is not economically or practically feasible for more than one piped gas distributor to operate in one location. To the best knowledge of the Directors after making reasonable enquiries, Tianjin Municipal Government will normally grant the right to one selected distributor to operate in a location.

Tianjin Gas faced competition in Heping District and Hedong District from existing providers of other fuel substitutes such as bottled natural gas or LPG, coal and to a lesser extent electricity, as electricity for heating purposes is more expensive than gas and less popular for cooking purposes. The Directors believe that with the PRC Government's planned phasing out of the use of coal as a result of its environmental policies, and the comparative advantages of natural gas over coal as a safer, cleaner and more convenient form of fuel, competition from other fuel substitutes will not affect the growth potential to the business in respect of the Transferred Assets.

LETTER FROM THE BOARD

LICENCES AND APPROVALS

As at the Latest Practicable Date, the PRC Legal Adviser confirmed that Tianjin Gas has obtained all the relevant licences and certificates for its gas supply operations in respect of the Transferred Assets. The following sets out a summary of the principal permits/licences held by Tianjin Gas in relation to Tianjin Gas's piped natural gas supply operations in respect of the Transferred Assets:

Issuing Authority	Type of Permit	Issue Date	Expiration Date
The Ministry of Construction of the PRC (中華人民共和國建設部)	Urban Gas Enterprise Qualification Certificate (城市燃氣企業資質證書)	9 August 2002	N/A

According to the PRC Legal Adviser, as all Tianjin Gas's main and branch pipelines in Hedong District and Heping District are underground pipelines, pursuant to the PRC land laws, the underground areas where Tianjin Gas's pipelines are placed do not fall into the categories that require land use rights. Given Tianjin Gas has already obtained the approval from Tianjin City Land Development Planning Bureau (天津市土地規劃局) to construct the gas pipeline network in Hedong District and Heping District, the PRC Legal Adviser has confirmed that land use rights are not required for the underground areas in respect of the Transferred Assets where the pipelines are placed.

According to the Concession Measures, Tianjin Gas is required to enter into a special operating agreement with the relevant local construction bureau in Tianjin. However, the relevant local construction bureau in Tianjin has not yet formulated the format of the special operating agreement and accordingly Tianjin Gas was not required to execute a special operating agreement for its operations in respect of the Transferred Assets as at the Latest Practicable Date. The PRC Legal Adviser advised that as the non-execution of the special operating agreement is caused by the local policy, the operation of Tianjin Gas in respect of the Transferred Assets would not be affected.

According to the Concession Measures, the Company is also required to enter into a special operating agreement with the relevant local construction bureau in Tianjin. The PRC Legal Adviser advised that as the non-execution of the special operating agreement is caused by the local policy, the operation of the Company would not be affected.

SAFETY AND QUALITY CONTROL

Tianjin Gas has set up a policy that required staff of the inspection team to make regular inspections on its pipelines of the Transferred Assets and perform necessary maintenance works accordingly. Tianjin Gas also carries out routine inspection of customers' pipelines and gas meters at the customers' premises once a year in respect of the Transferred Assets. These inspections are provided to the customers free of charge. The inspection also serves as a preventive measure for disruption of its supply of natural gas to customers in respect of the Transferred Assets.

LETTER FROM THE BOARD

The Directors confirm that as far as the Transferred Assets are concerned, there have been no major accidents which have resulted in serious injury or death since the Transferred Assets began operations. The Directors confirmed that, as far as the Transferred Assets are concerned, there has not been any leakage of gas during the Track Record Period which had a material adverse effect on the business and/or operations of the Group.

Tianjin Gas has not obtained any insurance for the pipelines which form part of the Transferred Assets. As advised by the PRC Legal Adviser, there is no mandatory insurance that must be taken out as far as the Transferred Assets are concerned.

ENVIRONMENTAL PROTECTION

The PRC Legal Adviser advises that since the principal business of Tianjin Gas in respect of the Transferred Assets is sales of piped gas, which is not under any key environmental protection regulations, the Directors are of the view that the operation in respect of the Transferred Assets does not and will not discharge any pollutant, toxic gas, sewage or industrial waste.

Tianjin Gas is obliged to comply with all the environmental protection laws and regulations of the PRC relating to the supply of natural gas industry. During the Track Record Period, Tianjin Gas has not been required to pay any penalties and fines regarding violation of environmental protection laws, rules or regulations in the PRC in respect of the Transferred Assets.

GAS SUPPLY TRANSACTION

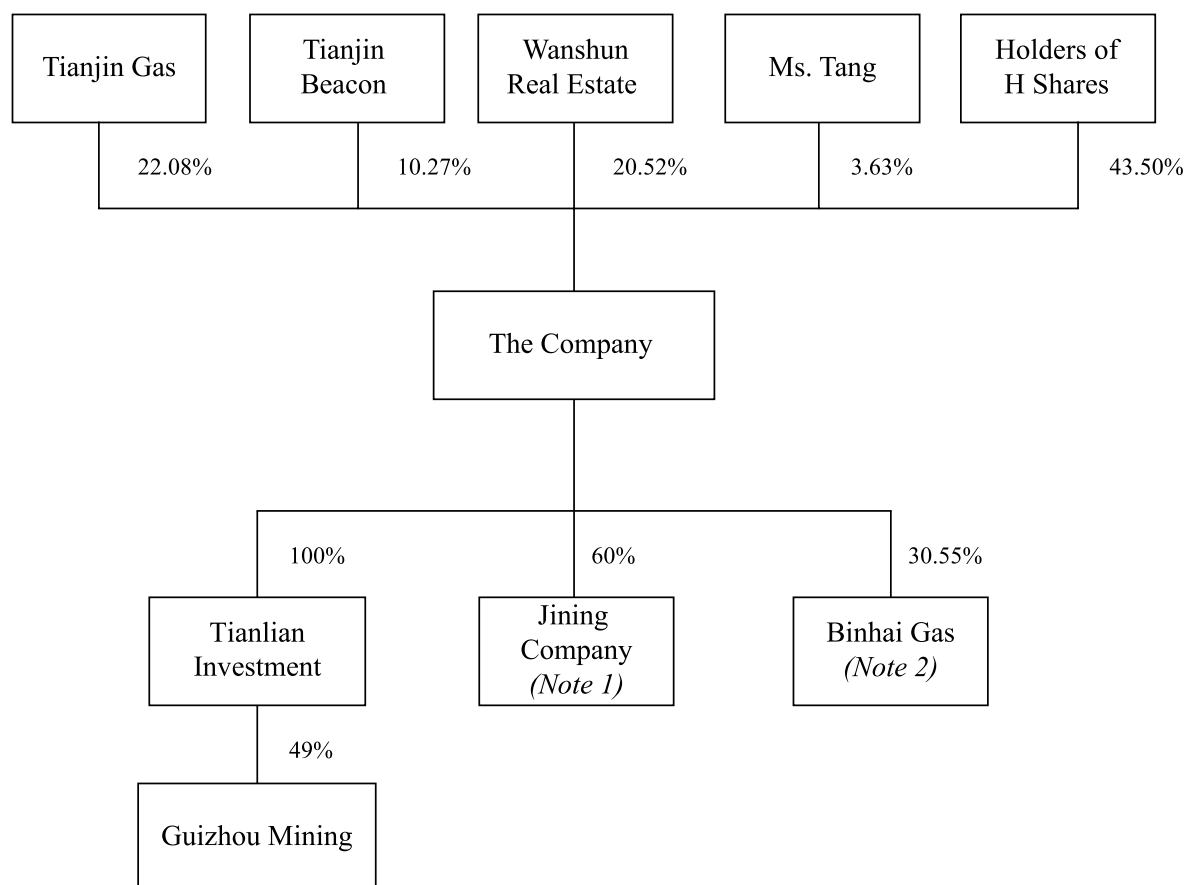
To meet the increase in demand of natural gas of the Company as a result of completion of the Assets Acquisition Agreement, the Company entered into the Gas Supply Contracts with Tianjin Gas on 16 September 2009. The Gas Supply Contracts comprise the 2009 Gas Supply Contract, the 2010 Gas Supply Contract and the 2011 Gas Supply Contract, all dated 16 September 2009. The Gas Supply Contracts are conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Transaction, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed. Accordingly, only the 2011 Gas Supply Contract will be tabled in the EGM for consideration by the Independent Shareholders. For the details of the 2011 Gas Supply Contract, please refer to the section headed "Connected Transactions" of this circular.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

The following diagrams illustrate the corporate and shareholding structure of the Company and its subsidiaries and associated companies as at the Latest Practicable Date and immediately after the completion of the Proposed Assets Transfer (assuming there is no changes to the issued share capital of, and the shareholding in, each of the relevant companies other than those contemplated under the Assets Acquisition Agreement):—

As at the Latest Practicable Date:—

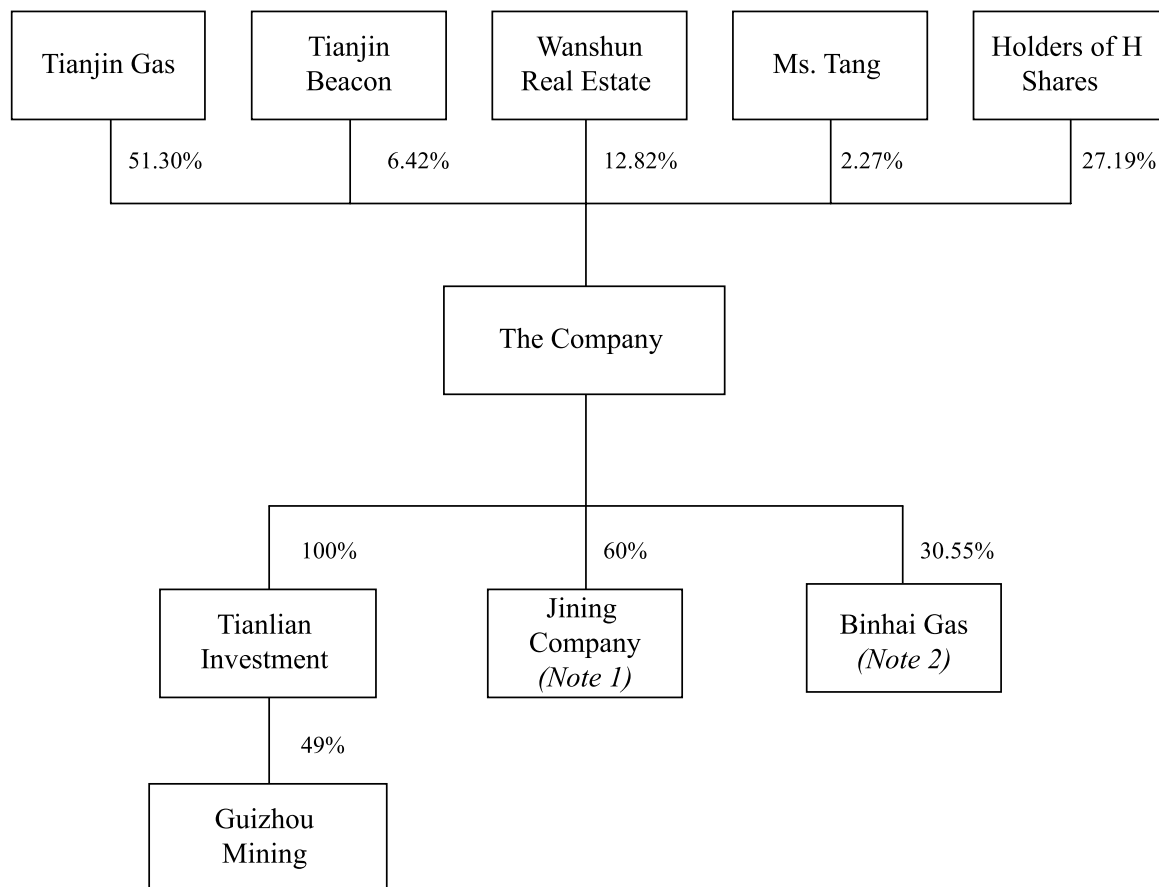


Note:

1. Jining Company has been undergoing de-registration process in the PRC.
2. Tianjin Gas and Tianjin Infrastructure had 41.67% and 27.78% of equity interests in Binhai Gas respectively.

LETTER FROM THE BOARD

Immediately after the completion of the Proposed Assets Transfer (assuming there is no changes to the issued share capital of, and the shareholding in, each of the relevant companies other than those contemplated under the Assets Acquisition Agreement):—



Note:

1. Jining Company has been undergoing de-registration process in the PRC.
2. Tianjin Gas and Tianjin Infrastructure had 41.67% and 27.78% of equity interests in Binhai Gas respectively.

LETTER FROM THE BOARD

The following table illustrates the change of shareholding of the Company immediately before and after the completion of the Proposed Assets Transfer (assuming there is no changes to the issued share capital of, and the shareholding in, the Company other than those contemplated under the Assets Acquisition Agreement):

	Number of Shares held immediately before the Proposed Assets Transfer	Approximate shareholding in the Company immediately before the Proposed Assets Transfer	Number of Shares held immediately after the Proposed Assets Transfer	Approximate shareholding in the Company immediately after the Proposed Assets Transfer
Tianjin Gas and parties acting in concert with it	253,809,687 Domestic Shares	22.08%	943,517,487 Domestic Shares	51.30%
Tianjin Beacon (Note 1)	118,105,313 Domestic Shares	10.27%	118,105,313 Domestic Shares	6.42%
Wanshun Real Estate (Note 2)	235,925,000 Domestic Shares	20.52%	235,925,000 Domestic Shares	12.82%
Ms. Tang (Note 3)	41,700,000 Domestic Shares	3.63%	41,700,000 Domestic Shares	2.27%
Holders of H Shares	500,060,000 H Shares	43.50%	500,060,000 H Shares	27.19%
Total	1,149,600,000	100%	1,839,307,800	100%

Notes:

1. Tianjin Beacon is a State-owned enterprise established in the PRC with limited liability and is ultimately owned by Tianjin Municipal Government.
2. Wanshun Real Estate is a company established in the PRC with limited liability. Mr. Bai Shao Liang, an executive Director, held 76% interests in Wanshun Real Estate as at the Latest Practicable Date.
3. Ms. Tang is an executive Director.

Save that both Tianjin Beacon and Tianjin Gas are State-owned enterprises directly or indirectly owned by Tianjin Municipal Government, each of Tianjin Beacon, Wanshun Real Estate and Ms. Tang is not connected with Tianjin Gas and is not a party acting in concert with Tianjin Gas.

FINANCIAL INFORMATION OF THE TRANSFERRED ASSETS

Please refer to Appendix III to this circular for financial information of the Transferred Assets.

LETTER FROM THE BOARD

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of comprehensive income, together with the unaudited pro forma consolidated statement of financial position of the Enlarged Group was illustrated in Appendix IV to this circular.

REASONS FOR AND BENEFITS OF THE PROPOSED ASSETS TRANSFER

The Directors consider that the Group will benefit from the Proposed Assets Transfer. In particular, (i) the Proposed Assets Transfer will significantly increase the operation scale of the Group in terms of number of users and areas of operation; (ii) the Proposed Assets Transfer will broaden and diversify the Group's client base; (iii) the Proposed Assets Transfer will increase the market share of the gas business of the Group in Tianjin; (iv) the Transferred Assets are located in urban districts, where the local pipeline networks and other pipeline-related facilities have been fully developed, thus the Company does not have to inject additional capital to develop the relevant facilities; and (v) the Transferred Assets are profitable assets. Although the Transferred Assets have certain drawbacks such as, being relatively old and enjoyed lower average gas sales per user than that of the Group, overall, the Directors consider the benefits outweigh the drawbacks as the Directors expected that the Proposed Assets Transfer will bring in a substantial amount of stable gas sales income to the Enlarged Group. The Directors estimated that the investment in the Transferred Assets will breakeven in about 8 to 17 years. Besides, after the Proposed Assets Transfer is completed, Tianjin Gas will become the controlling shareholder of the Company (as defined in the GEM Listing Rules). Given the background of Tianjin Gas, the Directors consider that the strengthening of the relationship with Tianjin Gas will assist the Group in consolidating its market position in Tianjin. On the other hand, the Directors expected that the growth rate of the Group's gas connection fee income will inevitably decline as (i) the connection fee income is a one-off income from any single customers by its nature; and (ii) the Operational Locations will become more urbanized in the future and thus, less area is available for further development. The Directors further expected that due to the urbanisation of the Operational Locations, the proportion of the Group's revenue generated from the sales of gas will continue to increase in the future.

The Directors (including the independent non-executive Directors) consider that the Assets Acquisition Agreement was entered into on normal commercial terms and in the ordinary and usual course of the business of the Company after arm's length negotiation, and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR ENTERING INTO THE GAS SUPPLY CONTRACTS

Tianjin Gas is the only wholesale natural gas supplier in the Operational Locations of the Group as well as Heping District and Hedong District in Tianjin. Upon completion of the Assets Acquisition Agreement, the Company will purchase natural gas from Tianjin Gas for selling to the end users in the relevant districts. The Directors expect the Transferred Assets would bring in a new and steady stream of income to the Company and broaden the Company's pipeline networking in Hedong District and Heping District of Tianjin at the same time. The Company has reviewed the gas supply agreement entered into between Tianjin Gas and its customer which is not connected to Tianjin Gas. The Directors are of the view that the terms under the Gas Supply Contracts are not less favourable than the terms provided by Tianjin Gas to its other customers.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the terms of the Gas Supply Contracts were arrived at after arm's length negotiation between the parties. Having considered the abovementioned terms and reasons of entering into the Gas Supply Contracts, the Directors (including the independent non-executive Directors) consider that the Gas Supply Transaction is on normal commercial terms, and is entered into in the ordinary and usual course of business of the Company and that the terms of the Gas Supply Contracts are fair and reasonable and in the interests of the Shareholders as a whole.

The Gas Supply Contracts comprise the 2009 Gas Supply Contract, the 2010 Gas Supply Contract and the 2011 Gas Supply Contract, all dated 16 September 2009. The Gas Supply Contracts are conditional on the completion of Assets Acquisition Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Transaction, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed. Accordingly, only the 2011 Gas Supply Contract will be tabled in the EGM for consideration by the Independent Shareholders.

FINANCIAL EFFECT OF THE PROPOSED ASSETS TRANSFER ON THE GROUP

The financial impact of the Proposed Assets Transfer (including its effect on the earnings, assets and liabilities) is illustrated in the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular.

Based on the audited consolidated financial statements of the Company for the year ended 31 December 2009, the profit attributable to owner of the Company amounted to approximately RMB66.4 million. Assuming that the Company had acquired the Transferred Assets on 1 January 2009, the Enlarged Group would have recorded unaudited pro forma profit attributable to owner of the Company for the year ended 31 December 2009 amounting to approximately RMB126.7 million, representing an increase of approximately 91.0% from the audited profit attributable to owner of the Company for the year ended 31 December 2009.

As illustrated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the net assets value of the Enlarged Group would increase by approximately RMB590.6 million as at 30 June 2010. The carrying amount of property, plant and equipment and intangible assets of the Enlarged Group would increase by approximately RMB23.7 million and RMB572.0 million, respectively. The estimated legal and professional cost in relation to the Proposed Assets Transfer is approximately RMB5.1 million. The consideration of the acquisition of the Transferred Assets will be settled by allotting and issuing 689,707,800 Domestic Shares to Tianjin Gas. As such, share capital and share premium and reserves of the Enlarged Group would increase by approximately RMB69.0 million and RMB526.7 million respectively as a result of allotting and issuing the Consideration Shares.

LETTER FROM THE BOARD

PRO FORMA NET TANGIBLE ASSETS

The unaudited pro forma net tangible assets of the Enlarged Group as at 30 June 2010 would amount to approximately RMB480.9 million, as extracted from the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, which is calculated by deducting the total liabilities of RMB96.5 million and the intangible assets of RMB775.0 million from the total assets of RMB1,352.3 million. The net tangible asset value per share as at 30 June 2010 would decrease from RMB0.42 to RMB0.26 upon the completion of the Proposed Assets Transfer.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

With the fast growth of China's economy and the gradual increase of private investments, all the recent factors indicate that the growth of the energy industry in China remains strong. Combined with the special attention of the State on the West-to-East Pipeline Project and environmental protection measures, the gas industry in China is still growing rapidly. In view of environment protection and efficiency, the Chinese government plans to gradually reduce the use of coal and instead encourage the use of green fuels such as various types of natural gas.

Benefiting from the reformation of gas companies across China and the considerable demands, the Group expects to further increase the market share in the existing Operational Locations. The Proposed Assets Transfer will significantly increase the operation scale of the Group. After the Proposed Assets Transfer is completed, Tianjin Gas will become the controlling shareholder of the Company. Given the background of Tianjin Gas, the Directors consider that the strengthening of the relationship with Tianjin Gas will assist the Group in consolidating its market position in Tianjin.

FUTURE PLANS AND PROSPECTS

The Shareholders at an extraordinary general meeting and separate class meetings held on 29 October 2008 approved the special resolutions, among other things, on the making of the relevant applications for the proposed transfer of listing of H Shares from GEM to Main Board. As advised by the PRC Legal Adviser, the aforesaid shareholders' approval remains valid. On 11 December 2009, the listing application for the transfer of listing of H Shares from GEM to the Main Board has been submitted to the CSRC and the said listing application has been approved by the CSRC on 10 November 2010. As advised by the PRC Legal Adviser, the aforesaid approval by the CSRC will remain valid upon the completion of the Proposed Assets Transfer and the change in shareholding of Tianjin Gas in the Company as a result of the issue and allotment of the Consideration Shares immediately after the completion of the Proposed Assets Transfer. As at the Latest Practicable Date, the Company has not yet filed the application to the Stock Exchange for the transfer of listing of its H Shares from GEM to the Main Board. The Directors believe that the transfer of listing will be beneficial to the future growth, financing flexibility and business development of the Enlarged Group as a whole.

Moreover, the Group will continue to seek for business expansion by way of acquisition, if suitable assets (including but not limited to those assets held by Tianjin Gas) or targets are identified.

LETTER FROM THE BOARD

INFORMATION ABOUT TIANJIN GAS

Tianjin Gas is a State-owned enterprise. It was the largest natural gas operator in Tianjin in the year 2009 and is the only wholesale natural gas supplier in the Operational Locations of the Group as well as Heping District and Hedong District. Tianjin Gas is mainly engaged in infrastructure of gas pipelines, supply of natural gas to other gas suppliers in Tianjin area, sale and distribution of piped gas to end users in certain areas of Tianjin City. Please refer to the section headed “Relationship with Tianjin Gas” of this circular for information relating to the relationship between Tianjin Gas and the Group.

It is the intention of Tianjin Gas that the Enlarged Group will maintain its existing business. Save as disclosed in the paragraph headed “Proposed Joint Venture between Tianjin Gas and China Resources Gas (HK)” below, Tianjin Gas has no intention to introduce any major change to the existing operating and management structure and the existing business of the Enlarged Group. Tianjin Gas has no intention in the future to re-deploy the fixed assets, or to discontinue the employment of the employees of the Enlarged Group other than in the ordinary course of business of the Enlarged Group.

Tianjin Gas intends that the Company will maintain the listing status on the Stock Exchange after completion of the Proposed Assets Transfer.

LISTING RULES IMPLICATIONS

(1) Connected transaction and very substantial acquisition

Tianjin Gas is one of the Promoters and as at the Latest Practicable Date held 253,809,687 Domestic Shares, representing approximately 22.08% shareholding of the Company. Therefore, Tianjin Gas is a substantial shareholder (as defined in the GEM Listing Rules). Pursuant to Rule 20.11(1) of the GEM Listing Rules, Tianjin Gas is a connected person of the Company. Pursuant to Rule 20.13(1) of the GEM Listing Rules, the Proposed Assets Transfer constitutes a connected transaction of the Company and, pursuant to Rule 20.14 of the GEM Listing Rules, the Gas Supply Transaction constitutes a continuing connected transaction of the Company.

As the applicable percentage ratios (as defined in the GEM Listing Rules) of the Proposed Assets Transfer is higher than 100%, the Proposed Assets Transfer constitutes a very substantial acquisition under Rule 19.06 of the GEM Listing Rules.

Therefore, the Proposed Assets Transfer and the Gas Supply Transaction will be subject to the reporting, announcement and independent shareholders’ approval requirements under the GEM Listing Rules. Tianjin Gas and its associates shall abstain from voting on the resolution(s) in relation to the Proposed Assets Transfer and the Gas Supply Transaction at the EGM and the Class Meetings (where applicable).

LETTER FROM THE BOARD

(2) Reverse takeover and new listing application

As the Proposed Assets Transfer (if completed) which constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules would increase the shareholding of Tianjin Gas in the Company from approximately 22.08% to approximately 51.30%, it constitutes a reverse takeover under Rule 19.06(6) of the GEM Listing Rules and the Company is treated as if it were a new listing applicant. The Enlarged Group must be able to meet the all the basic conditions set out in Chapter 11 of the GEM Listing Rules.

Kingsway has been appointed as the Sponsor in respect of the new listing application for all the H Shares issued by the Company.

The new listing application has been made to the Listing Division. The Listing Division has given its approval in principle of the new listing application of the Company.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, Tianjin Gas owned approximately 22.08% of the existing issued share capital of the Company. Immediately following the issue of the Consideration Shares to Tianjin Gas upon completion of the Proposed Assets Transfer, the shareholding of Tianjin Gas in the Company will increase to approximately 51.30% on the enlarged issued share capital of the Company. Under Rule 26.1 of the Takeovers Code, Tianjin Gas would be required to make an unconditional mandatory general offer to acquire all issued Shares not already owned or agreed to be acquired by Tianjin Gas and parties acting in concert with it, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive.

An application has been made by Tianjin Gas to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders of the Whitewash Waiver at the EGM by way of poll. Tianjin Gas and parties acting in concert with it will abstain from voting on the resolution for approving the Whitewash Waiver.

Since Tianjin Gas will own more than 50% of the issued share capital of the Company immediately after completion of the Proposed Assets Transfer, it would be able to increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a mandatory general offer.

As at the Latest Practicable Date, none of Tianjin Gas nor parties acting concert with it:

- (i) held owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of securities in the Company, other than the 253,809,687 Domestic Shares, representing 22.08% of the existing issued share capital of the Company held by Tianjin Gas;
- (ii) had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person; or
- (iii) had borrowed or lent any Shares, warrants, options, convertible securities or derivatives of the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares. Neither Tianjin Gas nor parties acting in concert with it holds any convertibles securities, warrants or options of the Company.

Tianjin Gas and parties acting in concert with it have not dealt in the Shares, or other convertible securities, options, warrants or derivatives in issue of the Company for the period of six months prior to the date of the Announcement, and up to the Latest Practicable Date.

As at the Latest Practicable Date, neither Tianjin Gas nor parties acting in concert with it has received an irrevocable commitment from anyone to vote for the Proposed Assets Transfer and the Whitewash Waiver. There are no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Proposed Assets Transfer and the Whitewash Waiver. There are no agreements or arrangements to which Tianjin Gas is party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposed Assets Transfer and the Whitewash Waiver (save as the conditions precedent to the Assets Acquisition Agreement). There is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which Tianjin Gas or parties acting in concert with it has borrowed or lent.

PROPOSED JOINT VENTURE BETWEEN TIANJIN GAS AND CHINA RESOURCES GAS (HK)

The Board has been informed by Tianjin Gas that on 28 June 2010, Tianjin Gas and China Resources Gas (HK) signed the Cooperation Agreement in connection with, inter alia, the proposed formation of the Proposed JV. The Cooperation Agreement is not legally binding until the formal joint venture agreement relating to and the articles of association of the Proposed JV is signed. Pursuant to the Cooperation Agreement, Tianjin Gas and China Resources Gas (HK) intend to set up the Proposed JV in the PRC. Tianjin Gas and China Resources Gas (HK) will own 51% and 49% respectively of the registered capital of the Proposed JV, which is expected to be in the range between RMB4 billion and RMB5 billion (subject to internal approval of each of Tianjin Gas and China Resources Gas (HK)). Tianjin Gas will contribute its share of registered capital by way of injection of its natural gas-related operational assets (which include, inter alia, the Domestic Shares held by Tianjin Gas) and China Resources Gas (HK) will contribute its share of registered capital by way of cash. It is intended that after establishment of the Proposed JV, all existing natural gas-related business of Tianjin Gas will be taken over by the Proposed JV. Each of Tianjin Gas and China Resources Gas (HK) agrees that each of them (including its controlled affiliates) and the Proposed JV (including listing company that it holds shares) will not compete with each other in the same industry and will not develop the same or competing business in the operational areas of the other parties. It is intended that the Proposed JV will use the Company as a public listing vehicle for consolidation of its natural gas and natural gas-related businesses and the assets and business of the Proposed JV will be injected into the Company, and Tianjin Gas and China Resources Gas (HK) undertake that after the establishment of the Proposed JV, the Proposed JV will ensure that the principal business of the Company shall not be changed. Tianjin Gas and China Resources Gas (HK) intended that the establishment of the Proposed JV would be completed in early November 2010.

LETTER FROM THE BOARD

However, Tianjin Gas advised that there would be a delay in the intended timetable as far as the disposal of its Shares in the Company to the Proposed JV is concerned and there was no agreed revised timetable in this regard as at the Latest Practicable Date. Tianjin Gas has indicated that it will not enter into any legally binding agreement concerning the disposal of its Shares in the Company before completion of the subscription of the Consideration Shares and the expiry of the six-month period from the date of the EGM approving the Proposed Assets Transfer.

As contemplated under the Cooperation Agreement, Tianjin Gas will hold 51% of the interests in the Proposed JV. Tianjin Gas also expects that it will be entitled to appoint a majority of the board of directors of the Proposed JV. Based on the above which are subject to the execution of the formal joint venture agreement relating to the Proposed JV, Tianjin Gas considers that it will control the Proposed JV and hence there will not be a change in control in the Company after the disposal of the Shares by Tianjin Gas to the Proposed JV. However, the finalized terms of the formal joint venture agreement relating to the Proposed JV are still under negotiation and Tianjin Gas and the Company will comply with all applicable laws, rules and regulations if and when any legally binding agreement is signed regarding the disposal of the Shares by Tianjin Gas to the Proposed JV.

The Directors advised that, based on the proposed structure of the Proposed JV as contemplated under the Cooperation Agreement, if the Company acquires the assets and business of the Proposed JV or of Tianjin Gas in the future, the transaction may constitute a connected transaction of the Company and if so, depending on the size of the assets or business to be acquired, the transaction may be subject to the disclosure and independent shareholders' approval requirement under the GEM Listing Rules. The Company may acquire the assets and business of the Proposed JV or of Tianjin Gas by issuing new Shares as consideration or by cash. In the case of issuing Shares, it may cause a material dilution to the interests of the existing Shareholders. In the case of cash consideration, the Company may not have sufficient funds and may opt to raise funds by borrowing or placing new Shares, the latter may also lead to a material dilution to the interests of the existing Shareholders. As at the Latest Practicable Date, the formal joint venture agreement relating to the Proposed JV was still under negotiation, and there was no negotiation on the terms (in particular the type of assets or business to be acquired, the size of the consideration, the payment method and payment terms) as to such future acquisitions by the Company, shareholders and investors are advised to exercise caution in the trading and dealing of the H Shares.

The Directors advised that, after making enquiry with Tianjin Gas, they were given to understand that, as at the Latest Practicable Date, although the principle is that all natural gas-related operational assets of Tianjin Gas would be injected into the Proposed JV under the Cooperation Agreement, no further agreement has been reached to define the precise scope of the natural gas-related business of Tianjin Gas that would be injected into the Proposed JV and there was no detail on the timetable for the injection of the assets and business of the Proposed JV to the Group. The Directors further confirmed that as at the Latest Practicable Date, the Company did not enter into any negotiation with Tianjin Gas for the scope of the assets and business of the Proposed JV to be injected into the Group.

LETTER FROM THE BOARD

The Directors advised that, the Company would only acquire the assets or business of the Proposed JV or of Tianjin Gas in the future if the Directors are of the view that (1) the proposed transaction would be entered into on normal commercial terms; (2) the terms would be fair and reasonable and in the interests of the Company and the Shareholders as a whole; (3) the Company has the resources to settle the relevant consideration; and (4) the transaction would comply with all applicable laws, rules and regulations, including but not limited to the GEM Listing Rules.

As disclosed in the 2009 annual report of China Resources Gas Group Limited, China Resources Gas Group Limited, the holding company of China Resources Gas (HK), operates 27 city gas distribution businesses in 10 provinces including natural or petroleum gas pipelines, CNG filling stations and bottled LPG distribution through its subsidiaries in the PRC. The 27 cities that China Resources Gas Group Limited currently is operating do not include Tianjin. As at the Latest Practicable Date and as far as the Directors are aware, China Resources Gas (HK) did not have any gas-related operation in Tianjin. Based on the above, the Directors consider that there would not be any competition between the business of the Group and that of the Proposed JV in Tianjin. Besides, the Board has established corporate governance procedures to avoid conflicts of interest of the Directors by providing, among other things, that (i) each Director is entitled to one vote at board meetings and decisions of the Board are passed by a majority of votes; (ii) in the event of any conflict of interests, such as where it involves the passing of resolutions in relation to transactions where any Director is materially interested, the relevant Director will abstain from voting and will not be counted in the quorum; and (iii) where it involves the passing of resolutions in relation to transactions with its controlling shareholder or its associates, the Director who holds directorship or senior management position in such controlling shareholder or its associates will be excused from the meeting for such matter, will abstain from voting and will not be counted in the quorum, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors. The Board believes that the aforesaid corporate governance procedures will effectively prevent any potential conflict of interests in the board meeting of the Company.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES

Under the Assets Acquisition Agreement, the Company will issue, in aggregate, 689,707,800 Domestic Shares as the Consideration Shares to Tianjin Gas. The Company will seek the grant of a specific mandate from the Independent Shareholders at the EGM and Class Meetings to allot and issue new Domestic Shares to satisfy the allotment.

PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Subject to completion of the Assets Acquisition Agreement, the Directors have proposed to amend the Articles of Association to reflect the increase in the registered capital of the Company and the increase in the number of Domestic Shares of the Company.

In light of the proposed appointment of an additional independent non-executive Director, the Board has proposed to amend Article 88 of the Articles of Association which provides, inter alia, that the Board shall comprise of nine Directors to the effect that the Board shall comprise of ten Directors.

LETTER FROM THE BOARD

PROPOSED APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

The Board has nominated Mr. Tam Tak Kei, Raymond for election as an additional independent non-executive Director at the EGM. The particulars of Mr. Tam, which are required to be disclosed pursuant to the GEM Listing Rules, are set out in Appendix VII to this circular.

EGM AND CLASS MEETINGS

Notices of the EGM, the Domestic Shares Class Meeting and the H Shares Class Meeting to be held on 15 February 2011 (Tuesday) at 3:00 p.m., 3:30 p.m. and 4:00 p.m., respectively, at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC set out on pages 422 to 432 of this circular. Pursuant to Rules 17.47 and Rule 20.52 of the GEM Listing Rules, voting at the EGM, the Domestic Shares Class Meeting and the H Shares Class Meeting shall be taken on poll.

Proxy forms for use at the EGM and the Class Meetings are enclosed with this circular. Whether or not you are able to attend (if you are so entitled to) the EGM and/or the Class Meetings, you are requested to complete the proxy forms in accordance with the instructions printed thereon and return them as soon as possible to the Company's principal place of business in the PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM or the respective Class Meetings (if applicable).

Reply slips for the purpose of informing the Company whether you will be attending (in person or by proxy) the EGM and the respective Class Meetings are also enclosed. You are reminded to complete and sign the reply slip (if you are entitled to attend the EGM and/or the respective Class Meetings) and return the signed slip(s) to the Company's principal place of business in the PRC on or before 27 January 2011 in accordance with the instructions printed thereon.

GENERAL

Kingsway has been appointed as the Sponsor in respect of the new listing application of the Company.

The Independent Board Committee (comprising all independent non-executive Directors, namely Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric) has been constituted to consider the terms of the Assets Acquisition Agreement, the 2011 Gas Supply Contract and the proposal for grant of the specific mandate to issue Shares and to make recommendations to Independent Shareholders.

The Whitewash Independent Board Committee (comprising a non-executive Director, namely Mr. Gong Jing, and three independent non-executive Directors, namely Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric, who have no direct and indirect interest in the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver) has been constituted to consider the terms of the Whitewash Waiver and to make recommendations to Independent Shareholders.

LETTER FROM THE BOARD

As Mr. Sun Bo Quan, a non-executive Director, holds position with Tianjin Gas and devotes a majority of his working time in managing the business of Tianjin Gas, he has not been included in the Whitewash Independent Board Committee.

TC Capital Asia Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in connection with the terms of the Proposed Assets Transfer, proposed grant of the specific mandate to issue Shares and Gas Supply Transaction (including the related proposed cap). It would also advise the Whitewash Independent Board Committee on the fairness and reasonableness of the Proposed Assets Transfer contemplated in the Whitewash Waiver.

The appointment of TC Capital Asia Limited as the independent financial adviser has been approved by the Independent Board Committee and the Whitewash Independent Board Committee.

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Shares and the Gas Supply Transaction (including the related proposed annual cap), as well as the advice and recommendations of the Independent Financial Adviser set out in the section headed “Letter from the Independent Financial Adviser” of this circular, considers that the terms of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue new Domestic Shares and the Gas Supply Transaction (including the related proposed annual cap) are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Gas Supply Transaction is on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM and the Class Meetings (where applicable) to approve, among other things, the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Domestic Shares and the Gas Supply Transaction (including the related proposed annual cap). The Letter from the Independent Board Committee is set out on pages 90 to 91 of this circular and the Letter from the Independent Financial Adviser is set out on pages 94 to 119 of this circular.

The Whitewash Independent Board Committee, having considered the terms of the Proposed Assets Transfer and the Whitewash Waiver, as well as the advice and recommendations of the Independent Financial Adviser set out in the section headed “Letter from the Independent Financial Adviser” of this circular, considers that the terms of the Proposed Assets Transfer and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Whitewash Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM and the Class Meetings to approve, among other things, the Whitewash Waiver. The Letter from the Whitewash Independent Board Committee is set out on pages 92 to 93 of this circular and the Letter from the Independent Financial Adviser is set out on pages 94 to 119 of this circular.

LETTER FROM THE BOARD

On the basis of the information set out in this circular, the Directors (including members of the Independent Board Committee and of the Whitewash Independent Board Committee) consider that the passing of the resolutions for (1) the Proposed Assets Transfer, (2) the proposed grant of the specific mandate to issue Domestic Shares, (3) the Whitewash Waiver, (4) the Gas Supply Transaction (including the related proposed annual cap), (5) the proposed amendment on the Articles of Association, and (6) the appointment of Mr. Tam Tak Kei, Raymond as an independent non-executive Director, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend that the Shareholders vote in favour of the resolutions set out in the EGM and the Class Meetings at the end of this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the sections headed “Risk factors” and “Industry overview” and the appendices to and the notices of the EGM and the Class Meetings set out in this circular.

By Order of the Board,
Tianjin Tianlian Public Utilities Company Limited*
Sun Bo Quan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

Executive Directors:

Mr. Jin Jian Ping
Mr. Dong Hui Qiang
Ms. Tang Jie
Mr. Bai Shao Liang

Legal Address:

Weishan Road
Chang Qing Science,
Industry and Trade Park,
Jinnan District Tianjin

Non-executive Directors:

Mr. Sun Bo Quan (*Chairman*)
Mr. Gong Jing

Principal Place of Business in the PRC:

Floor 9, Gangao Tower
18 Zhengzhou Road
He Ping District
Tianjin

Independent Non-executive Directors:

Professor Zhang Yu Li
Mr. Luo Wei Kun
Mr. Chan Shun Kuen, Eric

31 December 2010

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
TREATED AS A REVERSE TAKEOVER AND
AN APPLICATION FOR NEW LISTING AND
CONNECTED TRANSACTION INVOLVING ACQUISITION OF ASSETS AND
ISSUE OF CONSIDERATION SHARES**

CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY

We refer to the circular (the “Circular”) dated 31 December 2010 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been constituted to, among other things, give a recommendation to the Independent Shareholders in respect of the terms of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Shares and the Gas Supply Transaction (including the proposed annual cap). TC Capital Asia Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board set out on pages 58 to 89 of the Circular and the letter from the Independent Financial Adviser set out on pages 94 to 119 of the Circular.

Having considered the terms of the Proposed Assets Transfer, the proposed grant of specific mandate to issue Shares and the Gas Supply Transaction (including the related proposed annual cap), as well as the advice given by the Independent Financial Adviser as set out in its letter of advice, we are of the opinion that the terms of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Shares, and the Gas Supply Transaction (including the proposed annual cap) are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Gas Supply Transaction is on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM and the Class Meetings (where applicable) to approve, among other things, in respect of the Proposed Assets Transfer, the proposed grant of the specific mandate to issue Shares and the Gas Supply Transaction (including the proposed annual cap).

Yours faithfully,

For and on behalf of the Independent Board Committee

Professor Zhang Yu Li

Independent non-executive Director

Mr. Luo Wei Kun

Independent non-executive Director

Mr. Chan Shun Kuen, Eric

Independent Non-executive Director

LETTER FROM THE WHITEWASH INDEPENDENT BOARD COMMITTEE



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

Executive Directors:

Mr. Jin Jian Ping
Mr. Dong Hui Qiang
Ms. Tang Jie
Mr. Bai Shao Liang

Legal Address:

Weishan Road
Chang Qing Science,
Industry and Trade Park,
Jinnan District Tianjin

Non-executive Directors:

Mr. Sun Bo Quan (*Chairman*)
Mr. Gong Jing

Principal Place of Business in the PRC:

Floor 9, Gangao Tower
18 Zhengzhou Road
He Ping District
Tianjin

Independent Non-executive Directors:

Professor Zhang Yu Li
Mr. Luo Wei Kun
Mr. Chan Shun Kuen, Eric

31 December 2010

To the Independent Shareholders

Dear Sir or Madam,

WHITEWASH WAIVER APPLICATION

We refer to the circular (the “Circular”) dated 31 December 2010 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings when used in this letter.

We have been constituted to, among other things, give a recommendation to the Independent Shareholders in respect of the Whitewash Waiver. TC Capital Asia Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in connection with the terms of the Proposed Assets Transfer and the Whitewash Waiver.

We wish to draw your attention to the letter from the Board set out on pages 58 to 89 of the Circular and the letter from the Independent Financial Adviser set out on pages 94 to 119 of the Circular.

* For identification purpose only

LETTER FROM THE WHITEWASH INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Proposed Assets Transfer and the Whitewash Waiver, as well as the advice given by the Independent Financial Adviser as set out in its letter of advice, we are of the opinion that the terms of the Proposed Assets Transfer and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM and the Class Meetings to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of the
Whitewash Independent Board Committee

Mr. Gong Jing
Non-executive Director

Professor Zhang Yu Li
Independent non-executive Director

Mr. Luo Wei Kun
Independent non-executive Director

Mr. Chan Shun Kuen, Eric
Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders from TC Capital Asia Limited dated 31 December 2010 prepared for incorporation in this circular:



TC Capital Asia Limited
天財資本亞洲有限公司

Suite 1904, 19/F,
Tower 6, The Gateway,
Harbour City,
Kowloon,
Hong Kong

31 December 2010

*The Independent Board Committee, the Whitewash Independent Board Committee
and the Independent Shareholders of Tianjin Tianlian Public Utilities Co., Ltd.*

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION TREATED AS
A REVERSE TAKEOVER AND
AN APPLICATION FOR NEW LISTING AND
CONNECTED TRANSACTION INVOLVING ACQUISITION
OF ASSETS AND
ISSUE OF CONSIDERATION SHARES;
APPLICATION FOR WHITEWASH WAIVER; AND
PROPOSED CONTINUING CONNECTED TRANSACTIONS**

(I) INTRODUCTION

We refer to our appointment to act as the Independent Financial Adviser to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders, where appropriate, relating to Assets Acquisition Agreement including proposed grant of the specific mandate to issue Consideration Shares, the application for the Whitewash Waiver and the non-exempt continuing connected transactions in relation to the Gas Supply Transaction after completion of the Proposed Assets Transfer. Details of the Assets Acquisition Agreement, the Whitewash Waiver and the non-exempt continuing connected transactions are contained in the letter from the Board in the circular to Shareholders dated 31 December 2010 (the “**Circular**”). Our letter is made for incorporation into the Circular. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

The Proposed Assets Transfer constitutes a very substantial acquisition and reverse takeover for the Company under the GEM Listing Rules and involves the Company making an application for new listing. By virtue of Tianjin Gas being one of the promoters of the Company and held 253,809,687 Domestic Shares as at the Latest Practicable Date, representing approximately 22.08% shareholding of the Company, Tianjin Gas is considered a connected person of the Company under the GEM Listing Rules and the Proposed Assets Transfer thus constitutes a connected transaction of the Company and requires Independent Shareholders’ approval.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Immediately following the completion of the Proposed Assets Transfer, the interest of Tianjin Gas in the Company will increase from approximately 22.08% to approximately 51.30% of the issued share capital of the Company as enlarged by the Consideration Shares. Tianjin Gas has made an application to the Executive for the Whitewash Waiver from an obligation to make a general offer under Rule 26 of the Takeovers Code in respect of the Shares of the Company not already owned or agreed to be acquired by Tianjin Gas. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM on a vote taken by poll.

Upon completion of the Proposed Assets Transfer, the Company will become the sole gas supplier in the areas that are covered by the Transferred Assets. Accordingly, the Company will first purchase gas from Tianjin Gas and in return supply such gas to other third party customers in those areas. Pursuant to the 2011 Gas Supply Contract, the Directors expects that the relevant applicable percentage ratios in respect of the annual consideration (the “**Annual Cap**”) for the continuing connected transactions contemplated thereunder will not be less than 2.5% and will be more than HK\$10,000,000, the Gas Supply Transaction would constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules and require Independent Shareholders’ approval.

The Independent Board Committee, comprising all the Company’s independent non-executive Directors, namely Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric, have been established to advise the Independent Shareholders on whether the terms of the Assets Acquisition Agreement, including the issuance of Consideration Shares, and the Gas Supply Transaction, including the relevant proposed annual caps, are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Assets Acquisition Agreement and the Gas Supply Transaction are in the interests of the Company and the Shareholders as a whole.

The Whitewash Independent Board Committee, comprising the Company’s non-executive Director, namely Mr. Gong Jing and all the Company’s independent non-executive Directors, namely Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric, have been established to consider the terms of the Whitewash Waiver, and to make a recommendation to the Independent Shareholders. As Mr. Sun Bo Quan, a non-executive Director, holds position with Tianjin Gas and devotes a majority of his working time in managing the business of Tianjin Gas, he has not been included in the Whitewash Independent Board Committee.

In putting forth our opinion and recommendation, we have relied on all relevant information, opinions and facts supplied and representation made to us by the Directors and representatives of the Company. We have assumed that all such information, opinions, facts and representations, which have been provided by the Directors or representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or is misleading. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation or audit into the businesses or affairs of the Group nor have we carried out any independent verification of the information supplied.

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(II) THE PROPOSED ASSETS TRANSFER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the terms of the Proposed Assets Transfer, we have taken into consideration the following factors and reasons:

Background on the Group

Listed on GEM of the Stock Exchange in January 2004, the Group is a gas pipeline infrastructure operator and manager that also offers the sales and distribution of piped gas in the Tianjin City. Historically, the gas connection business was the major sources of revenue of the Group. According to the 2009 annual report and 2010 interim report of the Company, starting from 2009, the sales of piped gas has superseded the gas connection business and become the major source of revenue of the Group which accounted for approximately 64.9% and 75.7% of the Group's total revenue during the year ended 31 December 2009 and six months ended 30 June 2010, respectively.

As set out in the 2009 annual report and 2010 interim report of the Company, it is the objective of the Group to consolidate its existing resources and further develop the natural gas pipelines market through mergers and acquisitions.

Set out below is a summary of the results of the Group for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010 and financial positions of the Group as at 31 December 2007, 2008 and 2009 and as at 30 June 2010 extracted from "Appendix I — Financial Information of the Group" to the Circular and 2010 interim report. Details on the financial information of the Group are set out in "Appendix I — Financial Information of the Group" to the Circular and 2010 interim report.

Summary of results of the Group

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Turnover	178,871	217,169	317,992	136,683	165,733
Gross profit	105,746	107,321	95,666	35,248	40,372
Profit for the year	62,335	60,340	66,367	23,607	26,723
Profit attributable to the equity holders of the Company	62,335	60,475	66,367	23,607	26,723

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For the years ended 31 December 2007 and 2008, the Group recorded a turnover of approximately RMB178.9 million and RMB217.2 million, respectively, representing an annual increase of approximately 21.4%. The increase in total revenue was mainly due to the increase in the revenue of sales of piped gas by approximately RMB39.2 million following the completion of the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008. The gas usage in these newly acquired districts was much higher than the Group's areas under operation prior to that acquisition. For the years ended 31 December 2008 and 2009, the Group recorded a turnover of approximately RMB217.2 million and RMB318.0 million, respectively, representing an annual increase of approximately 46.4%. The increase in total revenue was mainly due to the net effect of (i) significant increase in the revenue of sales of piped gas of approximately RMB131.8 million following the completion of the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008; and (ii) a decrease of 24.2% in gas connection revenue from approximately RMB135.1 million in 2008 to approximately RMB102.4 million in 2009, mainly due to delay in certain new projects. For the six months ended 30 June 2009 and 2010, the Group recorded a turnover of approximately RMB136.7 million and RMB165.7 million, respectively, representing an increase of approximately 21.2%. The increase in total revenue was mainly due to the increase in sales of piped gas from approximately RMB99.8 million for the six months ended 30 June 2009 to approximately RMB125.5 million for the six months ended 30 June 2010, representing an increase of approximately 25.8%. In addition, the gas transportation income became a new source of income to the Group since the second half of 2009. The respective revenue of approximately RMB2.6 million was recorded for the six months ended 30 June 2010.

For each of the three years ended 31 December 2009 and for the six months ended 30 June 2010, the overall gross margin of the Group was 59.1%, 49.4%, 30.1% and 24.4%, respectively. Such decreasing trend was mainly attributable to the increase in the proportion of the sales of piped gas from 19.7% for the year ended 31 December 2007 to 75.7% for the six months ended 30 June 2010, which generated lower gross margin than that of gas connection business. With the continuing increase in the sales of piped gas which has lower gross margin than gas connection business, the Group's gross margin decreased accordingly. The profit attributable to the equity holders of the Company decreased by 3.0% from RMB62.3 million for the year ended 31 December 2007 to RMB60.5 million for the year ended 2008. The profit attributable to the equity holders of the Company increased by 9.7% from RMB60.5 million for the year ended 31 December 2008 to RMB66.4 million for the year ended 31 December 2009. The profit attributable to the equity holders of the Company increased by 13.2% from RMB23.6 million for the six months ended 30 June 2009 to RMB26.7 million for the six months ended 30 June 2010.

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Summary of financial positions of the Group

	As at 31 December			As at
	2007	2008	2009	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(audited)
Total assets	370,360	673,497	735,933	761,768
Total liabilities	92,861	84,058	97,371	96,483
Equity attributable to owners of the Company	277,499	589,439	638,562	665,285

As at 31 December 2008, the Group recorded total assets of approximately RMB673.5 million (2007: RMB370.4 million) and total liabilities of approximately RMB84.1 million (2007: RMB92.9 million). Total equity attributable to owners of the Company was approximately RMB589.4 million (2007: RMB277.5 million). The increase in total equity attributable to owners of the Company was mainly due to the increase in bank balance and cash arising from the issue of new H shares by approximately RMB174.9 million and the increase in intangible assets by approximately RMB81.4 million, which represented the right of distribution of gas in certain districts in the PRC.

As at 31 December 2009, the Group has total assets of approximately RMB735.9 million, comprising mainly of property, plant and equipment of approximately RMB234.0 million, intangible assets of approximately RMB207.5 million which represented the right of distribution of gas in certain districts in the PRC and is amortized on a straight-line basis over its estimated useful lives, trade receivables of approximately RMB69.7 million and bank and cash balance of approximately RMB187.1 million. The major liabilities of the Group were trade and other payables of approximately RMB33.1 million, a dividend payable of approximately RMB9.7 million, income tax payable of approximately RMB12.9 million and a bank loan of RMB40.0 million.

As at 30 June 2010, the Group recorded total assets of approximately RMB761.8 million, comprising mainly of property, plant and equipment of approximately RMB243.8 million, intangible assets of approximately RMB203.0 million which represented the right of distribution of gas in certain districts in the PRC, trade receivables of approximately RMB46.9 million, amount due from a shareholder of approximately RMB43.9 million and bank and cash balance of approximately RMB184.8 million. The major liabilities of the Group were trade and other payables of approximately RMB40.5 million, a dividend payable of approximately RMB9.7 million, income tax payable of approximately RMB5.3 million and a bank loan of RMB40.0 million.

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Average gas sales per user

Set out below is a table illustrating the average gas sales per different types of user of the Group for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	Year ended 31 December			Six months ended 30 June		Difference for the year ended 31 December		Difference for the six months ended 30 June
	2007	2008	2009	2009	2010	2007 vs. 2008	2008 vs. 2009	2009 vs. 2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>			
Domestic user	174.8	150.6	229.0	158.2	159.2	(13.8%)	52.1%	0.6%
Industrial and commercial user	253,607.5	288,509.3	798,907.5	392,624.4	482,702.6	13.8%	176.9%	22.9%

As advised by the Directors, the average gas sales per user are calculated as the total amount of gas sales for the year/period divided by the number of users at the year/period end. There was a 13.8% decrease in the average gas sales per domestic user of the Group for the year ended 31 December 2008 when comparing with that of 2007. Such decrease was mainly due to the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008. The Company only recognized one month revenue generated by the Hangu Assets, Ninghe Assets and Xiqing Assets II for the year ended 2008, whereas all users in relation to that acquisition were included in the calculation of the average gas sales per domestic user of the Group. The average gas sales per domestic user of the Group for the year ended 31 December 2009 was higher than that of 2008. Such increase was mainly due to the revenue generated by the Hangu Assets, Ninghe Assets and Xiqing Assets II have been fully recognized for the year ended 31 December 2009. The average gas sales per domestic user of the Group for the six months ended 30 June 2010 was slightly higher than that of 2009. Such increase was mainly due to the slight increase in gas sales during that period. The average gas sales per industrial and commercial user of the Group showed an increasing trend throughout the above period. Such increasing trend was also mainly due to the increase of gas sales resulted from acquisitions as mentioned above. The average gas sales per industrial and commercial user of the Group for the six months ended 30 June 2010 increased by approximately 22.9% as compared to the previous corresponding period. Such increase was mainly due to the increase in gas sales by approximately 29.1%.

Background on Assets Acquisition Agreement and Supplemental Agreement

According to the letter from the Board contained in the Circular, Tianjin Gas is a State-owned enterprise, and is the only wholesale natural gas supplier in the Operational Locations of the Group as well as Heping District and Hedong District in Tianjin. Tianjin Gas is mainly engaged in infrastructure of gas pipelines, supply of natural gas to other gas suppliers in Tianjin area, sale and distribution of piped gas to end users and sale of gas equipment and appliance related to gas supply in certain areas of Tianjin City.

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On 16 September 2009, the Company as purchaser and Tianjin Gas as vendor entered into the Assets Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire and Tianjin Gas conditionally agreed to sell the Transferred Assets. The Transferred Assets consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users (which includes approximately 3,000 Industrial and Commercial Users and approximately 357,000 Domestic Users) as at 30 June 2010, the related machinery and electronic equipment and 40 vehicles. The outdoor pipelines and domestic pipelines, which is the major component of Transferred Assets, have been constructed, owned and operated by Tianjin Gas since 1976. The remaining part of the tangible assets and gas ancillary facilities which are not included in the Transferred Assets mainly consisted of assets that were under construction at the time of identifying the assets to be transferred under the Asset Acquisition Agreement.

On 28 December 2010, a supplemental agreement has entered into between the Company and Tianjin Gas to amend and supplement certain terms of the Assets Acquisition Agreement.

Background on Cooperation Agreement

The Board has been informed by Tianjin Gas that on 28 June 2010, Tianjin Gas and China Resources Gas (HK) signed the Cooperation Agreement in connection with, inter alia, the proposed formation of the Proposed JV. The Cooperation Agreement is not legally binding until the formal joint venture agreement relating to, and the articles of association of, the Proposed JV is signed. Pursuant to the Cooperation Agreement, Tianjin Gas and China Resources Gas (HK) intend to set up the Proposed JV in the PRC. Tianjin Gas and China Resources Gas (HK) will own 51% and 49% respectively of the registered capital of the Proposed JV, which is expected to be in the range between RMB4 billion and RMB5 billion (subject to internal approval of each of Tianjin Gas and China Resources Gas (HK)). Tianjin Gas will contribute its share of registered capital by way of injection of its natural gas-related operational assets (which include, inter alia, the Domestic Shares held by Tianjin Gas) and China Resources Gas (HK) will contribute its share of registered capital by way of cash. It is intended that after establishment of the Proposed JV, all existing natural gas-related business of Tianjin Gas will be taken over by the Proposed JV. Each of Tianjin Gas and China Resources Gas (HK) agrees that each of them (including its controlled affiliates) and the Proposed JV (including listing company that it holds shares) will not compete with each other in the same industry and will not develop the

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same or competing business in the operational areas of the other parties. It is intended that the Proposed JV will use the Company as a public listing vehicle for consolidation of its natural gas and natural gas-related businesses and the assets and business of the Proposed JV will be injected into the Company, and Tianjin Gas and China Resources Gas (HK) undertake that after the establishment of the Proposed JV, the Proposed JV will ensure that the principal business of the Company shall not be changed.

According to the letter from the Board contained in the Circular, Tianjin Gas advised that there would be a delay in the intended timetable and there was no agreed revised timetable in this regard as at the Latest Practicable Date. Tianjin Gas has indicated that it will not enter into any legally binding agreement concerning the disposal of its Shares in the Company before completion of the subscription of the Consideration Shares and the expiry of the six-month period from the date of the EGM approving the Proposed Assets Transfer.

China Resources Gas (HK) is a wholly-owned subsidiary of China Resources Gas Group Limited (Stock Code: 01193). According to its interim report published in September 2010, China Resources Gas Group Limited, through its subsidiaries, currently operates 32 city gas distribution projects in 11 provinces and one municipality in China with annualised gas sales volume of some 5 billion cubic metre, including natural or petroleum gas pipelines, CNG filling stations and bottled LPG distribution as at 30 June 2010.

Though Tianjin Gas and China Resources Gas (HK) undertake the principal business of the Company shall not be changed and each of Tianjin Gas, China Resources Gas (HK) and the Proposed JV agrees not to compete with each other in the same industry nor develop the same or competing business in the operational areas of the other parties, Independent Shareholders are advised that the formation of the Proposed JV may or may not materialize and the assets and business of the Proposed JV may or may not be injected into the Company. As such Independent Shareholders should continuously monitor the latest development of the Cooperation Agreement or the future businesses or affairs of the Group.

Prospects of the PRC natural gas industry

According to the BP Statistical Review of World Energy June 2010, China is the second largest energy consumer in the world in 2009 with 2,153.1 million tonnes of oil equivalent of primary energy consumed during that year. China's primary energy consumption in 2009 accounted for 19.3% of total world energy consumption, compared to 12.3% in 2003.

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Based on the China Statistical Yearbook 2010, total energy consumption in China has surged by 110.7% from approximately 1,455.3 million tonnes of standard coal equivalent in 2000 to 3,066.5 million in 2009. Coal has traditionally been the primary source of energy in China. However, significant use of coal has led to environmental pollution issues. In its eleventh “Five-year plan”, the PRC government has emphasized the development of clean energy and tightened controls on the release of pollutants, which includes a series of policies to encourage the use of natural gas and hydroelectric power. As illustrated in the following table, natural gas consumption in the overall energy consumption mix was relatively low in China and accounted for only 2.2% in 2000 with a slight increase to 3.9% in 2009.

Year	Total energy consumption (million tonnes of standard coal equivalent)	Natural gas as a percentage of total energy consumption (%)
2000	1,455.3	2.2
2001	1,504.1	2.4
2002	1,594.3	2.4
2003	1,837.9	2.5
2004	2,134.6	2.5
2005	2,360.0	2.6
2006	2,586.8	2.9
2007	2,805.1	3.3
2008	2,914.5	3.7
2009	3,066.5	3.9

Source: China Statistical Yearbook 2010

Reasons for the Proposed Assets Transfer

The Proposed Assets Transfer is in line with the strategy of the Group to consolidate its existing resources and further develop the natural gas pipelines market through mergers and acquisitions as discussed above under the paragraph headed “Background on the Group”. The Directors expect the Transferred Assets would bring in a new and steady stream of income to the Company and broaden the Company’s pipeline networking in Hedong District and Heping District of Tianjin at the same time.

Upon completion of the Proposed Assets Transfer, the Company will significantly increase the operation scale in Tianjin City and Tianjin Gas will become the controlling shareholder of the Company. The Directors consider, and we concur, that the strengthening of the relationship with Tianjin Gas will assist the Group in consolidating its marketing position in Tianjin.

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Conditions precedent to the Assets Acquisition Agreement and Supplemental Agreement

The Assets Acquisition Agreement, as amended by the Supplemental Agreement, is conditional on, inter alia:

1. the approval by way of poll from the Independent Shareholders in respect of the Assets Acquisition Agreement and the Proposed Assets Transfer and the Whitewash Waiver at the EGM and the Class Meetings;
2. the approval from the relevant regulatory authorities (if any) on the issue of the Consideration Shares;
3. the granting of the Whitewash Waiver by the Executive;
4. the approval of the Listing Division of the Stock Exchange of new listing application filed by the Company as a result of the Proposed Assets Transfer;
5. the filing of the valuation report on the value of the Transferred Assets prepared by the PRC Valuer by Tianjin Gas with Tianjin State-owned Assets Administrative Bureau; and
6. the approval by Tianjin State-owned Assets Administrative Bureau of the application filed by Tianjin Gas regarding the subscription of the Company's Shares by Tianjin Gas with its fixed assets.

None of the above conditions can be waived by the parties. The Assets Acquisition agreement shall become effective upon fulfillment of the above conditions. As at the Latest Practicable Date, the filing requirement under item 5 has been fulfilled, and the Tianjin State-owned Assets Administrative Bureau has given its approval under item 6 above.

Business and financial positions of the Transferred Assets

The revenue of Tianjin Gas in respect of the Transferred Assets is derived from the PRC and mainly from the sales and distribution of piped gas. As at 30 June 2010, Tianjin Gas has made gas connections through the Transferred Assets to approximately 267,800 users in Hedong District and approximately 92,800 users in Heping District. The main and branch pipelines of Tianjin Gas in Hedong District and in Heping District have a total length of approximately 1,078,000 m and 396,000 m, respectively.

Set out below is a summary of the results of the Transferred Assets for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010 based on the amounts recorded in the books and records of the Transferred Assets. Details on the financial information of the Transferred Assets are set out in "Appendix III — Financial Information of the Transferred Assets" to the Circular.

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Summary of results of the Transferred Assets

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Turnover	624,231	810,694	855,840	535,254
Operating profit (<i>Note 1</i>)	131,912	213,905	192,112	135,446
Gross margin (<i>Note 2</i>)	21.1%	26.4%	22.4%	25.3%

Notes:

1. According to the “Appendix IV — Pro-forma Financial Information of the Enlarged Group” to the Circular, overhead expenses including staff costs and maintenance costs recorded in the books of Tianjin Gas have not been reflected in the unaudited pro forma consolidated statement of comprehensive income of the Transferred Assets as there are no separate books and records kept for the overhead expenses of the Transferred Assets. The overhead expenses recorded in the books of Tianjin Gas which are attributable to the Transferred Assets cannot be reliably estimated. Hence, no adjustment has been made to take into consideration of the overhead expenses included in the cost of sales, administrative expenses and selling expenses of Tianjin Gas incurred during the year ended 31 December 2009 and the six months ended 30 June 2010.

2. Gross margin is calculated as the operating profit divided by the turnover. According to the “Summary” to the Circular, the gross margin of the Transferred Assets is calculated by dividing the difference of revenue and cost by the revenue generated as extracted from “Appendix III — Financial Information of the Transferred Assets” to the Circular. Depreciation is treated as the cost of sales in calculating the gross margin. Due to the above-mentioned reason as stated in note 1, the gross margin may not reflect the actual profitability of the Transferred Assets.

For the years ended 31 December 2007 and 2008, total revenue generated from the Transferred Assets was approximately RMB624.2 million and RMB810.7 million respectively, representing an increase of 29.9%. The increase in turnover was mainly due to the increase in gas volume used by the industrial and commercial users. For the years ended 31 December 2008 and 2009, total revenue generated from the Transferred Assets was approximately RMB810.7 million and RMB855.8 million respectively, representing an increase of 5.6%. The increase in revenue was mainly due to the increase in gas volume used by the industrial and commercial users.

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For each of the three financial years ended 31 December 2009 and for the six months ended 30 June 2010, the operating profit of the Transferred Assets was approximately RMB131.9 million, RMB213.9 million, RMB192.1 million and RMB135.4 million, respectively. For the three years ended 31 December 2009 and for the six months ended 30 June 2010, the gross margin of the Transferred Assets was 21.1%, 26.4%, 22.4% and 25.3%, respectively.

Tianjin Gas purchases natural gas in bulk from gas producers and supplies natural gas to the Group. For each of the three years ended 31 December 2009, the unit price of gas purchased by the Group from Tianjin Gas was higher than the unit price of gas purchased by Tianjin Gas. Upon completion of the Proposed Assets Transfer, the Group will continue to source natural gas from Tianjin Gas to cater for the gas demand of the Transferred Assets. Consequently, after completion of the Assets Acquisition Agreement, it is expected that the Transferred Assets will generate a lower gross margin than that operated by Tianjin Gas prior to the Assets Acquisition Agreement. Based on the pro-forma financial information of the Enlarged Group in Appendix IV to the Circular, assuming that the Proposed Assets Transfer had been completed on 1 January 2009, the gross margin of the Enlarged Group, after taking into consideration the higher purchasing cost of natural gas paid by the Group to Tianjin Gas, will be approximately 15.4% for the year ended 31 December 2009, which is lower than the gross margin of the Transferred Assets of 22.4%, and much lower than the gross margin of 30.1% of the Group.

Average gas sales per user

Set out below is the average gas sales per different user of the Transferred Assets for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	Year ended 31 December			Six months ended 30 June		Difference for the year ended 31 December		Difference for the six months ended 30 June
	2007	2008	2009	2009	2010	2007 vs. 2008	2008 vs. 2009	2009 vs. 2010
	RMB	RMB	RMB	RMB	RMB			
Domestic user	166.6	164.6	163.8	87.4	92.7	(1.2%)	(0.5%)	6.1%
Industrial and commercial user	179,123.7	231,640.1	246,207.5	128,566.1	153,967.7	29.3%	6.3%	19.8%

The average gas sales per Domestic User were relatively stable for the three year ended 31 December 2009. The average gas sales per Industrial and Commercial User showed an annual growth of approximately 29.3% and 6.3% for the years ended 31 December 2008 and 31 December 2009, respectively. The Directors expect that the growth of the Transferred Assets will be contributed to the growth of the Enlarged Group after the completion of the Proposed Assets Transfer. The average gas sales per Domestic User and per Industrial and Commercial User in relation to the Transferred Assets for the six months ended 30 June 2010 increased by approximately 6.1% and 19.8% respectively as compared to the same corresponding period in 2009. Both increases were mainly due to the increase in gas sales while the number of user remained relatively stable.

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In general, the average gas sales per user of the Group are higher than that of the Transferred Assets throughout the Track Record Period. The Directors are of the view that, although the average gas sales per user of the Transferred Assets had been lower than that of the Group, the Proposed Assets Transfer will bring in a substantial amount of stable gas sales income to the Enlarged Group.

Increasing number of users

The existing Operational Locations were less urbanized districts with less developed pipeline networks than the urban districts in Tianjin (i.e. Hedong District and Heping District, where the Transferred Assets are located). Although the growth rates in Hedong District and Heping District, where the Transferred Assets are located, in each of the six months periods in 2010 and 2011 is expected to be lower than that in the existing Operational Locations, the Group can significantly increase the number of users through the Transferred Assets. The Group supplied piped natural gas to approximately 46,000 users, 80,000 users, 83,000 users and 84,900 users in the existing Operational Locations as at 31 December 2007, 2008 and 2009 and as at 30 June 2010, respectively. The transferred asset supplied the natural gas to approximately 360,000 users as at 30 June 2010.

Evaluation of the consideration

The consideration of approximately RMB620.7 million has been arrived at after arm's length negotiations between the parties with reference to the valuation prepared by an independent valuer by adopting the depreciated replacement cost approach. Such consideration will be satisfied entirely by the allotment and issuance of the Consideration Shares at an issue price of HK\$1.02 (equivalent to RMB0.9) per Share.

(a) Comparison of the consideration with appraised value of the Transferred Assets

According to the Valuation Report, details of which are set out in "Appendix V — Valuation Report of the Transferred Assets" to the Circular, under the major assumptions that the usage and repair and maintenance program of the Equipment will be the same and there is no material change in the industry safety standards in operating the Equipment, the market value in continued use of the Transferred Assets free of any encumbrances appraised by the independent valuer using the depreciated replacement cost approach as at 30 September 2010 is approximately RMB595.7 million. We are of the view that the bases and assumptions stated in the Valuation Report are fair and reasonable. The consideration of approximately RMB620.7 million represents a slight premium to the appraised value.

After the Proposed Assets Transfer is completed, Tianjin Gas will become the controlling shareholder of the Company. According to the letter from the Board contained in the Circular, the Enlarged Group will maintain its existing business. Apart from the Cooperation Agreement, Tianjin Gas has no intention to introduce any major change to the existing operating and management structure of the Enlarged Group. Tianjin Gas has no intention to re-deploy the fixed assets, or to discontinue the employment of the employees of the Enlarged Group other than in the ordinary course of business of the Enlarged Group. Thus, as confirmed by the independent valuer, there is no major impact on the appraised value under the assumptions to arrive at the consideration.

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(b) *Comparison of the consideration with net asset value of the Transferred Assets*

According to the pro-forma financial Information of the Enlarged Group as set out in the Appendix IV to the Circular, the net asset value of the Proposed Assets Transfer is approximately RMB595.7 million as at 30 June 2010. The consideration of approximately RMB620.7 million for the Proposed Assets Transfer represents a price-to-book ratio (the “**P/B Ratio**”) of approximately 1.04 times on the net asset value as at 30 June 2010.

(c) *Comparison of the consideration against market comparables*

In forming our opinion on the consideration for the Proposed Assets Transfer, we have considered the commonly adopted comparable approaches, namely price-to-earnings ratio, price-to-sales ratio (the “**P/S Ratio**”) and the P/B Ratio. According to the pro-forma financial Information of the Enlarged Group in the Appendix IV to the Circular, there are no separate books and records kept for the overhead expenses of the Transferred Assets, so that the overhead expenses recorded in the books of Tianjin Gas which are directly attributable to the Transferred Assets cannot be reliably estimated. We consider that the price-to-earnings ratio is not applicable for assessing the value of the Group due to the indivisible nature of the above mentioned overhead expenses.

For the purpose of assessing the consideration for the Proposed Assets Transfer, we have reviewed and compared the P/S Ratio, P/B Ratio and other financial ratios of companies listed on the main board and the GEM of the Hong Kong Stock Exchange which have more than 50% of turnover generated from the sale of piped gas in the PRC as reported in the latest annual report. As the market value in continued use of the Transferred Assets appraised by the independent valuer using the depreciated replacement cost approach as at 30 September 2010 is approximately RMB595.7 million. We have identified 7 listed companies on the main board and the GEM of the Hong Kong Stock Exchange (the “**Comparable Companies**”), being an exhaustive list, with market capitalization less than HK\$10.0 billion from Stock Exchange as at the Latest Practicable Date.

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Company	Stock code	Principal activities	Market capitalization (HK\$ billion)	P/S Ratio (Times)	P/B Ratio (Times)	P/GP Ratio (Times)	Volume of gas sold (cubic metres)	Gross margin (%)	Net profit margin (%)	CAGR of turnover (%)	CAGR of net profit (%)
China Oil And Gas Group Ltd.	603	Investments in natural gas and energy related businesses.	4.3	2.5	1.9	10.5	965,000,000	23.7%	14.7%	59.4%	49.0%
Chinese People Holdings Co. Ltd.	681	Sales of LPG in bulk, cylinders and natural gas household appliances; provision of piped Gas fuel; construction of gas pipelines; operation of city gas pipeline network; and supply of video lottery operating system and equipment.	1.1	1.5	1.1	5.0	174,860,000	29.8%	43.9%	6.8%	N/A (Note 2)
China Suntien Green Energy Corporation Ltd.	956	Own and operation of natural gas transmission and distribution facilities in Hebei Province; sell natural gas; planning, development and operation of wind farms and sell electricity generated by wind farms.	6.7	4.4	3.6	15.7	730,200,000	28.1%	18.9%	55.3%	176.8% (Note 3)
Towngas China Co. Ltd.	1083	Sales of piped gas and gas related household appliances, and construction of gas pipeline networks under gas connection contracts.	9.0	3.1	1.3	N/A (Note 4)	760,000,000	N/A (Note 4)	10.7%	(4.6%)	23.6%
Zhengzhou Gas Co. Ltd.	3928	Sales of natural gas, pressure control equipments and gas appliances to customers and construction of gas pipelines and the provision of renovation services of gas pipelines to local customers.	2.0	1.4	2.0	4.6	447,226,000	30.4%	14.5%	20.1%	18.0%
Zhongyu Gas Holdings Ltd.	8070	Development, construction and operation of natural gas and coalbed gas projects.	1.3	1.9	1.6	5.9	220,928,200	30.4%	6.3%	69.3%	N/A (Note 2)
Tianjin Tianlian Public Utilities Co. Ltd.	8290	Operation and management of gas pipeline infrastructure and the sale and distribution of piped gas.	1.9	5.3	2.6	17.6	93,308,000	30.1%	20.9%	33.3%	3.2%
Average				2.9	2.0	9.9	484,503,171	28.8%	18.5%	34.2%	234%
Medium				2.5	1.9	8.2	447,226,000	29.9%	14.7%	33.3%	23.6%
Maximum				5.3	3.6	17.6	965,000,000	30.4%	43.9%	69.3%	176.8%
Minimum				1.4	1.1	4.6	93,308,000	23.7%	6.3%	(4.6%)	3.2%
The Proposed Assets Transfer				0.7	1.0	3.2	392,567,000	22.4%	N/A	17.1%	N/A
						(Notes 5 and 6)		(Notes 5 and 6)	(Notes 5 and 6)	(Notes 5 and 6)	(Notes 5 and 6)

Source: www.hkex.com.hk and latest annual reports or prospectus of the respective Comparable Companies

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:—

1. Market capitalization is calculated as the latest available closing share price of the respective Comparable Companies as of the Latest Practicable Date multiplied by the number of issued shares of the respective Comparable Companies.

P/S Ratio is based on the market capitalization of the respective Comparable Companies as at the Latest Practicable Date divided by the turnover of the respective Comparable Companies in their respective latest annual reports or prospectus.

P/B Ratio is based on the market capitalization of the respective Comparable Companies as at the Latest Practicable Date divided by the latest published book value of the respective Comparable Companies in their respective latest annual reports or prospectus.

Price-to-gross profit ratio (the “**P/GP Ratio**”) is based on the market capitalization of the respective Comparable Companies as at the Latest Practicable Date divided by the gross profit of the respective Comparable Companies in their respective latest annual reports or prospectus.

Volume of gas sold represents the sales volume of gas as disclosed in their respective latest annual reports or prospectus.

Gross margin is based on the gross profit of the respective Comparable Companies divided by the turnover of the respective Comparable Companies in their respective latest annual reports or prospectus.

Net profit margin is based on the net profit of the respective Comparable Companies divided by the turnover of the respective Comparable Companies in their respective latest annual reports or prospectus.

CAGR of turnover during the Track Record Period is a geometric average of the turnover growth rates of the respective Comparable Companies for the Track Record Period.

CAGR of net profit during the Track Record Period is a geometric average of the net profit growth rates of the respective Comparable Companies for the Track Record Period.

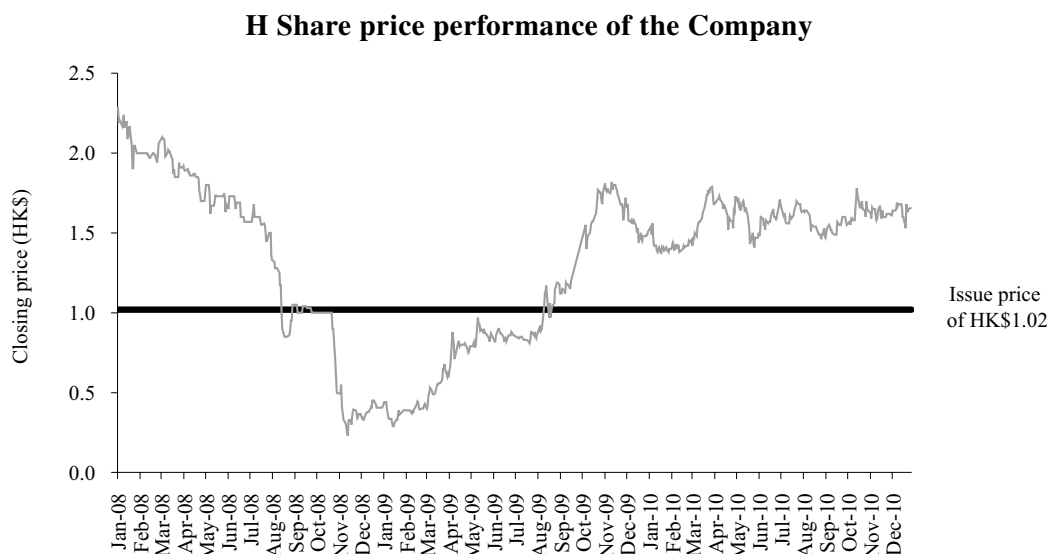
2. Zhongyu Gas Holdings Ltd. has recorded net loss for the years ended 31 December 2007 and 2008 and Chinese People Holdings Co. Ltd. has recorded net loss for the year ended 31 March 2008. Thus, these two companies have been excluded in the calculation of CAGR of net profit of the Comparable Companies.
3. The CAGR of net profit of China Suntien Green Energy Corporation Ltd. has been excluded in the calculation of the CAGR of net profit of the Comparable Companies as it is an outlier.
4. No information on the gross profit is provided in the annual report of Towngas China Co. Ltd.. Hence, Towngas China Co. Ltd. has been excluded in the calculation of P/GP Ratio and gross margin of the Comparable Companies.
5. According to the “Appendix IV — Pro-forma Financial Information of the Enlarged Group” to the Circular, overhead expenses including staff costs and maintenance costs recorded in the books of Tianjin Gas have not been reflected in the unaudited pro forma consolidated statement of comprehensive income of the Transferred Assets as there are no separate books and records kept for the overhead expenses of the Transferred Assets. The overhead expenses recorded in the books of Tianjin Gas which are attributable to the Transferred Assets cannot be reliably estimated. Hence, no adjustment has been made to take into consideration of the overhead expenses included in the cost of sales, administrative expenses and selling expenses of Tianjin Gas incurred during the year ended 31 December 2009. The Transferred Assets have been excluded in the calculation of net profit margin and the CAGR of net profit.
6. According to the “Summary” to the Circular, the gross margin of the Transferred Assets is calculated by dividing the difference of revenue and cost by the revenue generated as extracted from “Appendix III — Financial Information of the Transferred Assets” to the Circular. Depreciation is treated as the cost of sales of gas sales in calculating the gross margin. Due to the abovementioned reason as stated in note 5, the gross margin may not reflect the actual profitability of the Transferred Assets.
7. The figure is provided by the Company as the information on the volume of gas sold is not available in Tianjin Tianlian Public Utilities Co., Ltd.’s annual report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the volume of gas sold of the Transferred Assets of 392,567,000 cubic metres is below the average of the Comparable Companies of 484,503,171 cubic metres and the medium of 447,226,000 cubic metres. In addition, the gross margin and CAGR of turnover of the Transferred Assets of 22.4% and 17.1% are below the average of the Comparable Companies of 28.8% and 34.2% and the medium of 29.9% and 33.3%. However, the P/S Ratio, the P/B Ratio and the P/GP Ratio of the consideration of the Transferred Assets of 0.7 times, 1.0 times and 3.2 times are far below the average of the Comparable Companies of 2.9 times, 2.0 times and 9.9 times and the medium of 2.5 times, 1.9 times and 8.2 times. We are of the view that compared with the P/S Ratio, the P/B Ratio and the P/GP Ratio of Comparable Companies, the consideration of the Proposed Assets Transfer is not demanding and fair and reasonable so far as the Independent Shareholders are concerned.

(d) *Share performance and comparison with issue price of the Consideration Shares*

The following chart shows the movement of the closing price of the H Shares during the period from 1 January 2008 up to and including the Latest Practicable Date (the “**Review Period**”):



Source: Infocast

During the Review Period, the H Share fell sharply from a high of HK\$2.29 at the beginning of 2008 to a low of HK\$0.23 on 13 November 2008 following the outbreak of the global financial turmoil after the bankruptcy of Lehman Brothers and the collapse of AIG Group in the United States. The H Share has rebound dramatically in line with the global stock markets subsequent to the US\$700 billion bailout plan proposed by the US government and the provision of credit guarantees and capital injections offers to major banks by the European governments.

Following the publication of the announcement dated 5 October 2009 in relation to, among other things, the Proposed Assets Transfer, the H Share rose by 29.2% to HK\$1.55 on 6 October 2009. The H Shares closed at HK\$1.66 on the Latest Practicable Date, representing a 7.1% increase when compared to 6 October 2009.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Although the Consideration Shares are Domestic Shares which are not tradable on the Stock Exchange, the comparison of the issue price of the Consideration Shares and the market-driven closing price of H Shares are considered meaningful as a reference in determining whether the issue price of the Consideration Shares is fair and reasonable so far as the Independent Shareholders are concerned. The issue price of HK\$1.02 (equivalent to RMB0.9) per Share represents:

- (i) a discount of approximately 38.6% to the closing price of HK\$1.66 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 15.0% to the closing price of HK\$1.20 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 13.1% to the average closing price of approximately HK\$1.174 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 10.5% to the average closing price of approximately HK\$1.14 per H Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 1.5% over the average closing price of approximately HK\$1.0044 per H Share as quoted on the Stock Exchange for the last 50 consecutive trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 10.0% over the average closing price of approximately HK\$0.9271 per H Share as quoted on the Stock Exchange for the last 100 consecutive trading days up to and including the Last Trading Day; and
- (vii) a premium of approximately 59.4% over the audited consolidated net assets of the Group of approximately HK\$0.64 (equivalent to RMB0.56) per Share as at 31 December 2009, calculated based on the consolidated net assets of the Group of RMB638.6 million and based on 1,149,600,000 Shares in issue.

From the chart shown above, the closing price of H Shares was below the issue price of the Consideration Shares of HK\$1.02 (equivalent to RMB0.9) during the periods from 14 August 2008 to 28 August 2008, from 5 September 2008 to 11 September 2008, from 24 September 2008 to 7 August 2009, on 17 August 2009 and from 19 August 2009 to 20 August 2009. Assuming that the Consideration Shares, which are all Domestic Shares, are issued at the closing price of HK\$1.66 per H Share as quoted on the Stock Exchange on the Latest Practicable Date, the total value of the Consideration Shares will be HK\$1,144.9 million (equivalent to RMB1,007.5 million), which represents a premium of 62.7% to the consideration under the Assets Acquisition Agreement of RMB620.7 million. Although the issue price of the Consideration Shares represents a discount to the most recent market prices of the H Shares, taking into consideration:

- (i) the H Shares were traded below the issue price of the Consideration Shares for 217 trading days out of 247 trading days over a year period prior to and including the Last Trading Day;

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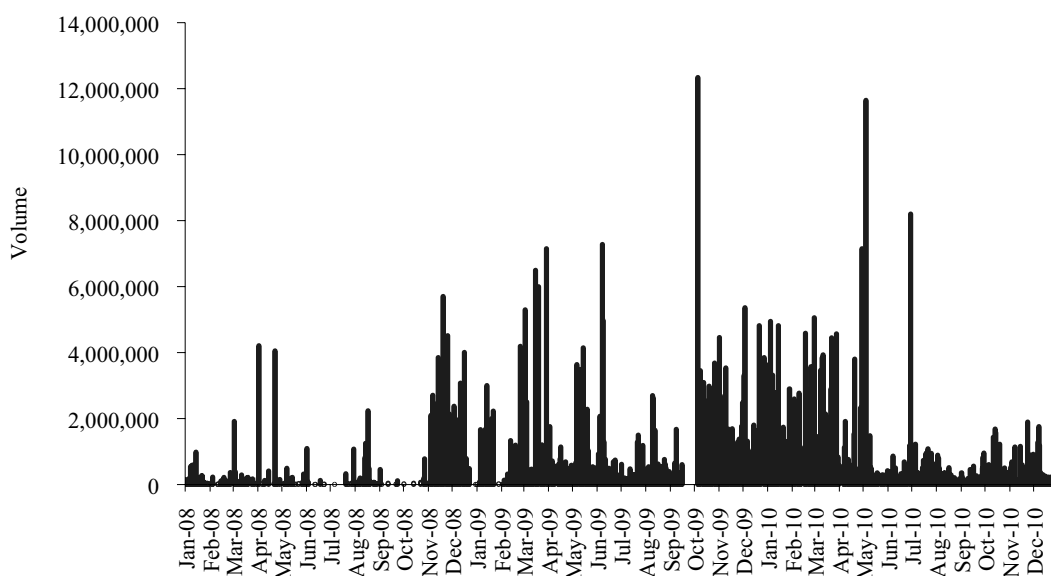
- (ii) the issue price per each Consideration Shares represents a premium of approximately 1.5%, 10.0% and 44.3% over the average closing price as quoted on the Stock Exchange for the last 50 consecutive trading days, 100 consecutive trading days and over a year period up to and including the Last Trading Day, respectively; and
- (iii) the Consideration Shares are Domestic Shares not tradable on the Hong Kong Stock Exchange nor on any other stock exchange which should be priced at a discount to tradable H Shares due to higher liquidity risk;

we consider the issue price of the Consideration Shares as a discount to the recent market price of the H Shares is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

(e) *Analysis of trading volume*

The following chart shows the monthly trading volume of the H Shares on the Stock Exchange during the period from 1 January 2008 up to the Latest Practicable Date:

Trading volume of the H Shares



Source: Infocast

The above chart indicates that the H Shares were more actively traded since November 2008 with the high monthly trading volume of 12,340,000 H Shares on 6 October 2009, which represents 2.5% and 1.1% of the total H Shares and total issue share capital, respectively during the Review Period.

As the Consideration Shares will be settled by issuance of Domestic Shares which are not tradable on the Stock Exchange, we consider that the completion of the Proposed Assets Transfer will not have a significant impact on the liquidity of the H Shares on the Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Method of payment and dilution of Independent Shareholders' holdings

The consideration for the Proposed Assets Transfer will be satisfied by the allotment and issuance of new Domestic Shares. Although the allotment and issuance of Shares will dilute the existing Independent Shareholders, we are of the view that it enables the Group to make an acquisition of a very significant business without a large outlay of cash or incurrence of any liability.

The following table illustrates the Company's shareholding changes as a result of the Proposed Assets Transfer:

	Number of Shares held immediately before the Proposed Assets Transfer	Approximate shareholding in the Company immediately before the Proposed Assets Transfer	Number of Shares held immediately after the Proposed Assets Transfer	Approximate shareholding in the Company immediately after the Proposed Assets Transfer
Tianjin Gas	253,809,687 (D)	22.08%	943,517,487 (D)	51.30%
Tianjin Beacon <i>(Note 1)</i>	118,105,313 (D)	10.27%	118,105,313 (D)	6.42%
Wanshun Real Estate <i>(Note 2)</i>	235,925,000 (D)	20.52%	235,925,000 (D)	12.82%
Ms. Tang <i>(Note 3)</i>	41,700,000 (D)	3.63%	41,700,000 (D)	2.27%
	<u>500,060,000 (H)</u>	<u>43.50%</u>	<u>500,060,000 (H)</u>	<u>27.19%</u>
Total issued Shares	<u>1,149,600,000</u>	<u>100.00%</u>	<u>1,839,307,800</u>	<u>100.00%</u>

Notes:

1. Tianjin Beacon is a State-owned enterprise established in the PRC with limited liability and is beneficially owned by Tianjin Municipal Government.
2. Wanshun Real Estate is a company established in the PRC with limited liability.
3. Ms. Tang is an executive Director.
4. The letter "D" denotes Domestic Shares and the letter "H" denotes H Shares.

The interest of the existing holders of H Shares is expected to be significantly diluted from approximately 43.5% to approximately 27.2% upon completion of the Proposed Assets Transfer. However, given the proven track record on the historical growth in turnover generated by the Transferred Assets and the fact that there are approximately 360,000 users using the natural gas through the Transferred Assets, the Independent Shareholders will be able to enjoy a larger revenue base with a business growth prospect. As such, we consider the dilution effect to the Independent Shareholders is acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial effect of the Proposed Assets Transfer on the Group

(a) *Net profit*

Based on the pro-forma financial information of the Enlarged Group contained in the Appendix IV to the Circular prepared based on the income statement of the Group and the Transferred Assets for the year ended 31 December 2009, without taking into account the indivisible overhead expenses directly attributable to the Transferred Assets, the unaudited pro forma net profit of the Enlarged Group would be increased by approximately RMB60.4 million, representing an increase of approximately 91.0% from the audited net profit of the Company for the year ended 31 December 2009, as if the completion of the Proposed Assets Transfer has taken place on 1 January 2009.

The aforesaid pro forma statement is prepared based on the historical financials of the Transferred Assets. As the operation, location and jurisdiction of the business of Transferred Assets may differ from that of the existing business of the Group, the Proposed Assets Transfer involves business and other risks to which the Group is not currently exposed. Therefore, there is no assurance that the performance of the Transferred Assets will be similar to those historical figures as reported in the pro-forma financial information of the Enlarged Group contained in Appendix IV to the Circular. Shareholders are advised to read the section headed "Risk Factors" contained in the Circular which describes the risks relating to the Proposed Assets Transfer, the Enlarged Group, the Transferred Assets and the industry risk.

(b) *Earnings per Share*

Without taking into account the indivisible overhead expenses directly attributable to the Transferred Assets, the pro-forma earnings per Share of the Enlarged Group would have become RMB0.069 per Share (based on a total of 1,839,307,800 Shares after the issuance of the Consideration Shares), as compared to the earnings per Share of the Group of RMB0.058 for the year ended 31 December 2009 (based on 1,149,600,000 Shares in issue). As set out in the pro-forma financial information of the Enlarged Group contained in Appendix IV to the Circular, overhead expenses including staff costs and maintenance costs recorded in the books of Tianjin Gas have not been reflected in the unaudited pro forma consolidated statement of comprehensive income of the Transferred Assets as there are no separate books and records kept for the Transferred Assets. The overhead expenses recorded in the books of Tianjin Gas which are attributable to the Transferred Assets cannot be reliably estimated. Hence, no adjustment has been made to take into consideration of the overhead expenses included in the cost of sales, administrative expenses and selling expenses of Tianjin Gas incurred during the year ended 31 December 2009. Due to the abovementioned reason, the Shareholders are advised to note that the pro-forma earnings per Share of the Enlarged Group was prepared for illustrative purpose and may not reflect the actual financial position and results of the operation of the Group. If the Transferred Assets were able to generate net profit of more than approximately RMB40.0 million, being the number of 689,707,800 Consideration Shares to be issued multiplied by the earnings per Share of the Group of RMB 0.058 for the year ended 31 December 2009, the Proposed Assets Transfer would likely have a positive impact on the pro-forma earnings per Share of the Enlarged Group. Otherwise, the Proposed Assets Transfer would have a dilutive effect on the pro-forma earnings per Share of the Enlarged Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *Net assets*

Upon completion of the Proposed Assets Transfer, the Transferred Assets will be consolidated into the Group's account. As shown in the pro-forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, the net assets will be increased by approximately RMB590.6 million, being the amount of the increase in share capital and share premium resulting from the issue of the Consideration Shares. The pro-forma net asset value per Share will be increased from RMB0.58 to RMB0.68 as at 30 June 2010. The above shows that the Proposed Assets Transfer is likely to have a positive impact on the Group's net assets base.

(d) *Gearing and working capital*

Upon completion of the Proposed Assets Transfer, the Enlarged Group's equity base would be enlarged by the issuance of the Consideration Shares. According to the pro-forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, the Group's total assets would increase from RMB761.8 million to RMB1,352.3 million while the total liabilities remain unchanged. Gearing ratio as at 30 June 2010, calculated as the total liabilities divided by the total assets, would decrease from 12.7% to 7.1% as if the completion of the Proposed Assets Transfer has taken place on 1 January 2009.

Since the consideration for the acquisitions is to be satisfied by the issuance of the Consideration Shares and the Transferred Assets will be mainly recognized as non-current assets under the Group's consolidated balance sheet, it would not have material impact on the Group's working capital.

(III) WHITEWASH WAIVER

Immediately upon completion of the Proposed Assets Transfer, the interest of Tianjin Gas in the Company will increase from approximately 22.08% to approximately 51.30% of the issued share capital of the Company as enlarged by the Consideration Shares. Accordingly, Tianjin Gas will be obligated to make an unconditional mandatory general offer for all the issued Shares of the Company not already owned by them and persons acting in concert with them under Rule 26.1 of the Takeovers Code. An application has been made to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM on a vote taken by poll.

As discussed in the paragraph headed "Conditions precedent to the Assets Acquisition Agreement" above, the Proposed Assets Transfer is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM. If the Whitewash Waiver is not approved, the Proposed Assets Transfer will not proceed and no general offer obligation will be triggered. In the event the Proposed Assets Transfer cannot proceed, the Group and the Shareholders will not be able to enjoy the benefits that would arise from the Proposed Assets Transfer, in particular, the prospects of the enlarged Group as one of the leading gas services providers in the region and the enhancement in the Group's net asset value and earnings capability as discussed above.

Given the aforementioned potential benefits of the Proposed Assets Transfer to the Group and the terms of the Proposed Assets Transfer being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Proposed Assets Transfer, is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholders should note that upon completion of the Proposed Assets Transfer, Tianjin Gas will hold more than 50% of the enlarged issued share capital of the Company. Accordingly, Tianjin Gas may increase its shareholdings in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

(IV) THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

Principal factors and reasons considered

In considering whether the terms of the 2011 Gas Supply Contract and the related Annual Cap are fair and reasonable, we have taken into consideration of the principal factors and reasons set out below:

Background to and reasons for the Gas Supply Contracts

The Company has, since its initial public offering in January 2004, entered into a number of agreements with Tianjin Gas regarding the supply of natural gas for the Group's sales and distribution of piped natural gas operation in Tianjin City. Pursuant to the prospectus of the Company dated 31 December 2003, the Company entered into gas supply contracts with Tianjin Gas for the purchase of natural gas from Tianjin Gas for terms of three years. A waiver from strict compliance with the announcement and shareholders' approval requirements of the GEM Listing Rules up to 31 December 2005 had been granted by the Stock Exchange to the Company in respect of the gas supply contracts. The Company has subsequently applied for the renewal of annual caps up to 31 December 2009.

On 16 September 2009, Tianjin Gas and the Company entered into the Gas Supply Contracts in respect of the supply of natural gas by Tianjin Gas to the Group for the period from the completion of the Proposed Assets Transfer to 31 December 2009 and the two years ending 31 December 2011. The Gas Supply Contracts are conditional on the completion of Assets Acquisition Agreement. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Transaction, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed. As disclosed in the Circular, Tianjin Gas is the only natural gas wholesaler in Tianjin City. Upon completion of the Proposed Assets Transfer, the Company will become the sole gas supplier in the areas that are covered by the Transferred Assets. Accordingly, the Company will first purchase gas from Tianjin Gas and in return supply such gas to these customers in the area covered by the Transferred Assets.

Having considered the continuing connected transactions contemplated under the 2011 Gas Supply Contract (i) are in the ordinary and usual course of business of the Group; and (ii) would secure the local natural gas supply to the Company for sales and distribution in Tianjin City in the future which will increase the Group's revenue, we consider that there are commercial grounds for the Enlarged Group to enter into the 2011 Gas Supply Contract and engage in the transactions contemplated thereunder.

Principal terms of the proposed continuing connected transactions

Pursuant to the Gas Supply Contracts, the Company agrees to procure natural gas from Tianjin Gas on normal commercial terms at a regulated unit price of RMB2.00 per cubic metre and adjusted in accordance with the direction of the Tianjin Municipal Price Bureau. We have also reviewed the terms of supplies by Tianjin Gas to its customers engaging in same industry as the Company and note that the unit price of RMB2.00 per cubic metre is not less favourable than those available to other independent customers of Tianjin Gas.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Due to gas leakage from the pipelines of the Transferred Assets during its normal course of operation and the discrepancy in the gas meters' reading, the Company and Tianjin Gas agreed that the value of the volume of gas to be purchased from Tianjin Gas by the Company will be calculated as the actual volume of gas sold by the Company to other third party customers divided by 97%.

The Company shall settle the amount due by cheque on or before 25th day of each month based on the actual consumption of natural gas by the Group during the month. Such payment arrangement is the same as the previous gas supply contracts entered between the Company and Tianjin Gas. Having reviewed the contracts provided by the Company, we note that the terms of payment is similar to those existing gas supply contracts. Consequently, we are of the view that the terms of supplies and payment of the 2011 Gas Supply Contract are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Basis in determining the Annual Cap

The Annual Cap under the 2011 Gas Supply Contract are set out below:

**Proposed annual cap
for the year ending 31 December 2011
(RMB million)**

Annual Cap	1,470
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The Annual Cap is determined by reference to:

- (i) a regulated unit price of RMB2.00 per cubic metre which is adjusted in accordance with the direction of the Tianjin Municipal Price Bureau; and
- (ii) an assumption of the natural gas consumed of 735,000,000 cubic metres for each of the year ending 31 December 2011, representing an annual increase of 30% over the estimated purchase volume for the year ending 31 December 2010.

Having reviewed and discussed with the representatives of the Company the bases and assumptions for determining the Annual Cap which including, among other things, (i) the historical consumption of gas between 2003 to 2008 in Tianjin City was growth at a compound annual growth rate of approximately 23.6%; (ii) the anticipated growth of the Company's business following the completion of the Proposed Assets Transfer; and (iii) a reasonable buffer of not more than 10% attached to the proposed Annual Cap, we are of the view that the bases for determining the Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(V) DISCUSSION AND CONCLUSION

The Proposed Assets Transfer is in line with the strategy of the Group to consolidate its existing resources and further develop the natural gas pipelines market through mergers and acquisitions and will broaden the Group's revenue base which we consider the Proposed Assets Transfer will bring positive impact to the Group's turnover and operating profit.

The total consideration of approximately RMB620.7 million will be satisfied by the allotment and issuance of Consideration Shares at HK\$1.02 (equivalent to RMB0.9) each. This settlement method allows the Group to acquire significant assets without stretching its financial positions. The issue price of the Consideration Shares represents a discount to the average closing price of the last 20 consecutive trading days up to and including the Last Trading Day and a premium over the average closing price of the last 50 and 100 consecutive trading days up to and including the Last Trading Day which we consider acceptable.

The shareholding interest in the Company of the existing holders of H Shares will be diluted from 43.5% to 27.2% after completion of the Proposed Assets Transfer. We consider that the dilution is inevitable in the case of a substantial acquisition of this type which is being financed without incurring any cash outlay or additional liabilities to satisfy the consideration.

The Proposed Assets Transfer will result in the interest of Tianjin Gas being increased from approximately 22.08% to approximately 51.30% of the issued share capital of the Company as enlarged by the Consideration Shares, thus triggering an obligation to make a general offer for the Shares. Tianjin Gas has applied for the Whitewash Waiver, which is subject to the Independent Shareholders' approval. If the Whitewash Waiver is not granted, the Proposed Assets Transfer will not proceed. In the light of the benefits of Proposed Assets Transfer mentioned above, we consider it is in the interests of the Independent Shareholders that the Whitewash Waiver be granted to Tianjin Gas.

Without taking into account the indivisible overhead expenses directly attributable to the Transferred Assets, the unaudited pro forma net profit of the Enlarged Group would be increased by approximately RMB60.4 million, representing an increase of approximately 91.0% from the audited net profit of the Company for the year ended 31 December 2009. Besides, the Proposed Assets Transfer would enhance the pro-forma net asset value per Share from RMB0.58 to RMB0.68 as if the completion of the Proposed Assets Transfer has taken place on 1 January 2009 based on the pro-forma financial information of the Enlarged Group set out in Appendix IV to the Circular. Given that the proven track record of the turnover generated by the Transferred Assets and the experience of the Group's management in operating the business, we expect there will not any material adverse factor on the net profit of the Enlarged Group. Nevertheless, Shareholders are advised to read the section headed "Risk Factors" contained in the Circular which describes the risks relating to the Proposed Assets Transfer, the Enlarged Group, the Transferred Assets and the industry risk.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The average gas sales per Domestic User of the Transferred Assets were relatively stable for the three year ended 31 December 2009 and for the six months ended 30 June 2010. The average gas sales per Industrial and Commercial User of the Transferred Assets showed an annual increment of approximately 29.3%, 6.3% and 19.8% for the year ended 31 December 2008 and 2009 and for the six months ended 30 June 2010, respectively. The growth of the Transferred Assets will be contributed to the growth of the Enlarged Group after the completion of the Proposed Assets Transfer. In addition, the Group can significantly increase the number of users through the acquisition of the Proposed Assets Transfer.

The gas supply arrangement between the Enlarged Group and Tianjin Gas will continue after completion of the Proposed Assets Transfer and will constitute continuing connected transactions for the Company under the GEM Listing Rules. The unit price of the gas supplied will be based on a regulated unit price of RMB2.00 per cubic metre and adjusted in accordance with the direction of the Tianjin Municipal Price Bureau. The Annual Cap has been determined based on by reference to the historical consumption and the future expected growth of gas consumption with a reasonable buffer after the acquisition of the Transferred Assets, which we are of the view that the bases for determining the Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned.

(VI) ADVICE

Having considered the above principal factors and reasons, we are of the opinion that (i) the Assets Acquisition Agreement; (ii) the Whitewash Waiver; (iii) the proposed grant of specific mandate to issue Consideration Shares; and (iv) the 2011 Gas Supply Contract and the continuing connected transactions contained therein including the Annual Cap is fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and its Shareholders as a whole. We also consider that the continuing connected transactions contemplated under the 2011 Gas Supply Contract are on normal commercial terms and in the ordinary course of business of the Enlarged Group.

Accordingly, we would recommend the Independent Board Committee and the Whitewash Independent Board Committee (as the case may be) to advise the Independent Shareholders to vote in favor of the resolutions to approve the Assets Acquisition Agreement, the proposed grant of specific mandate to issue Consideration Shares, the Whitewash Waiver, the 2011 Gas Supply Contract and to approve the Annual Cap at the forthcoming EGM and the Class Meetings (where applicable).

Yours faithfully,
For and on behalf of
TC Capital Asia Limited
Edward Wu
Managing Director

RISK FACTORS

In addition to the other information contained in this circular, you should take into account the following risks (i) relating to the Transaction; (ii) relating to the Enlarged Group; (iii) relating to the industry; and (iv) relating to the PRC. If any of the risks occurs, the business, financial condition or operating results of the Enlarged Group could be adversely affected.

RISKS RELATING TO THE TRANSACTION

No assurance that the Proposed Assets Transfer will be completed

Completion of the Proposed Assets Transfer is subject to fulfillment of the conditions set out in the Assets Acquisition Agreement, details of which are set out in the paragraph headed “Conditions Precedent to the Assets Acquisition Agreement” in the section headed “Letter from the Board” of this circular.

A number of the conditions involve the decisions of third parties, including approvals by the Independent Shareholders at the EGM and the Class Meetings; the approval by the Listing Division of the Stock Exchange of new listing application filed by the Company as a result of the Proposed Assets Transfer; and the granting of the Whitewash Waiver by the Executive. As fulfillment of such conditions precedent to the Assets Acquisition Agreement is not within the control of the Company, there is no assurance that the Proposed Assets Transfer will be completed as contemplated.

RISKS RELATING TO THE ENLARGED GROUP

The decline in gross profit margin

For the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of the Group was 59.1%, 49.4%, 30.1% and 24.4%, respectively. The gross profit margin has declined because an increased amount of revenue was contributed by the sales of piped gas, which has a lower gross profit margin as compared to gas connection. For the three years ended 31 December 2009 and the six months ended 30 June 2010, the sales of piped gas accounted for approximately 19.7%, 34.2%, 64.9% and 75.7% of the total turnover of the Group, respectively. Starting from 2009, the sales of piped gas became the major source of revenue of the Group.

In addition, during the Track Record Period, the Group’s gross profit margin from sales of gas has been lower than that of the Transferred Assets. For the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of gas sales of the Transferred Assets was 20.0%, 25.6%, 21.7% and 24.8%, respectively. Whereas, for the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of sales of piped gas of the Group was -0.4%, 5.9%, 10.9% and 11.8%, respectively. Since the gross profit margin of sales of piped gas is lower than that of gas connection, the overall gross profit margin of the Enlarged Group may decline. Based on the unaudited pro-forma financial information set out in Appendix IV to this circular, assuming that the Proposed Assets Transfer had been completed on 1 January 2009, the gross profit margin of the Enlarged Group will be approximately 15.4% for the year ended 31 December 2009, which is lower than the gross profit margin of the Transferred Assets of 22.4%, and much lower than the gross profit margin of 30.1% of the Group.

RISK FACTORS

Upon completion of the Proposed Assets Transfer, the Enlarged Group will purchase natural gas from Tianjin Gas to cater for the gas demand attributable to the Transferred Assets. Due to the fact that Tianjin Gas purchases natural gas in bulk from gas producers while the Enlarged Group purchases natural gas from Tianjin Gas, the unit price of gas purchased by the Enlarged Group is likely to be higher than the unit price of gas purchased by Tianjin Gas and hence, the gross profit margin of the Enlarged Group may be lower than the historical gross profit margin of the Transferred Assets. Assuming that the Transferred Assets had been purchasing gas at a unit cost that was the same as the unit cost of the existing Group for the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of the Transferred Assets would have become 7.6%, 10.0%, 11.0% and 11.6%, respectively. As such, the gross profit margin attributable to the Transferred Assets in the past may not provide indication on the future gross profit margin to the Enlarged Group after the completion of the Proposed Assets Transfer.

Since the major source of revenue of the Transferred Assets is the sale of piped gas, after completion of the Proposed Assets Transfer, it is expected that the sale of piped gas will continue to become the major source of revenue to the Enlarged Group, and the proportion of revenue contributed by the sales of piped gas will increase.

The financial information on the Transferred Assets is limited and unaudited and may not be indicative to the future profitability of the Enlarged Group

The financial information attributable to the Transferred Assets in this circular does not include the allocation of indivisible expenses to the Transferred Assets such as overhead expenses which mainly includes staff costs and manufacturing and maintenance costs, incurred by Tianjin Gas in operation, because no separate books and records of these expenses were kept for the Transferred Assets. Since certain expenses attributable to the Transferred Assets cannot be reasonably estimated, the profit margins of the Transferred Assets may not reflect its actual profitability in the past, and may not be indicative of their future profitability to the Enlarged Group after the completion of the Proposed Assets Transfer.

In addition, the financial information attributable to the Transferred Assets in this circular is unaudited. As set out in Appendix III, Deloitte Touche Tohamatsu, the auditor of the Company, performed certain factual findings procedures on the unaudited financial information of the Transferred Assets and reported that such information has been properly compiled, derived or calculated from the underlying books and records of Tianjin Gas. However, the procedures performed by the auditor do not constitute an assurance engagement and hence, no assurance is provided by the auditor on the unaudited financial information of the Transferred Assets.

The business, results of operations and financial condition of the Enlarged Group depend in large part on the relationship with Tianjin Gas

Tianjin Gas is the sole wholesale supplier of natural gas in the Operational Locations of the Group and was the largest gas operator in Tianjin for the year 2009. At present, the Group purchases piped natural gas solely from Tianjin Gas for its operation in Tianjin. For the three years ended 31 December 2009 and the six months ended 30 June 2010, purchases of piped natural gas from Tianjin Gas by the Company accounted for approximately 47.1%, 63.5%, 83.8% and 90.0% of the Company's total purchase. Although Tianjin Gas is one of the Promoters and will become a controlling shareholder of the Company upon completion of the Proposed Assets Transfer, and it has entered into various gas supply agreements with the Company, they are non-exclusive agreements and are subject to renewal. Therefore, there is no assurance that Tianjin Gas will continue to supply natural gas to the Enlarged Group. If Tianjin Gas significantly reduces its supply of natural gas to the Enlarged Group, and the Enlarged Group is unable to find comparable alternative suppliers, the business, result of operations and financial condition of the Enlarged Group would be adversely affected. For further details of the gas supply agreements entered into between Tianjin Gas and the Company, please refer to the section headed "Connected Transactions" of this circular.

RISK FACTORS

Reliance on specific areas and limitation on expansion of business area

The business of the Enlarged Group involves significant initial capital investment and also requires various approvals from relevant government bureaus before gas networking can be built in an area. The Enlarged Group therefore operates in specific areas of the PRC where the Enlarged Group has been or will be granted relevant approvals for operation by the relevant government authorities. The expansions of the areas where the Enlarged Group can operate are therefore limited.

If the operating environment of the areas where the Enlarged Group operates in, especially Tianjin, deteriorate and/or the Enlarged Group fails to identify areas where the Enlarged Group can expand its business, the profitability and prospect of the Enlarged Group will be adversely affected.

Credit risk and accounts receivable concentration of debtors of the Group

For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group's five largest customers accounted for, in aggregate, approximately 41.1%, 34.1%, 49.8% and 55.5% of the Group's total turnover respectively. As of 30 June 2010, the five largest debtors accounted for approximately 70% of the of the Group's total trade receivables, whereas the largest debtor accounted for over 48% of the Group's total trade receivables. The Group is therefore exposed to concentration of credit risk on trade receivables. If any one of the Group's major customers or debtors dispute and/or default in its payment obligations to the Group, the Group's business and financial position may be adversely affected.

In general, the credit period granted to Industrial and Commercial Users by the Group is within one month period. The credit period granted to property developers by the Group was determined on a case by case basis depending on project sum, nature of the construction projects and progress of the construction work. As at 31 December 2007, 2008, 2009 and as at 30 June 2010, trade receivables were approximately RMB91.5 million, RMB116.8 million, RMB69.7 million and RMB46.9 million, respectively, which accounted for approximately 24.7%, 17.3%, 9.5% and 6.2% of the Company's total assets respectively. The trade receivables balance increased for the two years ended 31 December 2008, mainly due to the increase in outstanding receivables in relation to the gas connection revenue from property developers. When the completion of the construction project of the property developers is delayed, the property developers may also require a longer credit period from the Group. The Group may extend the credit period or allow longer credit period to property developers, taking into consideration the background of the property developer, the progress and the nature of the construction projects. The Group's trade receivables balance for the year ended 31 December 2009 decreased by approximately 40.3% as compared to the previous year and the trade receivables balance as at 30 June 2010 decreased by 32.6% from 31 December 2009. Such decreases were mainly due to the increase in settlements by trade debtors. The Group's trade receivables turnover days for the three years ended 31 December 2009 and the six months ended 30 June 2010 was 150 days, 175 days, 107 days and 64 days, respectively. As the Group's business expands, there may be a need to provide additional sales on credit to its customers, leading to increased debtors' credit risk. The Enlarged Group's financial position could be adversely affected should the Enlarged Group experience any difficulty in collecting payment from its customers. The Company has adopted a policy that if the overdue amount is not successfully collected from domestic users within three months from the due date, it may temporarily discontinue its gas supply to debtors until the overdue amounts are settled. The Directors believe that such measure can minimize the risk to the Enlarged Group.

RISK FACTORS

The income generated from the Group's new revenue stream may not reach to a certain level that the Group expected

The Group received gas transportation revenue amounted to approximately RMB2.5 million and RMB2.6 million, for the year ended 31 December 2009 and for the six months ended 30 June 2010, respectively, after the commencement of the operation of the Gangnan Pipeline in 2009. As at the Latest Practicable Date, a total of approximately RMB192,843,000 has been paid to Tianjin Gas by the Company in connection with the construction of the Beihuan Pipeline and the Gangnan Pipeline under the Entrusted Construction Agreement. The Directors estimated that the Beihuan Pipeline Project and the Gangnan Distribution Project will breakeven in 6-8 years.

The income generated from the Gangnan Distribution Project and the Beihuan Pipeline Project, which are located in Binhai New District, may not reach the level the Group expects as it is subject to a number of factors that are out of Group's control, such as the pace of development of Binhai New District, the actual volume of gas transported through the Gangnan Pipeline and the Beihuan Pipeline to the end users and reliance on Tianjin Gas, whereas Tianjin Gas is currently the sole customer of this new revenue stream. Should the pace of development of Binhai New District is slower than expected or the actual volume of gas transported through the Gangnan Pipeline and the Beihuan Pipeline to the end users is lower than expected or the demand of natural gas from Tianjin Gas is materially smaller and the Enlarged Group fails to attract new customers in Binhai New District, the operation and the financial performance of the Enlarged Group may be materially adversely affected.

Reliance on property development of regions where the Enlarged Group operates in

One of the business of the Enlarged Group is the laying of customer pipelines in property development projects and the Group receives connection fees in stages. Property development projects may be materially adversely affected by a number of factors, including shortage of equipment or materials, price fluctuations, bad weather, natural disasters, accidents, downturns in the property market, operational conditions and other unforeseeable situations or matters. Should any of these risks occur, the completion of the whole or part of the property development project may be postponed and consequently the payment of connection fees to the Group may be delayed. However, there will not be any compensation in the connection fees to be received as a result of such delay.

In addition, the demand for gas connection depends on the progress of urban development and property development. Therefore, the growth of gas connection fee income may decline as Tianjin City become more and more urbanized. The Directors currently estimate that the growth rates in Hedong District and Heping District, where the Transferred Assets are located, to be lower than that in the existing Operational Locations in the near future as the existing Operational Locations are less urbanized districts with less developed pipeline networks. If the pace of urbanization in Tianjin City has come to a steady level in the future, the growth of property development will decline, and hence the connection fee income of the Enlarged Group may be adversely affected.

RISK FACTORS

Reliance on key management

The Company's success is largely built upon the technical expertise and in depth knowledge of the piped gas supply industry possessed by the executive Directors and certain other key technical and management personnel. If any of the executive Directors or any of the key technical and management personnel ceases to be involved in the operation of the Enlarged Group or if any of them fails to observe or perform their obligations under their service contracts, the implementation of the Enlarged Group's business strategies may be affected which may have material adverse impact on the operations of the Enlarged Group.

The future growth and success of the Enlarged Group will also be affected by its ability to recruit qualified individuals to strengthen its management, operational and research teams. With the growth in business, there may be insufficient management staff to oversee sales, operational, administrative and financial procedures and controls, which may in turn materially adversely affect the business of the Enlarged Group.

Changes in local policy in relation to special operating agreement

According to the Concession Measures, the Company is required to enter into a special operating agreement with the relevant local construction bureau in Tianjin. However, the relevant local construction bureau in Tianjin has not yet formulated the format of the special operating agreement and accordingly the Company was not required to execute a special operating agreement for its operations in Tianjin as at the Latest Practicable Date. Also, the Jining City Government has not yet promulgated the local administrative rules regarding the Concession Measures. Besides, the relevant construction bureau in Jining has not yet formulated the format of the special operating agreement and accordingly the Company was not required to execute a special operating agreement for its operations in Jining as at the Latest Practicable Date. The PRC Legal Adviser advised that as the non-execution of the special operating agreement in Tianjin and in Jining are caused by the local policy, the operation of the Company in Tianjin and in Jining would not be affected. However, there can be no assurance that the above policy will not be changed. The Enlarged Group's operations and profitability may be materially adversely affected if changes that occur are not favourable to the Enlarged Group.

The shareholding dilution of the existing Shareholders in the Company

Pursuant to the Assets Acquisition Agreement, the Company will issue, in aggregate, 689,707,800 Domestic Shares as the Consideration Shares at an issue price of RMB0.9 (approximately HK\$1.02) per Domestic Share to Tianjin Gas. The issue price of RMB0.9 (approximately HK\$1.02) per Consideration Share represents a discount of approximately 15% over the closing price of HK\$1.20 per H Share as quoted on the Stock Exchange on the Last Trading Day. The Consideration Shares represent approximately 60.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 37.50% of the Company's enlarged issued share capital after the issue of the Consideration Shares. Upon the completion of the Proposed Assets Transfer, the shareholding of

RISK FACTORS

Tianjin Gas in the Company would increase from approximately 22.08% to approximately 51.30%. The shareholding of the holders of the H Shares would decrease from approximately 43.5% to approximately 27.19%. As a result, the shareholding percentages of the existing Shareholders in the Company would be substantially diluted. Any value enhancement of the Shares as a result of the Proposed Assets Transfer may not necessarily be reflected in their market price and may not offset the dilution effect to the Shareholders.

The controlling shareholder, Tianjin Gas, will have substantial influence over the Company

Completion of the Proposed Assets Transfer would increase the shareholding of Tianjin Gas in the Company from approximately 22.08% to approximately 51.30%. As a result, Tianjin Gas will be in a position to influence the Company's policies and affairs, and to influence the outcome of corporate actions requiring Shareholders' approval.

There can be no assurance that Tianjin Gas will act in a manner that benefits all Shareholders. If Tianjin Gas takes actions that favour its interests over the Company's, the Company's results of operation and financial position may be adversely affected.

The Company's capability to manage the Enlarged Group

As at 30 June 2010, the Company has approximately 84,900 users in Tianjin. The Transferred Assets consist of outdoor pipelines of over 1,400 kilometers, domestic pipelines connected to approximately 360,000 users in Tianjin, and the related machinery and electronic equipment and 40 vehicles. Upon the completion of the Proposed Transfer Assets, the operation scale of the Enlarged Group would be substantially enlarged and the Company would take over the sales, management and operation of the Transferred Assets. Should the Company fail to dedicate qualified individuals and/or allocate sufficient resources to oversee sales, operational, administrative and financial procedures and controls of the Transferred Assets, it may materially adversely affect the business of the Enlarged Group.

Price of piped natural gas are restricted by the relevant local commodity price bureau

The selling price of piped natural gas charged by the Enlarged Group in Tianjin City is subject to the approval of Tianjin Municipal Price Bureau (天津市物價局) of the Tianjin Municipal Government. The maximum gas tariff for supply of natural gas for residential use has been fixed at RMB2.2 per m³ since 1 August 2006. Pursuant to the "Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City" (《關於我市調整工業用天然氣銷售價格的通知》津價商[2007]263號) issued by Tianjin Commodity Price Bureau dated 30 November 2007, the classifications of pricing of natural gas was revised from "residential use" and "non-residential use" to "residential use", "industrial use" and "other use". Please see below for a summary of the gas tariff after the revision:—

RISK FACTORS

Effective Date	Classification of pricing			Relevant Notice
	Residential use	Industrial use	Other use	
10 November 2007	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.0 per m ³ to RMB2.4 per m ³	“Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City” (《關於我市調整工業用天然氣銷售價格的通知》津價商[2007] 263號)
1 May 2009	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	“Notice in relation to adjustment of natural gas tariff of certain uses in Tianjin City” (《關於我市調整部份天然氣銷售價格的通知》津價商[2009] 93號)
1 June 2010	RMB2.0 per m ³	RMB2.75 per m ³ to RMB3.15 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	“Notice in relation to adjustment of natural gas tariff of non-domestic use in Tianjin City” (《關於我市調整非居民用天然氣銷售價格的通知》津價管[2010]110號)

The Directors confirm that the Company has strictly followed the gas tariff, which has been determined by the Tianjin Municipal Price Bureau of the Tianjin Municipal Government, for supply of natural gas to the users in Tianjin City.

The selling price of piped natural gas charged by the Enlarged Group in Jining City is subject to the approval of Ulaan Chab Jining District Commodity Price Bureau (烏蘭察布市工商管理物價科). The maximum gas tariffs for supply of natural gas for residential use and non-residential use have been fixed at RMB3.0 per m³ and RMB3.5 m³ respectively since 24 October 2004.

Since the Enlarged Group’s selling price of piped natural gas in Tianjin City and Jining City is restricted by the indicative selling price set by the local commodity price bureau, the Enlarged Group is not allowed to increase the selling price to match any increase in purchase price of gas or other costs. In such event, the profitability of the Enlarged Group will be adversely affected. The Group may or may not sell the piped natural gas at a price below the maximum gas tariff, depending on the gas purchase volume of the customers. In the event that the regulated gas tariff is adjusted downwards, the financial performance of the Enlarged Group will be adversely affected.

Seasonality of the business

The peak season of the piped natural gas consumption is normally during winter time, from October to March every year. Both residential and industrial customers consume more piped natural gas during the peak season than the other period during a year. Therefore, the financial results of the Enlarged Group for one period may not reflect that of another period during a financial year.

RISK FACTORS

Reliance on major customers

For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group's five largest customers accounted for, in aggregate, approximately 41.1%, 34.1%, 49.8% and 55.5% of the Group's total turnover respectively. For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, Tianjin Gas's five largest customers in respect of the Transferred Assets accounted for 71.5%, 76.6%, 75.5% and 63.5% respectively of Tianjin Gas's unaudited turnover in respect of the Transferred Assets. For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the largest customer in respect of the Transferred Assets accounted for approximately 47.9%, 51.8%, 47.7% and 38.8% of the unaudited turnover generated from the Transferred Assets. The revenue of the Group and the Transferred Assets is therefore reliant on the major customers.

A gas supply contract has been entered into between Tianjin Gas and the largest customer in respect of the Transferred Assets on 31 December 2008 for a term of two years i.e. from 31 December 2008 to 30 December 2010. Pursuant to the said gas supply contract, the largest customer in respect of the Transferred Assets agreed to purchase piped gas from Tianjin Gas. After the completion of the Proposed Assets Transfer, the Company will enter into new gas supply contract with such customer. There is no guarantee that the Company is able to enter into a new gas supply contract with the largest customer in respect of the Transferred Assets after the completion of the Proposed Assets Transfer. Should the Enlarged Group not be able to enter into new gas supply contract with the largest customer in respect of the Transferred Assets, the operation and the financial performance of the Enlarged Group may be materially adversely affected.

There is no guarantee that the level of demand from the major customers of the Group or the Transferred Assets will be maintained in the future. If the demand from any of the major customers materially declines and the Enlarged Group fails to attract new customers, the operation and the financial performance of the Enlarged Group may be adversely affected.

Competition with Tianjin Gas

Immediately following the completion of the Proposed Assets Transfer and assuming there is no further changes in the share capital structure of the Company except for the issue of the Consideration Shares, Tianjin Gas will be beneficially interested in approximately 51.30% of the entire issued share capital of the Company. Tianjin Gas is a State-owned enterprise. It was the largest natural gas operator in Tianjin in the year 2009 and is the sole wholesale supplier of natural gas in the Operational Locations of the Group as well as Hedong District and Heping District. The principal businesses of Tianjin Gas comprise operation of gas pipeline infrastructure, supply of natural gas to other gas supply operators in the Tianjin area and the sales and distribution of piped gas to end users in Tianjin City. In particular, Tianjin Gas (i) supplies natural gas purchased from gas producers to gas supply operators in Tianjin including the Group in the existing Operational Locations in Tianjin City; and (ii) provides piped natural gas to end users in Tianjin including Hedong District and Heping District.

RISK FACTORS

On 9 December 2003, Tianjin Gas has entered into a non-competition agreement with the Company. Under the non-competition agreement, save for Tianjin Gas's then existing piped gas operations in Tianjin City, which is outside the scope of operation of the Group in Tianjin at that time (the "Previous Operational Locations"), Tianjin Gas has irrevocably undertaken and covenanted with the Company that, except with the Company's prior written consent, it would not and would procure that its subsidiary should not carry on for their own accounts or assist other persons to carry on and/or have an interest in, any business of which is or may be in competition with the Group's business within the Previous Operational Locations or outside its existing operating district in Tianjin City. On 28 December 2010, Tianjin Gas further enters into the Supplemental Non-Competition Agreement, pursuant to which the Previous Operational Locations have been amended to cover the Operational Locations of the Group (i.e. Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區) and Ninghe County (寧河縣)) which have been served by the Group's pipelines as well as Hedong District (河東區) and Heping District (和平區) after completion of the Assets Acquisition Agreement which are served by the Transferred Assets.

Furthermore, pursuant to the Supplemental Non-Competition Agreement, Tianjin Gas further undertakes that (A) where business opportunities which may compete with the business of the Enlarged Group arises, or if Tianjin Gas desires to sell any of its existing pipe gas business or the underlying assets for the pipe gas business in Tianjin, Tianjin Gas shall give the Company's notice in writing and the Company shall have a right of first refusal to take up such business opportunities. The Company shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such proposed transactions); and (B) regarding the assets which have not yet been transferred to the Company by Tianjin Gas in Hedong District, Heping District, Xiqing District, Hangu District and Ninghe County, the Company has the right to require Tianjin Gas to sell these assets to the Company at any time, subject to compliance with the applicable requirements under the relevant PRC laws as well as the GEM Listing Rules, at a price that is fair and reasonable, and acceptable to the independent non-executive Directors (who do not have any interest in such proposed transaction).

Although there is a non-competition undertaking given by Tianjin Gas and the Enlarged Group has the first right of refusal to take up the business opportunities proposed by Tianjin Gas that might be in competition with the Enlarged Group or to acquire the piped gas business or the underlying assets for the piped gas business in Tianjin from Tianjin Gas ("Business Opportunities"), there is no guarantee that the Enlarged Group will have the resources, including financial resources, to pursue such Business Opportunities in the future.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Group cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions to the Group's operations that could have a material adverse impact on the financial condition of the Group.

The Group has obtained insurance for the gas pipelines operated by the Group for a maximum insured amount up to RMB81.6 million in 2009, which account for approximately 40.2% of the Group's net book value of RMB203.0 million as at 30 June 2010.

RISK FACTORS

The Group has also taken out third party liability insurance policies covering the loss of life or property of third parties, excluding corporate users, arising out of any accident that may occur at processing stations of the Group. The maximum insurance coverage is RMB10 million with single claim not exceeding RMB5 million.

In addition, the Directors confirm that the Group will obtain insurance for the gas pipelines in Hedong District and Heping District where the Transferred Assets are located after the completion of the Proposed Assets Transfer.

Any successful claim made against the Enlarged Group that is not covered by any of the Enlarged Group's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Enlarged Group's business and financial position.

The global financial markets have experienced significant deterioration and volatility recently, which may adversely affect our business operations of the Enlarged Group

Certain recent adverse developments in the global financial markets have impacted the global economy. These developments include, among others, the general slow-down of economic growth in China, the U.S. and elsewhere globally, substantial volatility and tightening of liquidity in financial and commodity markets. Shall there be a general slow-down of economy in China, especially in Tianjin City, the demand of gas connection and the demand of natural gas by industrial and commercial users in Tianjin City or Jining City may decrease, which in turn may affect the demand for the Company's supply of natural gas. In addition, in amid of the credit tightening environment, banks may vary the terms of bank loans or the banking facilities currently available to the Company.

It is difficult to predict for how long the financial crisis will last and which of the Group's markets and businesses may be affected. However, if the crisis continues for an extended period of time, the Enlarged Group's business and operating results may be adversely impacted.

RISKS RELATING TO THE INDUSTRY

Substitute products

Coal, crude oil and electricity are the main substitutes for piped natural gas. Customers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. There is no assurance that existing customers of the Group will not shift to use a form of fuel other than piped natural gas.

Operating in highly regulated industry

The gas industry in the PRC is highly regulated and the Group's operations are affected by extensive laws and regulations, compliance with which may entail significant expenses. Details of the overview of the regulatory environment that the Group operated in is set out in the paragraph headed "Regulatory Framework for Urban Gas Distribution Industry in the PRC" in the section headed "Industry Overview" of this circular. Should the Group not able to comply with the extensive laws and regulations, the Group's business may be materially adversely affected.

RISK FACTORS

Finite natural gas reserves in the PRC

The number of gas wells was decreasing in the PRC while the demand of gas was rising. There can be no assurance that the natural gas reserves in the PRC can meet its demand. The Group's operations may be materially adversely affected if the Group cannot purchase sufficient natural gas from its suppliers.

RISKS RELATING TO THE PRC

Changes in laws, regulations and policies

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little precedential value. In 1979, the PRC began to promulgate a comprehensive system of laws and has since introduced many laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes in existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group.

In the PRC, gas distribution companies invest in and operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including but not limited to the departments of administration for economic and trade (經濟貿易管理部門), the state development planning departments (國家發展計劃部門), the construction departments (建設部門), the departments of land and resources and housing (國土資源及房屋管理部門), the department of public security (公安部門) and the departments of labour and social security (勞動和社會保障部門) on all levels. The Company must comply with the relevant requirements of certain regulations, including but not limited to the Regulations of the Safety of City Fuel Gas Administration (城市燃氣安全管理規定) and Regulations of the Installation and Repair of Gas Burning Appliances (燃氣燃器具安裝維修管理規定). In addition, the Company must comply with the relevant requirements and policies of local authorities where the Company's projects are situated. The Group has obtained all the relevant licenses for the Group to operate its existing operations in Tianjin City and Jining City.

There can be no assurance that the above regulatory regime and policies will not be changed. The Company's operations and profitability may be materially adversely affected if changes that occur are not favourable to the Company.

Changes in foreign exchange regulations

Currently, Renminbi still cannot be freely converted into any foreign currency, and the conversion and remittance of foreign currencies are subject to the PRC foreign exchange regulations. The income and expenditures of the Company are denominated in Renminbi.

If the Company has substantial requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials, repayment of the principal and interest of loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirement could affect the Company's ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure.

RISK FACTORS

Payment of dividends is subject to restrictions under PRC law

Under the PRC law, dividends may be paid only out of distributable profits. Distributable profits are the Group's net profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that the Company is required to make. As a result, the Group may not have sufficient or any distributable profits to enable the Company to make dividend distributions to the Shareholders in the future, including periods in which the financial statements of the Group indicated that the operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

The implementation of the PRC Labor Contract Law and the Implementation Regulation for the PRC Labor Contract Law may increase our operating expenses and may adversely affect our business and results of operations

On 29 June, 2007, the PRC National People's Congress enacted the PRC Labour Contract Law, which became effective on 1 January 2008. The Implementation Regulation for the PRC Labour Contract Law was promulgated by the State Council and took effect on 18 September 2008. The Labour Contract Law formalizes, among others, worker's rights concerning overtime hours, pensions and layoffs, the execution, performance, modification and termination of the labor contracts, the clauses of the labour contract and the role of trade unions herein. In particular, it provides for specific standard and procedures for entering into non-fixed term labour contracts. Either the employer or the employee is entitled to terminate the labor contract in circumstances as prescribed in the PRC Labour Contract Law or if certain precondition is fulfilled, and in certain cases, the employer is required to pay a statutory severance upon the termination of the labor contract pursuant to the standards provided by the PRC Labour Contract Law.

The implementation of the PRC Labour Contract Law and the Implementation Regulation of the PRC Labour Contract Law may increase the Group's operating expenses, in particular the costs of human resources and administrative expenses. In the event that the Group decides to significantly modify the employment or labor policy or practice, or reduce the number of employees or otherwise, the PRC Labour Contract Law may also limit the Group's ability to effectuate the modifications or changes in the manner that is believed to be most cost-efficient or otherwise desirable, which could materially and adversely affect the Group's business and results of operations.

It may be difficult to enforce any judgments obtained from non-PRC courts against the Company or Directors, Supervisors or senior executive officers residing in China

The legal framework to which the Company is subject is substantially different from the Companies Ordinance and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which the Company is subject are also relatively undeveloped and untested. However, in 2006, amendments made to the PRC Company Law came into effect to allow shareholders to commence an action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

RISK FACTORS

Although the Company will be subject to the GEM Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, the holders of H Shares will not be able to bring actions on the basis of any violations of the GEM Listing Rules and must rely on the Stock Exchange to enforce its rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. Under such arrangement, where any designated People's Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. The Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters has become effective on 1 August 2008.

The Articles of Association and the GEM Listing Rules provide that most disputes between holders of H Shares and the Company, the Directors, Supervisors or officers arising out of the Articles of Association or the Company Law and related regulations concerning the Company's affairs, such as transfer of H Shares, are to be resolved through arbitration. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the arrangement, awards that are made by the PRC arbitral authorities pursuant to the Arbitration Law of the PRC can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities under the Arbitration Ordinance of Hong Kong are also enforceable in the PRC. However, so far as the Directors are aware, no action has been brought in the PRC by a holder of H Shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favour of a holder of H Shares. Accordingly, the Company is unable to predict the outcome of any such action.

Different regulatory framework

As all of the Group's business is conducted in the PRC, its operations are governed principally by the laws of the PRC. As a PRC company offering and listing its H Shares outside the PRC, the Company is subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in the articles of association of the PRC companies to be listed abroad (including Hong Kong) and are intended to regulate the internal affairs of those companies. In general, certain aspects of the Company Law and the Special Regulations such as the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong and other developed countries or regions.

RISK FACTORS

The Company Law is different in certain important aspects from company laws in Hong Kong and other common law countries or regions, particularly with regard to investors' protection, including in such areas as derivatives actions by minority shareholders and other minority shareholders protections, restrictions on the authority of directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividends.

The nature of limited investor protection under the Company Law is compensated for, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the GEM Listing Rules with a view to reducing the scope of differences between the Companies Ordinance and the Company Law. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Association have incorporated the provisions required by the Mandatory Provisions and the GEM Listing Rules. Despite the incorporation of those provisions, there can be no assurance that holder(s) of H Shares will enjoy protections to which they are entitled to in other jurisdictions.

Tax system in the PRC

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (“**New Law**”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group was reduced from 33% to 25% with effect from 1 January 2008.

According to the Notice issued by the Ministry of Finance and the National Tax Bureau of the PRC (Cai Shui [2005] No. 165), value-added tax shall only be imposed on entities carrying on public utilities business, which includes natural gas, in respect of one-off charges that directly relate to the quantities of goods sold. No value-added tax would be imposed on piped gas connection fees as such fees do not directly relate to the quantities of goods sold.

However, there can be no assurance that the above tax policies will not be changed. The Group's operations and profitability may be materially adversely affected if changes that occur are not favourable to the Group.

There may be an occurrence of a widespread public health problem

An outbreak of any widespread public health problem in the PRC, such as Severe Acute Respiratory Syndrome, avian influenza or H1N1 influenza, could have a negative impact on the Group's business, operations and financial results. The Group's operations may be affected by a number of health-related factors, including quarantines or closures of some of the sales offices and manufacturing facilities and a general slowdown in China's economy.

INDUSTRY OVERVIEW

The information presented in this section and identified as having been extracted from publicly available documents. The Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been prepared or independently verified by the Company, the Sponsor or any of their respective advisers or affiliates in connection with the new listing of the Company. The Company makes no representation to the accuracy of this information. Accordingly the information contained in this section may not be accurate and should not be unduly relied upon.

ENERGY CONSUMPTION STRUCTURE IN THE PRC

According to BP Statistical Review of World Energy June 2010 issued by BP plc, one of the largest global energy companies in the world, the PRC was the second largest energy (including oil, natural gas, coal, nuclear energy and hydro-electricity) consumer in the world in 2009. The consumption of primary energy in the PRC (excluding Hong Kong) during 2009 amounted to 2,153.1 million tonnes of oil equivalent, which accounted for approximately 19.3% of total world primary energy consumption.

According to the China Statistical Yearbook 2010, coal has traditionally been the main source of energy in the PRC. In 2009, coal, crude oil, natural gas and other energy sources (including hydro-power, nuclear power, wind power) accounted for approximately 70.4%, 17.9%, 3.9% and 7.8%, respectively, of the PRC's total energy consumption.

The extensive use of coal in the PRC has increased the concentration of carbon dioxide (CO₂) and sulphur dioxide (SO₂) in the air and has led to severe environmental problems such as greenhouse effect, global warming and erratic weather patterns and pollution of the atmosphere.

In the Eleventh Five-Year Plan Program of National Economy and Social Development for the year 2006-2010, the PRC government has further emphasized the measures on environmental protection including the reduction of the release of pollutants. The PRC government has been supportive on the development of clean energy, natural gas and substitutes for crude oil. According to the China Statistical Yearbook 2010, whilst coal consumption as a percentage of total energy consumption in the PRC remains relatively stable, crude oil consumption as a percentage of total energy consumption in the PRC has declined from approximately 22.2% in 2000 to 17.9% in 2009. On the other hand, natural gas consumption in the PRC as a percentage of total energy consumption has increased from approximately 2.2% in 2000 to 3.9% in 2009.

INDUSTRY OVERVIEW

Set out below is the total energy consumption in the PRC and its composition:

Year	Total energy consumption (million tonnes of standard coal equivalent)	Percentage of total energy consumption			
		Coal (%)	Crude oil (%)	Natural Gas (%)	Hydro-power (%)
2000	1,455.3	69.2	22.2	2.2	6.4
2001	1,504.1	68.3	21.8	2.4	7.5
2002	1,594.3	68.0	22.3	2.4	7.3
2003	1,837.9	69.8	21.2	2.5	6.5
2004	2,134.6	69.5	21.3	2.5	6.7
2005	2,360.0	70.8	19.8	2.6	6.8
2006	2,586.8	71.1	19.3	2.9	6.7
2007	2,805.1	71.1	18.8	3.3	6.8
2008	2,914.5	70.3	18.3	3.7	7.7
2009	3,066.5	70.4	17.9	3.9	7.8

Source: China Statistical Yearbook 2010

NATURAL GAS MARKET IN THE PRC

According to Energy Information Administration (“EIA”), US Department of Energy, natural gas provided approximately 22.1% of world primary energy demand in 2006 but in the PRC only approximately 2.7% of primary energy demand was met by natural gas. The estimated natural gas consumption in the PRC is expected to increase from approximately 2,000 billion cubic feet in 2006 to approximately 6,800 billion cubic feet in 2030, representing a compound annual growth rate of approximately 5.23%. By 2030, natural gas consumption in the PRC as a percentage of total energy consumption is projected to increase to approximately 4.4%.

According to the China Statistical Yearbooks 2010, the natural gas consumption in the PRC increased by approximately 17.0% from approximately 69.5 billion cubic meters in 2007 to approximately 81.3 billion cubic meters in 2008. The average daily natural gas consumption in the PRC increased by approximately 15.8% from approximately 190 million cubic meters in 2007 to approximately 220 million cubic meters in 2008. The industrial sector was the largest consumer group of natural gas in the PRC, accounting for approximately 65.4% of total natural gas consumption in 2008 and recorded growth of approximately 4.3% from 2007 to 2008. Household users were the second largest consumer group of natural gas in the PRC, accounting for approximately 20.9% of the total natural gas consumption in the PRC in 2008 and recorded growth of approximately 27.5% of total natural gas consumption in 2008.

INDUSTRY OVERVIEW

Set out below is the composition of natural gas consumption by category of consumer group in the PRC for 2007 and 2008.

Consumer Group	2007		2008	
	Volume of natural gas		Volume of natural gas	
	<i>(billion m³)</i>	%	<i>(billion m³)</i>	%
Industrial sector:	50.97	73.3	53.16	65.4
— mining	9.63	13.9	10.97	13.5
— manufacturing	33.32	47.9	33.79	41.6
— electric power, gas and water production and supply	8.01	11.5	8.40	10.3
Construction	0.21	0.3	0.10	0.1
Transportation, storage, post and telecommunication service	1.69	2.4	7.16	8.8
Wholesale, retail trade and catering services	1.71	2.5	1.78	2.2
Household consumption	13.34	19.2	17.01	20.9
Others	1.61	2.3	2.09	2.6
	69.52	100.0	81.29	100.0

Source: China Statistical Yearbook 2009 and 2010

PRODUCTION OF NATURAL GAS IN THE PRC

Natural gas in the PRC are mainly produced by PetroChina Company Limited (中國石油天然氣股份有限公司), China National Offshore Oil Corporation (中國海洋石油總公司) and China Petrochemical Group Corporation (中國石油化工集團公司).

The PRC's largest reserves of natural gas are mainly located in the western and central of the PRC. Upon completion of the first pipeline of West-to-East Gas Pipeline Project in 2004 as part of the Tenth Five-Year Plan Program of National Economy and Social Development, the natural gas pipelines can transfer gas from the Tarim Oilfield (塔里木油田) in Xinjiang to cities in the east and provide abundant supplies of natural gas.

The Group currently operates its natural gas business in the Tianjin City and Jining City.

INDUSTRY OVERVIEW

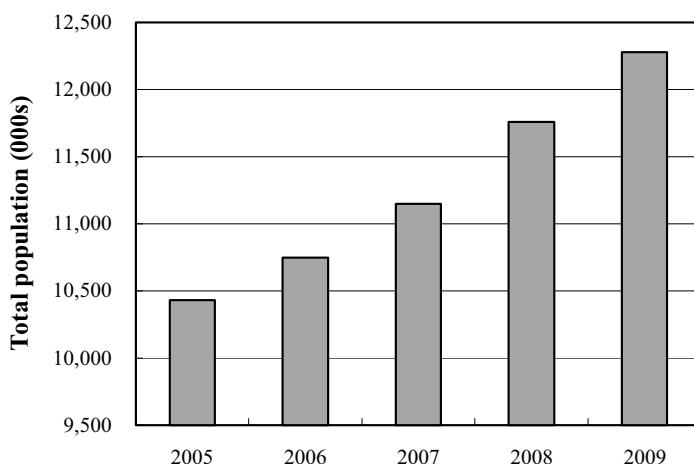
TIANJIN CITY

Tianjin City is one of the four municipalities (Beijing, Shanghai, Tianjin and Chongqing) in the PRC under the direct administration of the State Council. Tianjin City, the biggest coastal city in the northern part of the PRC, lies just 120 km southeast from the Beijing, has a total area of approximately 11,760 km². In accordance with the China Statistical Yearbook 2010, Tianjin City had a population of over 12 million in 2009, of which approximately 9.6 million live in the urban area and approximately 2.7 million live in the rural area. According to the China National Bureau of Statistics, the gross domestic product (the “GDP”) of Tianjin City increased from approximately RMB390.6 billion in 2005 to approximately RMB752.2 billion in 2009, representing a compound annual growth rate of approximately 17.8% and such growth rate was higher than the national average of 16.5% in the same period.

Tianjin City originally comprised 18 districts and counties (縣), including Heping District (和平區), Hedong District (河東區), Hexi District (河西區), Hebei District (河北區), Nankai District (南開區), Hongqiao District (紅橋區), Tanggu District (塘沽區), Hangu District (漢沽區), Dagang District (大港區), Dongli District (東麗區), Xiqing District (西青區), Jinnan District (津南區), Beichen District (北辰區), Wuqing District (武清區), Baodi District (寶坻區), Ji County (薊縣), Jinghai County (靜海縣) and Ninghe County (寧河縣). The Group’s Operational Locations cover five of the above districts. In September 2009, the State Council approved the merger of Tanggu District, Hangu District and Dagang District into Binhai New District. After the merger, Tianjin City comprises 16 districts and counties, including Heping District, Hedong District, Hexi District, Hebei District, Nankai District, Hongqiao District, Binhai New District, Dongli District, Xiqing District, Jinnan District, Beichen District, Wuqing District, Baodi District, Ji County, Jinghai County and Ninghe County. According to the website of the Tianjin Municipal People’s Government as at 26 November 2010, Binhai New District comprised Tanggu District, Hangu District, Dagang District, Tianjin Economic and Technology Development Zone (天津經濟技術開發區), Bonded Zone of Tianjin Port (天津港保稅區), Tianjin Port (天津港), part of Dongli District and part of Jinnan District.

The following chart illustrates the growth in population in Tianjin City during 2005-2009:

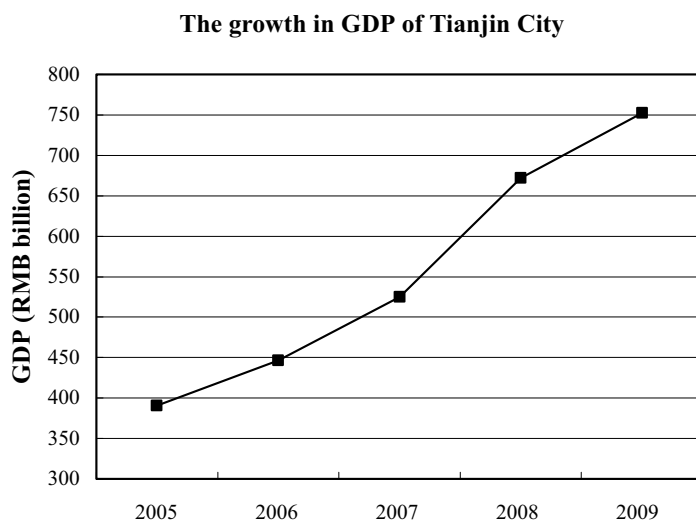
The growth in population of Tianjin City



Source: China Statistical Yearbook 2006-2010

INDUSTRY OVERVIEW

The following chart illustrates GDP growth of Tianjin City during 2005-2009:



Source: China Statistical Yearbook 2006-2010

According to the “Eleventh Five-Year Plan of Tianjin City” (天津市第十一個五年計劃), the reformation of Binhai New District in Tianjin has been the focus of the development plan. The objective is to build the Binhai New District into a base for high standard modern manufacturing and research, to become the northern international shipping and logistics centre.

NATURAL GAS USAGE IN TIANJIN CITY

According to China Statistical Yearbook 2010, Tianjin City was one of the cities with 100% coverage rate of urban population with access to natural gas compared to the national average coverage rate of 89.6% in 2008. Tianjin City also ranked seventh in terms of the length of natural gas pipeline network built, and was the seventh largest region in terms of the natural gas supply in the PRC in 2009. In 2009, 10,233 km network of gas pipeline has already been constructed. The volume of natural gas supplied to Tianjin City increased from approximately 689.7 million cubic meters in 2005 to 1,497.4 million cubic meters in 2009, representing a compound annual growth rate of 21.39%.

According to the China Statistical Yearbook 2006 and 2010, the number of households in Tianjin increased from approximately 3.5 million in 2005 to approximately 3.9 million in 2009, representing a CAGR of approximately 2.74%.

The Group supplied piped natural gas to approximately 43,000 users, 46,000 users, 83,000 users and 84,900 users in the existing Operational Locations during the Track Record Period. According to the “Forwarded Notice Regarding Views on Arrangement of Key Construction Projects of Tianjin City in 2009 (Jin Zheng Ban Fa (2009) No. 28) by the Municipal Development and Reform Commission and the Municipal Construction Committee” (轉發市發展改革委市建委關於我市2009年重點建設項目安排意見的通知津政辦發(2009)28號) issued by the Office of the Municipal Government in Tianjin (天津市人民政府辦公廳) on 10 March 2009, there are 11 ongoing property construction or infrastructure projects in the existing Operational Locations, Heping District and Hedong District, with a total investment of over RMB56 billion, those projects are expected to be completed in 2010, 2011 or 2012 and are considered to be favourable to the development of the gas connection business in Tianjin City.

INDUSTRY OVERVIEW

As stated in the “Statistical Communique on 2009 National Economic and Social Development in Tianjin City” (2009年天津市國民經濟局社會統計公報) issued by the Bureau of Statistic of Tianjin City (天津市統計局), the property development investment amount in Tianjin City was approximately RMB73.5 billion in 2009, representing an increase of approximately 12.5% from that of last year. The construction area of properties in Tianjin was approximately 101.9 million square metres in 2009, representing an increase of 10.7% from that of last year.

According to Tianjin City Overall Planning 2005-2020 (天津市城市總體規劃(2005年-2020年)), the volume of natural gas supplied to Tianjin City is expected to increase to approximately 6.54 billion cubic meters in 2020. According to the Tianjin City Natural Gas Development Plan (天津市燃氣規劃2008-2020), the Tianjin Construction Management Committee (天津市建設管理委員會) planned to diversify the application of natural gas with an aim to improve the city’s air quality. In particular, the plan includes the boost up of development of compressed natural gas vehicles, natural gas heating system and natural gas electricity plants. Currently, the major sources of natural gas of Tianjin City are Dagang Oilfield (大港油田), Boxi Oilfield (渤西油田), Huabei Oilfield (華北油田), Shanganning Oilfield (陝甘寧氣田). The addition of new sources of natural gas, development of Tianjin liquefied natural gas receiving terminal and underground natural gas storage facilities will further provide stable and flexible natural gas supply to Tianjin City in the future. With the development plan of natural gas supply and pipelines network, it is forecasted by the Tianjin Construction Management Committee that natural gas consumption as a percentage of total primary energy consumption in Tianjin City will increase from 4.3% in 2007 to 7% in 2012 and further increase to over 10% in 2020.

JINING CITY

The Group has been granted the exclusive operating right of natural gas business in Jining City by Jining City government in 2003.

Located in the central region of Inner Mongolia Autonomous Region, the city is rich in mineral resources as well as having plenty of agricultural and pastoral resources including beef, lamb, wheat, potatoes etc.

As stated in the Jining City government website, Jining City has a land area of approximately 418.8 km² and a total population of approximately 330,000 comprising people of various tribes. In 2007, Jining City achieved a GDP of approximately RMB6.1 billion, representing an increase of 30.5% from 2006.

According to the reports issued by the Jining City Government in 2008 and 2009, it has been focusing for years in infrastructure construction including, among things, pipeline for supplying natural gas, and property development, including construction of new residential properties and reconstruction or renovation of old residential properties.

In 2007, RMB3.0 billion was spent in infrastructure construction in Jining City. Construction of new residential properties of an area amounted to 750,000 sq.m. As stated in the report in 2008, the government planned to continue to improve the infrastructure in the city, including the construction of main pipeline of 16 km for supplying natural gas, connecting to 6,000 households in 2008.

INDUSTRY OVERVIEW

In 2008, RMB3.6 billion was spent in infrastructure construction in Jining City. Construction of new residential properties of an area amounted to 1,000,000 sq.m. As stated in the working report in 2009, the government planned to continue to improve the infrastructure in the city, including the completion of gas connection to 13 residential properties areas, the construction of new residential properties of an area of not less than 1,000,000 sq.m. in 2009. As stated in the working report in 2010, the government planned to accelerate the completion of the RMB4.0 billion infrastructure projects in Jining City, including but not limited to, continuation of construction of natural gas network and gas connection to properties and construction of new residential properties of an area of approximately 1,200,000 sq.m. in 2010.

According to the “2009 Report and 2010 Arrangement of Industrial and Economic Committee of Jining District” (集寧區工經委2009年工作總結及2010年工作安排) released by Industrial and Economic Committee of Jining District of Ulaan Chab (烏蘭察布市集寧區工經委), approximately RMB10.2 million was spent in the construction of water and pipeline networks in the industrial park in 2009 and further investment will be made in the infrastructure construction there in 2010.

FUTURE DEVELOPMENT OF THE NATURAL GAS INDUSTRY IN THE PRC

The West-to-East Pipeline Project will be a major focus of the development of the natural gas industry.

West-to-East Pipeline Project

Following the completion of the first natural gas pipeline of West-to-East Gas Pipeline Project in 2004, the construction of the second West-to-East natural gas pipeline has commenced. The investment for the second West-to-East natural gas pipeline is approximately RMB102 billion. The main line would measure 4,859 km, and the total length including branch lines would exceed 7,000 km. The pipeline would cross 13 regions in the PRC, carrying natural gas from central Asia countries, including Turkmenistan, and the Xinjiang Uygur Autonomous Region in northwest of the PRC to eastern and southern PRC, including Shanghai and the Guangdong province. The pipeline was designed with an annual transmission volume of 30 billion cubic meters and the project is expected to complete in 2010. With the gas imported from Central Asia to the Pearl River Delta and the Yangtze River Delta, linking natural gas fields in the Tarim, Junggar, Tuha and Erdos basins, the Directors are of the view that the second West-to-East natural gas pipeline would improve PRC’s energy consumption structure by increasing natural gas supply and promoting international energy cooperation.

REGULATORY FRAMEWORK FOR URBAN GAS DISTRIBUTION INDUSTRY IN THE PRC

Overview

The Group operates in the gas industry that is regulated by the State Council and a number of different state ministries and departments including the Ministry of Construction (建設部), the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) (“Quality Supervision Administration”) and the Ministry of Public Security (公安部). These administrative bodies promulgate rules and regulations in relation to the production, operation, storage, transportation and handling of flammable chemical products in China.

INDUSTRY OVERVIEW

As confirmed by the PRC Legal Adviser, the Group has complied with all the relevant laws and regulations of the PRC during the Track Record Period and up to the Latest Practicable Date and that as far as the Transferred Assets were concerned, Tianjin Gas has complied with all the relevant laws and regulations of the PRC during the Track Record Period and up to the Latest Practicable Date. As such, the PRC Legal Adviser confirmed that the Enlarged Group has complied with all the relevant laws and regulations of the PRC during the Track Record Period and up to the Latest Practicable Date and such compliance will not be affected by the Proposed Assets Transfer.

Urban Gas Enterprise Qualification Certificate

In December 1997, the Ministry of Construction issued the Administrative Measures on Urban Fuel Gas Utilization (《城市燃氣管理辦法》) (the “Gas Measures”) which became effective on 1 January, 1998. The Gas Measures applies to the planning, construction and operation of gas supply, the production and sale of gas fuel appliances, as well as the utilization and safety management of gas in China. The Gas Measures provides that the design and construction of pipeline gas projects should be undertaken by design and construction units with qualification certificates and should comply with the relevant technological standards and regulations formulated by the PRC Government. Also, under the regime of the Gas Measures, every entity engaged in gas distribution business in China is required to obtain an Urban Gas Enterprise Qualification Certificate (《城市燃氣企業資質證書》) from the local government in charge of construction before it can engage in the businesses.

Fuel Gas Operation Licence

In November 2002, the State Council abolished the requirement for Urban Gas Enterprise Qualification Certificate under the Gas Measures pursuant to the Decision of the State Council to Abolish the First Batch of Administrative Approved Items (《國務院關於取消第一批行政審批項目的決定》). The Administrative Licensing Law (《行政許可法》) was adopted by the Standing Committee of the National People’s Congress in August 2003, pursuant to which local governments are empowered to grant licences to privately owned entities to engage in specified businesses. In June 2004, the State Council issued the Decision of the State Council to Implement Administrative Licensing for Reserved Administrative Approved Items (《國務院對確需保留的行政審批項目設定行政許可的決定》) (together with the Administrative Licensing Law, the “Administrative Licensing Regulations”). Pursuant to the Administrative Licensing Regulations, an enterprise which operates in the gas distribution business in the PRC is required to obtain a Fuel Gas Operation Licence (《燃氣經營許可証》) from the local government in charge of construction.

In October 2004, pursuant to the Administrative Licensing Regulations, the Ministry of Construction issued the Provisions Regarding the Conditions for the Fifteen Administrative Approval Items Adopted by the State Council (《建設部關於納入國務院決定的十五項行政許可的條件的規定》) (the “Condition Provisions”). Under the Condition Provisions, in order to obtain the Fuel Gas Operation Licence from the local government in charge of construction, a gas distribution company must satisfy the following main conditions:

INDUSTRY OVERVIEW

- the construction project shall be in compliance with the general plan and the gas plan of the city;
- have a stable and qualified gas supply;
- have production, transportation, storage, filling and supply facilities which meet the required standards and which satisfy fire prevention and construction quality requirements;
- have trained technicians to handle gas;
- have complete records of infrastructure construction, production, equipment, materials and safety;
- have sound equipment to handle accidents, and an emergency team, staff, equipment and transportation facilities with regard to the scale of gas distribution;
- have received a safety appraisal report from the appraisal intermediary;
- have adequate registered capital; and
- have taken out industrial injury insurance.

Despite the Administrative Licensing Regulations, some local governments have not implemented the licensing regime under the regulations. Some of such local governments continue to implement the licensing regime under the Gas Measures before the Gas Measures were abolished by the State Council in November 2002 and issued Urban Gas Enterprise Qualification Certificates to entities engaging in gas distribution business.

Concession rights

In May 2004, the Ministry of Construction issued the Concession Measures to promote concession systems in utility industries including the pipeline gas distribution industry. Pursuant to the Concession Measures, local governments will normally grant concession rights to operate piped gas distribution businesses in a specified area. Such specified area may be the entire or a part of the city or county, depending on the terms of the concession rights granted. The PRC government authorities in charge of utilities at city or county level is responsible for the implementation of the Concession Measures. At present, the relevant local authority in Tianjin in charge of natural gas utility i.e. the Gas Management Office of Tianjin (天津市燃氣管理處) has not yet formulated the format of the special operating agreement. Utility concession can be granted by public bidding or other means permitted by law. The rights and obligations of the successful bidder are set out in the relevant concession agreements. Pursuant to the Concession Measures, the concession period normally will not exceed 30 years.

In September 2004, the Ministry of Construction published a standard form of concession contract with respect to piped gas distribution for guidance. The form of concession contract has specific provisions mainly in respect of:

INDUSTRY OVERVIEW

- granting, revocation and termination of the concession;
- construction, maintenance and improvement of the gas distribution facilities;
- gas distribution safety;
- quality of the gas and standards of services;
- fees;
- default liabilities; and
- dispute resolution.

For an enterprise engaged in piped gas business, it is required to obtain the following licences or permits:

- (i) Fuel Gas Operation Licence or Urban Gas Enterprise Qualification Certificate; and
- (ii) concession rights (where the local governments have implemented the Concession Measures).

The PRC Legal Adviser confirmed that the Fuel Gas Operation Licence held by the Company allows the Company to conduct gas supply operations in the Operational Locations and in respect of the Transferred Assets in Tianjin, including its existing Operational Locations as well as in Hedong District and Heping District. For details relating to the Fuel Gas Operation Licence obtained by the Group, please refer to the section headed “Business of the Group — Licences and Approvals” in this circular.

According to the Concession Measures, the Group is required to enter into a special operating agreement with the relevant local construction bureau in Tianjin. However, the relevant local construction bureau in Tianjin has not yet formulated the format of the special operating agreement and accordingly the Group was not required to execute a special operating agreement for its operations in Tianjin as at the Latest Practicable Date. The PRC Legal Adviser advised that as the non-execution of the special operating agreement is caused by the local policy, the operation of the Group in Tianjin would not be affected. The PRC Legal Adviser further confirmed that the Fuel Gas Operation Licence held by the Company allows the Company to conduct gas supply operations in the Operational Locations and in respect of the Transferred Assets in Hedong District and Heping District in the absence of a special operating agreement with the relevant local bureau in Tianjin. At present, the relevant local authority in Tianjin in charge of natural gas utility is the Gas Management Office of Tianjin (天津市燃氣管理處). The Gas Management Office of Tianjin (天津市燃氣管理處) has issued a confirmation letter dated 21 January 2010 that, inter alia, (1) the Company can conduct gas supply operations with the Fuel Gas Operation Licence it held and no other licences or approvals are necessary; and (2) as Tianjin has not yet implemented the special operating agreement policy, the operation of the Company in Tianjin would not be affected even if it has not entered into a special operating agreement with the relevant local bureau in Tianjin.

INDUSTRY OVERVIEW

The PRC Legal Adviser further confirmed that it is not required under the PRC laws and regulations that notice be given to the relevant authorities in Tianjin regarding the transfer of natural gas network. However, the PRC Legal Adviser confirmed that gas operators have to hold either Urban Gas Enterprise Qualification Certificates or Fuel Gas operation Licences for their operation in Tianjin. The Company has obtained the Fuel Gas Operation Licence, which allows the Company to conduct gas supply operations in Tianjin, inclusive of the existing Operational Locations as well as in Hedong District and Heping District. Thus, the Sponsor is of the view that the Company already has operation rights in Hedong District and Heping District and the Proposed Assets Transfer is in essence an acquisition of assets for the supply of piped gas in the ordinary course of business of the Group.

The Proposed Assets transfer has already been approved by the Tianjin State-owned Assets Administrative Bureau and the Urban Rural Construction & Communications Commission of Tianjin Municipal Government (天津市城鄉建設和交通委員會). Accordingly, the PRC Legal Adviser advises that the relevant PRC government authorities in charge of utilities in Tianjin, i.e. the Gas Management Office of Tianjin (天津市燃氣管理處), which is the subordinate authority of Urban Rural Construction & Communications Commission of Tianjin Municipal Government (天津市城鄉建設和交通委員會), is aware of the Proposed Assets Transfer.

Qualification for Urban Gas Businesses in Jining City

The Jining City Government has not yet promulgated the local administrative rules regarding the Concession Measures. Besides, the relevant construction bureau in Jining has not yet formulated the format of the special operating agreement and accordingly the Group was not required to execute a special operating agreement for its operations in Jining as at the Latest Practicable Date. The PRC legal adviser to the Company advised that as the non-execution of the special operating agreement is caused by the local policy, the operation of the Group in Jining would not be affected.

Use of Land

There are certain PRC rules and regulations to ensure piped gas operators can freely access their pipeline network. For example, pursuant to Rule 20 of Urban Gas Safety Management Regulation 《城市燃氣安全管理規定》 (the “Regulation”), no building, contraction work or storage activity is allowed on land underneath which pipeline network is laid. This ensures that the land under which the Group’s pipeline network is laid always remains unoccupied and can be accessed when needed. In addition, pursuant to Rule 8 to Tianjin City Urban Gas Safety Management Rules 《天津市城市燃氣管理條例》 (the “Tianjin Rules”), all entities and individuals have the obligation to ensure that the gas facilities in the city are property safeguarded. In view of the importance of protecting the facilities relating to public utilities including but not limited to gas facilities, both Rule 34 of Road Management Rules 《城市道路管理條例》 and Rule 36 of Tianjin City Road Management Rules 《天津市城市道路管理條例》 clearly state that in case of urgent repairs to pipelines, the responsible unit can carry out the repair work without obtaining prior approval from the relevant government authority. However, the unit has to inform the relevant government authority immediately and obtain the necessary approval subsequently.

INDUSTRY OVERVIEW

Given the fact the Group is approved to operate piped gas operations in the Operational Locations in Tianjin, the Directors believe that the Tianjin Government has no reason to prohibit or disapprove the Group in performing the necessary network inspection or maintenance actively in the Operational Locations.

As regard to construction of additional pipelines in the Operational Locations in Tianjin by the Group, separate approval needs to be obtained. In particular, details of the proposed new pipelines have to be submitted for approval by the Tianjin City Land Development Planning Bureau (天津市規劃和國土資源局). Once such approval is obtained, the related construction work can be carried out.

VALUE-ADDED TAX ISSUE

According to the Notice issued by the Ministry of Finance and the National Tax Bureau of the PRC (Cai Shui [2005] No. 165), value-added tax shall only be imposed on entities carrying on public utilities business, which includes natural gas, in respect of one-off charges that directly relate to the quantities of goods sold. No value-added tax would be imposed on entities carrying on public utilities business in respect of one-off charges that do not directly relate to the quantities of goods sold. The PRC Legal Adviser to the Company has confirmed that, pursuant to the said Notice, no value-added tax would be imposed on piped gas connection fees as such fees do not directly relate to the quantities of goods sold.

BUSINESS OF THE GROUP

CORPORATE HISTORY

The history of the Company's origin can be traced back to December 1998 when Tianlian Company was established to engage principally in the supply of piped natural gas in Tianjin, the PRC. On 26 December 2001, Tianjin Municipal Government approved the Company's change of economic nature from a limited company to a joint stock limited company and the Company changed its name to 天津天聯公用事業股份有限公司 (Tianjin Tianlian Public Utilities Company Limited*).

Set out below is the shareholding structure of the Company immediately after the change of the economic nature of the Company from a limited company to a joint stock limited company:

	Number of Domestic Shares held <i>(Note)</i>	Percentage Interest
Leason Investment	39,615,000	57.00%
Tianjin Beacon	14,032,050	20.19%
Tianjin Gas	10,292,950	14.81%
Ms. Tang	4,170,000	6.00%
Mr. Liang	1,390,000	2.00%
	<u>69,500,000</u>	<u>100.00%</u>

Note: Before the Share Sub-division and where the nominal value of the Domestic Share is RMB1.00 each.

At an extraordinary general meeting of the Company held on 28 August 2002, it was resolved that one domestic share of the Company of RMB1.00 each would be sub-divided into 10 domestic shares of RMB0.10 each. As a result, the number of the Shares comprising the share capital of the Company was increased to 695,000,000 Domestic Shares of RMB0.10 each.

* For identification purpose only

BUSINESS OF THE GROUP

The H Shares of the Company was listed on the GEM on 9 January 2004. Set out below is the shareholding structure of the Company immediately after the listing of the Company on the GEM:

Holder of Domestic Shares or H Shares	No. of Shares	Percentage of issued share capital
Domestic Shares		
Tianjin Beacon	123,014,790	12.36%
Tianjin Gas	90,235,210	9.07%
Leason Investment	396,150,000	39.81%
Ms. Tang	41,700,000	4.19%
Ms. Liang	13,900,000	1.40%
H Shares		
Holder of H Shares	330,000,000	33.17%
	995,000,000	100%

On 18 April 2005, Leason Investment and Tianjin Gas entered into a sale and purchase agreement in relation to the sale of 174,125,000 Domestic Shares (representing approximately 17.5% of the then total issued share capital of the Company) by Leason Investment to Tianjin Gas at a price of RMB0.23 per Domestic Share amounting to a total consideration of RMB40,048,750. Leason Investment and Tianjin Gas became interested in approximately 22.31% and 26.57% of the then total issued share capital of the Company respectively. Tianjin Gas became the largest Shareholder of the Company.

On 28 December 2005, Leason Investment and Wanshun Real Estate entered into a share transfer agreement in relation to the sale of 222,025,000 Domestic Shares (representing approximately 22.31% of the then total issued share capital of the Company) by Leason Investment to Wanshun Real Estate at a price of RMB0.29 per Domestic Share amounting to a total consideration of RMB64,387,250. On the same date, Ms. Liang and Wanshun Real Estate entered into a share transfer agreement in relation to the sale of 13,900,000 Domestic Shares (representing approximately 1.40% of the then total issued share capital of the Company) by Ms. Liang to Wanshun Real Estate at a price of RMB0.29 per Domestic Share amounting to a total consideration of RMB4,031,000. Upon completion of the share transfers, Wanshun Real Estate became interested in approximately 23.71% of the total issued share capital of the Company and became the second largest Shareholder of the Company, Leason Investment and Ms. Liang ceased to hold any Domestic Share of the Company, while Tianjin Gas remained as the largest Shareholder of the Company.

BUSINESS OF THE GROUP

On 13 March 2008, an aggregate of 170,060,000 H Shares had been successfully placed to not less than six independent professional, institutional and/or individual investors. The 170,060,000 H Shares comprise of (1) 154,600,000 H Shares allotted and issued by the Company and (2) an aggregate of 15,460,000 H Shares converted from the same number of State-owned Domestic Shares transferred from Tianjin Beacon and Tianjin Gas to the NSSF Council pursuant to the State-owned Shares Reduction Measures. The 170,060,000 H Shares represent approximately 51.53% and 17.09%, respectively, of the issued H share capital and the registered capital of the Company prior to the completion of the Placing and approximately 34.01% and 14.79%, respectively, of the issued H share capital and the registered capital of the Company as enlarged by the issue of the 154,600,000 H Shares and the conversion of the 15,460,000 H Shares. The Directors consider that the Placing enabled the Group to raise further equity capital and strengthen the capital base of the Company. The net proceeds of the Placing were approximately HK\$280 million (representing a net placing price of approximately HK\$1.81 per new H Share) after deducting the commission and expenses of the Placing. The net proceeds of the Placing were used for the construction and investment in gas pipeline infrastructure, acquisition of assets and working capital. The entire net proceeds from the Placing converted from the State-owned Domestic Shares held by Tianjin Gas and Tianjin Beacon were remitted to the NSSF Council.

The changes of the shareholding of the Company as a result of the Placing were as follows:

Holder of Domestic Shares or H Shares	Immediately before completion of the Placing		Immediately after completion of the Placing	
	No. of Shares	Percentage of issued share capital (%)	No. of Shares	Percentage of issued share capital (%)
Domestic Shares				
Tianjin Beacon (<i>Note</i>)	123,014,790	12.36	118,105,313	10.27
Tianjin Gas (<i>Note</i>)	264,360,210	26.57	253,809,687	22.08
Wanshun Real Estate	235,925,000	23.71	235,925,000	20.52
Ms. Tang	41,700,000	4.19	41,700,000	3.63
H Shares				
Holder of H Shares	330,000,000	33.17	500,060,000	43.50
	<u>995,000,000</u>	<u>100</u>	<u>1,149,600,000</u>	<u>100</u>

Note: Pursuant to the State-owned Shares Reduction Measures, in relation to the Placing, Tianjin Beacon and Tianjin Gas transferred 4,909,477 Domestic Shares and 10,550,523 Domestic Shares respectively to NSSF Council. Such Shares were converted into H Shares and sold pursuant to the Placing.

After completion of the Placing and up to the Latest Practicable Date, Tianjin Gas remained as the single largest Shareholder of the Company.

BUSINESS OF THE GROUP

BUSINESS DEVELOPMENT

The Group is principally engaged in the operation and management of gas pipeline infrastructure and the sales and distribution of piped gas in the PRC. The Group's other operating activities include the sale of gas appliances and provision of gas transportation services.

Recognising that the use of natural gas, which is clean and safe when compared to other sources of fuel, would gradually become an important source of fuel, the Group began to invest in the construction of gas pipelines infrastructure for the sale and distribution of piped natural gas to domestic, commercial and industrial customers in Xiao Hai Di (小海地) of Hexi District and part of Jinnan District of Tianjin, the PRC in 1998. The Group obtained the approval from Tianjin City on 26 December 1998 and began to recognize connection fee revenue and gas supply revenue in November 1999.

The Directors are of the view that Tianjin City is a developed area where most districts are already covered by comprehensive piped gas network. As such, unlike a newly developed area where the Group has room to build new piped gas network itself, the Group has to purchase existing pipelines from other existing piped gas suppliers to expand its business in most of the districts in Tianjin City. When making decisions as to which location the Group wishes to expand, the Directors would consider various factors including the potential development of the locations and the capital commitment of the Group. The Directors would only acquire piped gas network from Tianjin Gas or other existing gas operators if the Directors consider that the acquisition would be in the interest of the business development of the Group and beneficial to the Shareholders as a whole.

The Directors believe that if the Group wishes to expand its supply of piped gas business into new locations in Tianjin in the future, which are the existing operational locations of Tianjin Gas, it may further acquire pipelines and ancillary facilities from Tianjin Gas in those locations that the Group wishes to expand and will comply with applicable GEM Listing Rules.

Jining Branch

Pursuant to the agreement entered into between Jining Branch and the Jining City Government dated 14 January 2003, the Jining Branch was granted the special operating permit to operate piped natural gas and LPG supply operations on an exclusive basis in Jining City. The Group started its business in Jining City by entering into a pipeline construction contract for customers' pipelines connection in April 2003.

Acquisition of Xiqing Assets I

To further expand the Group's existing piped natural gas operation in Tianjin, the Company entered into the Xiqing Asset I Transfer Agreement with Tianjin Gas on 27 September 2006, whereby the Company agreed to acquire the Xiqing Assets I from Tianjin Gas at a consideration of RMB7,193,500.

Xiqing Assets I represented part of the fixed assets of Xiqing Sales Office (including structures, pipe network, machinery equipment, electronic equipment and vehicles). Xiqing Assets I contained the fixed assets essential for the supply of natural gas to the industrial and commercial users and domestic users in the Yang Liu Qing County (楊柳青鎮) of Xiqing District (西青區) of Tianjin City.

BUSINESS OF THE GROUP

After completion of the Xiqing Asset I Transfer Agreement, the Group overtook the gas supply contracts signed and being performed between Xiqing Sales Office and the industrial, commercial and domestic users in respect of Xiqing Assets I, which included enterprises, institutions, and governmental authorities. However, as it takes time to fully integrate the operations in respect of Xiqing Assets I with that of the Group, in order to minimize the administrative inconvenience to the users, as a temporary measure, the Group has authorized Tianjin Gas to collect gas fees from the users in respect of Xiqing Assets I. Tianjin Gas will pay such gas fees in a lump sum to the Group every month.

The acquisition of Xiqing Assets I helped the Company to expand its business in Yang Liu Qing County (楊柳青鎮) of Xiqing District (西青區), Tianjin City and to boost the Company's user number and sales volume of natural gas.

Acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II

In order to further expand its business in Tianjin, the Company acquired the Hangu Assets, Ninghe Assets and Xiqing Assets II at a consideration of RMB89,516,500 pursuant to the Hangu, Ninghe and Xiqing Assets Transfer Agreement with Tianjin Gas dated 6 June 2008 to expand its business into parts of districts such as Xiqing District, Hangu District and Ninghe County of Tianjin City, as well as to boost the Company's users number and sales volume of natural gas. The Hangu Assets, Ninghe Assets and Xiqing Assets II represented part of the fixed assets of Hangu Sales Office, Ninghe Sales Office and Xiqing Sales Office (including pipe network, machinery equipment and ancillary facilities of pipe network).

After completion of the Hangu, Ninghe and Xiqing Assets Transfer Agreement, the Group overtook the gas supply contracts with the industrial, commercial and domestic users in respect of Hangu Assets, Ninghe Assets and Xiqing Assets II. However, as it takes time to fully integrate the operations in respect of Hangu Assets, Ninghe Assets and Xiqing Assets II with that of the Group, in order to minimize the administrative inconvenience to the users, as a temporary measure, the Group has authorized Tianjin Gas to collect gas fees from the users in respect of Hangu Assets, Ninghe Assets and Xiqing Assets II. Tianjin Gas will pay such gas fees in a lump sum to the Group every month.

Hangu District, with an area of 430 km², had been an important part of the Binhai New District. Ninghe County is located in the northeastern part of Tianjin City. Xiqing District is located in the southwestern part of Tianjin City. Hangu Assets, Ninghe Assets and Xiqing Assets II contained the fixed assets essential for the supply of natural gas to the industrial, commercial and domestic users in the Hangu District, Ninghe County and the Zhong Bei County (中北鎮), Shang Xin Kou County (上辛口鎮) and Zhang Wo County (張窩鎮), Xiqing District of Tianjin City.

Acquisition of minority interest in Binhai Gas

On 8 May 2009, the Company entered into a capital increase agreement with Tianjin Gas and Tianjin Infrastructure, a wholly owned subsidiary of Tianjin Gas, both being the original shareholders of Binhai Gas, pursuant to which the Company contributed RMB8,778,000 in cash in Binhai Gas and became a new shareholder of Binhai Gas. After completion of the capital increase agreement, the equity interest of Binhai Gas is owned as to 30.55%, 41.67% and 27.78% respectively by the Company, Tianjin Gas and Tianjin Infrastructure.

BUSINESS OF THE GROUP

Binhai Gas is an operating company engaged in the sales and distribution of natural gas in Binhai New District, Tianjin City, which has been delegated with the exclusive rights to supply natural gas to Tianjin Port (天津港) and Lingang Industrial Zone (臨港工業區) (both located in Binhai New District) by Tianjin Gas.

The acquisition of Binhai Gas's equity interest represents another important initiative of the Company in Binhai New District following its acquisition of gas assets in Hangu District, which will further broaden the Company's capability for development in Binhai New District and capitalize better on the historic opportunities in the course of development of Binhai New District.

Development of new revenue stream

The Group used to have only three revenue streams, namely gas connection fee, sales of gas and sales of appliances. In 2009, the Group has developed a new revenue stream, namely gas transportation fee.

On 6 October 2008, the Company entered into the Entrusted Construction Agreement with Tianjin Gas, pursuant to which the Company entrusted Tianjin Gas and Tianjin Gas agreed to undertake the construction of the Entrusted Projects. The Entrusted Projects comprise two projects, namely the Beihuan Pipeline Project and the Gangnan Distribution Project. Pursuant to the Entrusted Construction Agreement, Tianjin Gas is only responsible for the construction of the Beihuan Pipeline and the Gangnan Pipeline, the ownership of these pipelines remains with the Company.

The Beihuan Pipeline Project involved the construction of the Beihuan Pipeline, which was a set of provincial level high pressure gas pipelines estimated to be approximately 29 km in length. The Beihuan Pipeline was designed to have a maximum gas supply capacity of 2,000 million m³ per year. The Gangnan Distribution Project involved construction of the Gangnan Pipeline, which was a set of provincial level high pressure pipeline of approximately 22 km in length. It extends from Dazhangtuo (大張坨) underground gas storage exit in Dagang District (大港區), Tianjin connected to the cross point of Hangang Highway (漢港公路) and Jingu Highway (津沽公路) of Bin Hai Zhong You Gas Pipeline (濱海中油輸氣管線) in Jinnan District (津南區), Tianjin. The maximum gas supply capacity is expected to reach 1,000 million m³ per year.

The Gangnan Pipeline and the Beihuan Pipeline are high pressure gas pipelines since the Company does not have the technology to construct high pressure pipelines whilst Tianjin Gas has the technology and experience to construct high pressure pipelines, thus, the Company has entrusted Tianjin Gas to construct the Gangnan Pipeline and the Beihuan Pipeline.

Pursuant to the Entrusted Construction Agreement, the construction fees amounted to approximately RMB217,962,000 and the entrustment fees would not exceed RMB6,538,700. As at the Latest Practicable Date, a total of approximately RMB192,843,000 has been paid to Tianjin Gas by the Company in connection with the Entrusted Construction Agreement (of which approximately RMB5,903,000 were entrustment fees and approximately RMB186,940,000 were construction fees). The Gangnan Distribution Project was completed in May 2009 while the Beihuan Pipeline Project is still under construction.

The Entrusted Construction Agreement has been duly approved by the independent Shareholders' in an extraordinary general meeting held on 23 March 2009.

BUSINESS OF THE GROUP

Tianjin Gas has been the only natural gas wholesaler in the Operational Locations of the Group as well as Heping District and Hedong District and was the largest gas operator for the year 2009 in Tianjin. The Beihuan Pipeline and Gangnan Pipeline are newly constructed projects which allowed the Group more flexibility in planning the business model compared with the pipelines network in the Operational Locations which are already in operation. Being an infrastructure project, the Gangnan Pipeline and the Beihuan Pipeline are initiated and planned by the Tianjin Government to increase the overall capacity of gas supply to the Binhai New District to cope with the development in that region. The route of the Gangnan Pipeline and the Beihuan Pipeline are planned by the Tianjin Government. Under the plan, the upstream end of each of the Beihuan Pipeline (when completed) and the Gangnan Pipeline would be directly connected to a gas producer's pipelines, and not Tianjin Gas. As such, the Company has to purchase gas from the gas producer if it wishes to supply gas to the end users by itself. However, the plan to purchase natural gas from the gas producer was abandoned because that gas producer was unwilling to negotiate with the Company. The Directors did not know the exact reason why the gas producer was not willing to negotiate with the Company as no official reason was given by that gas producer. The Directors further advised that, based on their knowledge of the gas pipeline industry, upstream gas producers required large amounts of deposits to be made, which is non-refundable regardless of the actual volume of gas consumed which the Group cannot afford currently.

As the Group cannot secure a stable source of gas from the upstream gas supplier the Company decided to lease the Gangnan Pipeline and the Beihuan Pipeline to Tianjin Gas and charge Tianjin Gas a gas transportation fee. The Company entered into the Gas Transportation Contract with Tianjin Gas on 2 July 2009. The Directors considered that the entering into the Gas Transportation Contract was beneficial to the Group because the Company had not yet secured a stable source of gas supply to commence gas sales on its own in the respective areas in Binhai New District, while on the other hand, leasing the Gangnan Pipeline and the Beihuan Pipeline to Tianjin Gas and receiving a gas transportation fee in return will provide the Group with an additional source of revenue, which can be applied to recover the cost of construction of the two pipelines. In the future, the Group may utilize the Gangnan Pipeline and the Beihuan Pipeline to supply gas to end users in the Binhai New District itself by constructing branch pipelines and customer pipelines directly connecting to the end users to the two pipelines, provided that a stable source of gas supply can be secured. Pursuant to the Gas Transportation Contract, the Company agreed to allow Tianjin Gas to transmit natural gas to end users and gas operators via the Gangnan Pipeline and the Beihuan Pipeline owned and managed by the Company. In return, Tianjin Gas agreed to pay to the Company the Gas Transportation Fees. The Directors confirm that up to the latest practicable date of the Company's circular dated 5 February 2009, the exact plan of business development in Binhai New District had not been formulated yet and they were not aware that Tianjin Gas had any intention to use the pipelines to transmit natural gas to its end users and gas operator customers in Binhai New District. The Gas Transportation Fees are calculated based on the actual volume of natural gas and actual distance transmitted at RMB0.8 per 1,000 m³ per kilometre. If the relevant state price bureau adjusts the indicative price for the Gas Transportation Fees, such unit fee shall be changed after further agreement between Tianjin Gas and the Company. Pursuant to the Gas Transportation Contract, the annual caps of the Gas Transportation Fees for the three years ending 31 December 2011 is RMB18 million, RMB40 million and RMB 55 million, respectively. As at the Latest Practicable Date, the Directors confirmed that Gangnan Pipeline and the Beihuan Pipeline are only directly connected to the branch pipelines and customer pipelines owned by Tianjin Gas.

BUSINESS OF THE GROUP

When Tianjin Gas commences the transmission of natural gas via the Gangnan Pipeline and the Beihuan Pipeline, the Gas Transportation Fees will be recognized as revenue. The major costs, other than tax expenses, would be the depreciation/amortization of the relevant asset provided for the relevant period. The Directors advise that there are minimal maintenance costs for the two pipelines except in circumstances where the two pipelines were damaged accidentally, which the maintenance costs will be determined case by case. The Directors expect maintenance costs will be insignificant under normal circumstances. In addition, only a few existing staff are required to oversee the whole operation of Gangnan Pipeline and Beihuan Pipeline. The Directors advise that based on the expected volume of natural gas, which assumed a 10%-15% growth rate per annum, it is currently expected that the Beihuan Pipeline Project and the Gangnan Distribution Project will breakeven in about 6-8 years.

The Directors confirm that when considering whether to take up the Beihuan Pipeline Project and the Gangnan Distribution Project, they only considered the interests of the Company and the Shareholders. The Directors were of the view that the construction of the Gangnan Pipeline and the Beihuan Pipeline would be in the interest of the business development of the Group and beneficial to the Shareholders as a whole.

The entering into of the Gas Transportation Contract by the Company has created a new revenue stream for the Company. The Directors are of the view that the Gas Transportation Fees derived from the Gangnan Pipeline and the Beihuan Pipeline will become a substantial revenue stream to the Group in the future due to the development of Binhai New District. However, the revenue derived from the Gangnan Pipeline and the Beihuan Pipeline may not reach the level the Group expects as it may be subject to a number of factors that are out of Group's control, such as the pace of development of Binhai New District, the actual volume of gas transported through the Gangnan Pipeline and the Beihuan Pipeline to the end users and reliance on Tianjin Gas, whereas Tianjin Gas is the sole customer of this new revenue stream of the Group. Should the pace of development of Binhai New District is slower than expected or the actual volume of gas transported through the Gangnan Pipeline and the Beihuan Pipeline to the end users is lower than expected or the demand of natural gas from Tianjin Gas is materially smaller and the Group fails to attract new customers in Binhai New District, the operation and the financial performance of the Group may be materially adversely affected.

The Directors advised that the operation of Beihuan Pipeline has not commenced yet and the Gas Transportation Fee, which is generated from Gangnan Pipeline, recognized by the Group for the six months ended 30 June 2010 was approximately RMB2.6 million and the costs for operating the Gangnan Pipeline, mainly the depreciation costs and tax expenses, was approximately RMB1.2 million and RMB 76,500, respectively during the same period. The major costs recorded by Tianjin Gas with respect to the operation of the Gangnan Pipeline, apart from its purchase cost of natural gas and tax expenses, is the Gas Transportation Fee it paid to the Group, and for the six months ended 30 June 2010 was approximately RMB2.6 million.

For details on the Gas Transportation Contract, please refer to the paragraph headed "Gas Transportation Contract" under the "Connected Transactions" section of this circular.

Other Subsidiaries and associated companies

In January 2008, the Company established a wholly owned subsidiary, Tianlian Investment, with a registered share capital of RMB20,000,000 in the PRC. Tianlian Investment is engaged in investment activities.

BUSINESS OF THE GROUP

In July 2008, the Group established a non-wholly owned subsidiary, Guizhou Mining, with a registered share capital of RMB16,000,000 in the PRC, which is engaged in mining business. In December 2008, the Group disposed of 2% equity interest in Guizhou Mining to Mr. Song Jiafu, a minority shareholder of Guizhou Mining, at a consideration of RMB320,000. Subsequent to this disposal, the Group's interest in Guizhou Mining was reduced from 51% to 49% and Guizhou Mining became an associate of the Company.

Disposal of subsidiary

In order to focus its efforts on the business in Tianjin, the Company disposed of its 75% equity interest in Guangxi Beiliu Gas Company Limited* (廣西北流燃氣有限公司) as well as the assets and external liabilities of the branch set up by the Company in Beiliu City, Guangxi Zhuang Autonomous Region, to Tianjin Deyili Thermal Insulation Materials Company Limited* (天津市德意利保溫材料有限公司) pursuant to an equity transfer agreement and an assets transfer agreement, both dated 11 November 2005. As advised by the PRC legal adviser to the Company, although Tianjin Deyili Thermal Insulation Materials Company Limited* (天津市德意利保溫材料有限公司) has been dissolved at the time of its entering into the aforesaid agreements, the sale of equity interests, assets and external liabilities by the Company had been completed. After the aforesaid sale, the Company did not have any further operations in Guangxi Zhuang Autonomous Region.

REVENUE MODEL

The Group's revenue profile consists of the following four revenue streams:

- **Gas connection fee**, one-off fee received from either property developers, individual existing residential units or commercial/industrial enterprises for providing piped gas connection, accounted for around 32.2% and 19.9% of the Group's total revenue for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.
- **Revenue from sales of gas**, the gas usage fee paid by the end users for consumption of gas, the Group's major revenue contributor since 2009. As the total number of users who are connected to the Group's pipelines continue to increase over time, the revenue from sales of gas to such users is expected to increase over time. As a result, it is expected that the revenue from sales of gas will continue to account for a significant portion of the Group's total revenue in the future.
- **Revenue from sales of appliances** currently accounts for an insignificant portion of the Group's total revenue of approximately 1%. This revenue stream is not expected to be a significant contributor to the Group's total revenue.
- **Revenue from provision of gas transportation services**, the gas transportation fee paid by Tianjin Gas for transmission of natural gas to end users and gas operators via the Gangnan Pipeline owned and managed by the Company. The Group commenced the provision of gas transportation services in 2009, and revenue in this connection was recognised in for the year ended 31 December 2009. The revenue from gas transportation accounted for approximately 0.8% and 1.5% of the Group's total revenue for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.

* For identification purpose only

BUSINESS OF THE GROUP

Set out below is a breakdown of the Group's revenue by services categories for the three financial years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Gas Connection	137,477	76.9	135,059	62.2	102,399	32.2	32,219	23.6	32,992	19.9
Construction of gas pipeline infrastructure (Note)	5,808	3.2	6,450	3.0	5,824	1.8	4,691	3.4	3,112	1.9
Sales of piped gas	35,200	19.7	74,381	34.2	206,219	64.9	99,759	73.0	125,459	75.7
Gas transportation	—	—	—	—	2,479	0.8	—	—	2,550	1.5
Sales of gas appliances	386	0.2	1,279	0.6	1,071	0.3	14	0	1,620	1.0
Total	178,871	100.0	217,169	100.0	317,992	100.0	136,683	100.0	165,733	100.0

Note: The Group as a gas supply operator has access to operate the gas pipeline infrastructure to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement and also carry out gas connection work to public. The Group has applied HK(IFRIC)-Int 12 "Service Concession Arrangements" which is effective for annual periods beginning on or after 1 January 2008. HK(IFRIC)-Int 12 provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services. In accordance with HK (IFRIC)-Int 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the infrastructure, this interpretation requires the operator to account for its revenue and costs in accordance with HKAS 11 "Construction Contracts" for the construction and upgrade services of the infrastructure and to account for the fair value of the consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 "Intangible Assets" to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the services in relation to the operation of the gas pipeline infrastructure in accordance with HKAS 18 "Revenue".

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group's net profit attributable to owners of the Company was approximately RMB62.3 million, RMB60.5 million, RMB66.4 million and RMB26.7 million respectively.

STRENGTHS OF THE GROUP

The Directors believe that the Group possesses the following competitive strengths:

The Group possesses a management team with relevant expertise and experience

The executive Directors have years of practical experience in the planning, constructing and maintaining piped gas networks, and solid experience in delivering and marketing urban piped gas supply business in the PRC. The Directors are of the view that the Group possesses highly experienced and competent staff to fulfill its business objectives.

The Group's piped gas business is an industry encouraged by the PRC Government pursuant to its environmental protection policy

The PRC government has strongly encouraged the use of other more environmentally friendly forms of fuel such as natural gas to reduce air pollution and environmental damages caused by the combustion of coal, the traditional primary energy source in the PRC. In order to improve the pollution problem in Tianjin City, the Tianjin Municipal Government encourages the use of natural gas in the urban areas of Tianjin City. The Group is, therefore, able to benefit from the relevant environmental protection policies that encourage the use of natural gas.

BUSINESS OF THE GROUP

The Group is well-positioned to capture the expanding piped gas market

The Directors believe that the Group's gas supply business in the Operational Locations in Tianjin City and in Jining City will experience substantial growth in the coming years.

According to the "Forwarded Notice Regarding Views on Arrangement of Key Construction Projects of Tianjin City in 2009 (Jin Zheng Ban Fa (2009) No. 28) by the Municipal Development and Reform Commission and the Municipal Construction Committee" (轉發市發展改革委市建委關於我市2009年重點建設項目安排意見的通知津政辦發(2009)28號) issued by the Office of the Municipal Government in Tianjin (天津市人民政府辦公廳) on 10 March 2009, there are 11 ongoing property construction or infrastructure projects in the existing Operational Locations, Heping District and Hedong District, with a total investment of over RMB56 billion. Those projects are expected to be completed in 2010, 2011 or 2012 and are considered to be favourable to the development of the gas connection business in Tianjin City.

Furthermore, as stated in the working report issued by the Jining City Government in 2010, the government planned to accelerate the completion of the RMB4.0 billion infrastructure projects in Jining City, including but not limited to, continuation of construction of natural gas network and gas connection to properties and construction of new residential properties of an area of approximately 1,200,000 sq.m. in 2010.

For further details of the industry trend of the Group's business, please refer to the section headed "Industry Overview" of this circular.

Pursuant to the Rules of Urban Gas Enterprise Administration in Tianjin (天津市燃氣管理條例) promulgated by the Committee of the People's Congress of Tianjin (天津市人大委員會) on 22 October 1997 and subsequently amended on 24 May 2005, all new residential developments are required to have piped gas connections, which provides substantial opportunities to the Group.

The Group has an established track record of being a safe and reliable gas supply service provider

There has been no accident in connection with the Group's business that has resulted in serious human injury or death since the Group commenced operations in 1998. The Group has the reputation as a safe and reliable gas supply service provider.

AREAS OF OPERATIONS



BUSINESS OF THE GROUP

Existing area of operations

Tianjin

As at the Latest Practicable Date, the Group supplies piped natural gas to areas located at Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), part of Xiqing District (西青區), part of Hangu District (漢沽區) and part of Ninghe County (寧河縣) in Tianjin City on a non-exclusive basis. Set out below is the areas and number of users served by the Group in Tianjin City as at 31 December 2007, 2008, 2009 and as at 30 June 2010.

	Districts served by the Group	Aggregate approximate number of users
As at 31 December 2007	Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Yang Liu Qing County (楊柳青鎮) of Xiqing District (西青區)	46,000
As at 31 December 2008	Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), part of Xiqing District (西青區), part of Hangu District (漢沽區)* and part of Ninghe County (寧河縣)	80,000
As at 31 December 2009	Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), part of Xiqing District (西青區), part of Hangu District (漢沽區)* and part of Ninghe County (寧河縣)	83,000
As at 30 June 2010	Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), part of Xiqing District (西青區), part of Hangu District (漢沽區)* and part of Ninghe County (寧河縣)	84,900

* In September 2009, the State Council approved the merger of Tanggu District, Hangu District and Dagang District into Binhai New District. The Group operates in part of Hangu District of Binhai New District, where operation was commenced after completion of the acquisition of the Hangu Assets from Tianjin Gas under the Hangu, Ninghe and Xiqing Assets Transfer Agreement, whilst Tianjin Gas operates in part of Hangu District, Tanggu District and Dagang District in Binhai New District and other gas operators operate in other parts of Binhai New District. The Directors confirmed that, some areas in Binhai New District are still under construction with no gas operator operating as at the Latest Practicable Date.

As at 30 June 2010, the Group's main and branch pipelines in Tianjin have a maximum daily supply capacity of approximately 288,000 m³.

BUSINESS OF THE GROUP

The following map set out the locations of Hexi District (河西區), Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區), Ninghe County (寧河縣) in Tianjin City:



The Group has obtained all necessary approvals for its operations in the existing Operational Locations in Tianjin.

BUSINESS OF THE GROUP

During the Track Record Period, the Group had carried out gas connection contract work in certain areas in Tianjin outside its existing Operational Locations, and which are the operation locations of Tianjin Gas. The Group was only responsible for the gas connection contract work, the contract of which was signed by the users, which comprise mainly of property developers, directly with the Company while the gas supply is being separately provided by Tianjin Gas to its own customers. The revenue generated by such gas connection contract work during the three financial years ended 31 December 2009 and the six months ended 30 June 2010 amounted to approximately RMB53 million, RMB39 million, RMB24 million and RMB3.9 million, respectively, represented 29.6%, 18.0%, 7.5% and 2.4% of the Group's turnover in the corresponding periods.

Jining City, Inner Mongolia Autonomous Region

Apart from Tianjin City, the Group also has operations in Jining City.

Pursuant to the agreement entered into between Jining Branch and the Jining City Government dated 14 January 2003, Jining Branch was granted the special operating permit to operate piped natural gas supply operations on an exclusive basis in Jining City. As confirmed by the PRC Legal Adviser, there are no other licenses required of the Group to operate in Jining City.

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group had approximately 270 users, 420 users, 750 users and 1,360 users, respectively in Jining City, and the revenue generated from the Jining Project for the same periods amounted to approximately RMB3.3 million, RMB1.5 million, RMB9.3 million and RMB3.9 million, respectively, represented 1.8%, 0.7%, 2.9% and 2.4% of the Group's revenue in the corresponding periods.

PRODUCTS AND SERVICES

The Group's existing main products and services are the operation of gas pipeline networks, supply of piped gas for domestic, commercial and industrial users in Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區), Ninghe County (寧河縣) of Tianjin and Jining City and the provision of gas transportation services to Tianjin Gas in Binhai New District.

Construction of pipelines network infrastructure

For supply of piped gas to a location, a network of main pipelines connecting the gas source to the pressure regulating stations and branch pipelines for connecting the pressure regulating stations to the customers' pipelines at each household must be built in the area. The Group is responsible for the management of the construction of gas supply pipeline network and other related infrastructures. The Group carries out repair and maintenance work for its pipeline networks in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City. As to Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II, since Tianjin Gas has to carry out regular maintenance for its own pipeline network, it is more efficient for the maintenance work for such acquired assets to be carried out by Tianjin Gas. The regular maintenance work carried out by Tianjin Gas on behalf of the Group in relation to such acquired assets is free of charge. The Group does not have to reimburse the expenses incurred by Tianjin Gas.

BUSINESS OF THE GROUP

For the connection of the pipelines to residential households, the Group charges an one-off connection fee which is received from the property developers. The maximum connection fee for new residential apartments and luxury houses are RMB28 per m² and RMB40 per m² respectively throughout the Track Record Period. For existing residential buildings, connection fees are charged at a fixed amount in the sum of RMB2,400 per household unit irrespective of the floor area of the household units. The connection fees charged to commercial and industrial users in Tianjin City is determined on a case by case basis.

Regarding the Jining Project, the maximum connection fee for new residential buildings is RMB2,300 per household as set out by Ulaan Chab Jining District Commodity Price Bureau (烏蘭察布市工商行政管理局物價科). During the Track Record Period, the Group did not provide any connection services to commercial and industrial users in Jining City.

Supply of piped gas

The Group currently operates pipeline networks through which natural gas is transmitted from the Group's gas stations for consumption by residential, commercial and industrial customers in Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區), Ninghe County (寧河縣) of Tianjin and in Jining City. The industrial and commercial customers in Hexi District (河西區) and Jinnan District (津南區) will pay gas usage fees to the Group on a monthly basis in accordance with the actual quantity consumed by them. As to domestic customers in Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City, they pay gas usage fees to the Group on a bi-monthly basis in accordance with the actual quantity consumed by them.

The Group has authorised Tianjin Gas to collect gas fees in Xiqing District (西青區), Hangu District (漢沽區) and Ninghe County (寧河縣) due to administrative convenience.

BUSINESS OF THE GROUP

The gas tariff in Tianjin City is regulated by the Tianjin City Commodity Price Bureau (天津市物價局) of the Tianjin Municipal Government. Both Tianjin Gas and the Company charge gas tariff to their customers in accordance with the rate set by the Tianjin City Commodity Price Bureau. The maximum gas tariff for supply of natural gas for residential use has been fixed at RMB2.2 per m³ since 1 August 2006. Pursuant to the “Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City” (《關於我市調整工業用天然氣銷售價格的通知》津價商[2007] 263號) issued by Tianjin Commodity Price Bureau dated 30 November 2007, the classifications of pricing of natural gas was revised from “residential use” and “non-residential use” to “residential use”, “industrial use” and “other use”. Please see below for a summary of the gas tariff after the revision:—

Effective Date	Classification of pricing			Relevant Notice
	Residential use	Industrial use	Other use	
10 November 2007	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.0 per m ³ to RMB2.4 per m ³	“Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City” (《關於我市調整工業用天然氣銷售價格的通知》津價商[2007] 263號)
1 May 2009	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	“Notice in relation to adjustment of natural gas tariff of certain uses in Tianjin City” (《關於我市調整部份天然氣銷售價格的通知》津價商[2009] 93號)
1 June 2010	RMB2.0 per m ³	RMB2.75 per m ³ to RMB3.15 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	“Notice in relation to adjustment of natural gas tariff of non-domestic use in Tianjin City” (《關於我市調整非居民用天然氣銷售價格的通知》津價管[2010]110號)

In Jining City, the gas tariff is regulated by Ulaan Chab Jining District Commodity Price Bureau (烏蘭察布市工商行政管理物價科). The maximum gas tariffs for supply of natural gas for residential use and non-residential use have been fixed at RMB3.0 per m³ and RMB3.5 per m³ respectively since 24 October 2004.

Sale of gas appliances

The Group is also engaged in the sales of gas appliances, namely gas meters, to its customers. The Group also provides repair and maintenance services to the gas meters it sold.

BUSINESS OF THE GROUP

Provision of gas transportation services

The Company entered into a gas transportation contract with Tianjin Gas on 2 July 2009, pursuant to which the Company agrees to allow Tianjin Gas to transmit natural gas to end users and gas operators via the Gangnan Pipeline and the Beihuan Pipeline owned and managed by the Company. In return, Tianjin Gas will pay to the Company the Gas Transportation Fees.

PURCHASES

The main categories of cost of sales of the Group are sub-contracting fees paid to qualified pipeline infrastructure sub-contractors and purchase cost of piped natural gas.

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group's largest supplier is Tianjin Gas, which supplies natural gas to the Group, and it accounted for approximately 47.1%, 63.5%, 83.8% and 90.0% of the Group's total purchases for the corresponding periods. For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group's five largest suppliers accounted for approximately 97.9%, 97.4%, 98.2% and 98.0% of the Group's total purchases, respectively. Save for the purchase of natural gas from Tianjin Gas, which accounted for approximately 47.1%, 63.5%, 83.8% and 90.0% of the Group's total purchases for each of the three financial years ended 31 December 2009, none of these five largest suppliers are connected with any of the Directors, Supervisors, Promoters, chief executives, and any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) of the Company or any of their respective associates.

The Group has established more than three years business relationships with its major suppliers. The Directors believe that the Group has good relationship with its suppliers and the Group has not experienced any difficulty in the sourcing of natural gas or other major supplies.

Sub-contractors

The Group subcontracts all pipeline construction work to sub-contractors. To ensure the quality of work of the sub-contractors, the Group only sub-contracts the pipeline infrastructure construction works to qualified pipeline infrastructure sub-contractors who comply with the relevant laws and regulations in the PRC. The Tianjin Municipal Government has issued a construction work charging rate guideline《天津市給水和煤氣管道工程計價方法》，which sets out the charging rate of sub-contracting charges. Under the guideline, the charging rate included the raw material and labour costs incurred for a construction project. As at the Latest Practicable Date, the Group had 4 sub-contractors, all of whom are Independent Third Parties. Pursuant to the Law of Management of Infrastructure and Construction Quality (建設工程質量管理條例), the sub-contractors shall bear the possible liabilities in relation to quality of work during the pipeline construction and a period of at least two years after completion of construction.

BUSINESS OF THE GROUP

Sub-contractors' fees were primarily settled in installments based on the percentage of completion for the given project. Generally, the sub-contractors will provide a credit period of 30 days to 60 days from the date of completion of the construction. For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group has paid an aggregate sub-contracting fee of approximately RMB17,507,000, RMB31,785,000, RMB24,942,000 and RMB9,011,000 respectively.

Gas

Tianjin City

All natural gas supplied by the Group to its customers in the existing Operational Locations in Tianjin City for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 was sourced from Tianjin Gas. For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group has purchased from Tianjin Gas approximately 26,665,000 m³, 34,623,000 m³, 93,479,556 m³ and 57,057,513 m³, and the purchase amounts paid respectively by the Group amounted to approximately RMB28,524,000, RMB61,259,000, RMB165,451,000 and RMB100,987,000, respectively, for the corresponding periods. The Group is only required to pay the actual quantity purchased and there is no penalty to the Group should the Group purchase less than the cap amount stated in the gas supply contract signed between the Company and Tianjin Gas.

Payment for natural gas by the Group to Tianjin Gas is made monthly and is based on the Group's actual purchase during the month. Payment for gas purchased is made by the Group by cheques denominated in Renminbi every month in accordance with the terms of the relevant gas purchase agreements.

The Directors advise that Group does not have storage facility in Tianjin City. The piped gas in the existing Operational Locations in Tianjin City was supplied by Tianjin Gas to the Group on a continuous basis and as such the Group have no need for storage facilities. Given the substantial daily demand of natural gas in Tianjin, it is impractical and costly to maintain a natural gas storage facility of a volume that is sufficient to meet the demand of a reasonable period of time in Tianjin.

The Group has entered into the Gas Purchase Agreements to purchase natural gas from Tianjin Gas for the Group's natural gas supply operation in the existing Operational Locations in Tianjin City. The Directors consider that the maximum annual natural gas volumes of 145,000,000 m³, 174,000,000 m³ and 208,000,000 m³ of natural gas for the three years ending 31 December 2012 respectively supplied by Tianjin Gas, as stipulated in the Gas Purchase Agreements, are sufficient for the Group's current operations in Tianjin City. Conditional upon completion of the Proposed Assets Transfer, Tianjin Gas will supply piped gas to the Group for the Transferred Assets under the 2011 Gas Supply Contract, details of which are set out in the section headed "Connected Transactions" of this circular.

BUSINESS OF THE GROUP

Jining City

Regarding the Jining Project, the Group purchases CNG from CNG suppliers in Inner Mongolia Autonomous Region. The price of CNG, which excludes transportation fee, is to be determined between the Group and the relevant CNG supplier. The Group is generally required to make prepayments for the supply of CNG every 10 days to 30 days by its major CNG supplier in Jining City by bank transfer. The CNG suppliers are Independent Third Parties.

Gas appliances

The Group purchases gas appliances in bulk directly from mainly local manufacturers and carries a limited amount of stock for sale to customers. The Group's purchases of gas appliances for sale accounted for approximately 1.3%, 1.3%, 0.7% and 1.4% of the Group's total purchases for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively. Purchases for gas appliances stock were made when customers ordered from the Group. Payments made by the Group for these purchases are usually settled by cheques or telegraphic transfer denominated in Renminbi after receipt of goods.

SALES AND MARKETING

The Group's income is derived from the PRC and mainly from the gas pipeline network connection and the sales and distribution of piped gas. The sales and distribution of piped gas attributed to approximately 19.7%, 34.2%, 64.9% and 75.7% of the Group's turnover for the three financial years ended 31 December 2009 and the six months ended 30 June 2010. Connection fee income accounted for approximately 76.9%, 62.2%, 32.2% and 19.9% of the Group's turnover for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively. The Group mostly uses Renminbi in its operation.

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group's five largest customers accounted for 41.1%, 34.1%, 49.8% and 55.5% respectively of the Group's total turnover. The five largest customers for each of the three financial years ended 31 December 2009 are not connected with any of the Directors, Promoters, chief executives, and any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) of the Company or any of their respective associates.

For each of the three financial years ended 31 December 2009 and the six months ended 30 June 2010, approximately 77.2%, 84.0%, 92.1% and 96.0% of the Group's total sales revenue were settled by cheque.

BUSINESS OF THE GROUP

Credit Policy

Credit period allowed to property developers was determined on a case by case basis depending on project sum and nature of the construction projects. The Group collects fees according to terms of construction contract signed with property developers. Generally, the contract sum has to be paid to the Group according to the stages of completion of construction and the whole contract sum is to be collected before the Group starts the supply of gas to the households. In the event that any property developer fails to pay the gas connection fee in full, the Group may consider not to provide gas supply to the property connected by the Group. The Directors believe that such policy can minimize the credit risk in relation to property developers.

In general, the credit period allowed to Industrial and Commercial Users is within one month as stated in the contracts signed between the respective Industrial and Commercial Users and the Company. As the revenue of the Group is mainly derived from gas connection to the property developers and sales of piped gas to Industrial and Commercial users, based on the past collection history of these customers, the collectability is expected.

Collection of overdue amounts in relation to supply of gas will be handled by the fee collection staff. The Company has adopted a policy that if the overdue amount is not successfully collected from domestic users within three months from the due date, the Group may temporarily discontinue its gas supply to debtors until the overdue amounts are settled. The Directors believe that such policy can minimise the credit risk of the Group.

The Directors confirm that the Company has adopted a policy to review the outstanding debtor balances and to assess if it is necessary to write-off or make provision for bad or doubtful debts. For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group has provided allowance for bad and doubtful debts, for outstanding trade debtors, of approximately RMB2.7 million, RMB11.6 million, Nil and Nil respectively. As at the year ended 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, the amount of trade receivables that are past due at the reporting date for which the Group has not provided for impairment loss was approximately RMB26.5 million, approximately RMB32.8 million, approximately RMB48.0 million and approximately RMB38.5 million. The Group did not provide for impairment loss on these amounts because the debtors are mainly property developers which are considered to have high credit ratings by the Group. The Directors consider the property developers are of high credit rating since (i) no default payment history in relation to the receivables from property developers occurred during the Track Record Period; (ii) the particular property developers as mentioned above have sizeable operation in Tianjin and long operational history; and (iii) under the relevant PRC law, the natural gas supply facilities must be constructed before the sales of the properties commenced, thus, the Group may consider not to provide gas supply to the property connected by the Group in the event that any property developer fails to pay the gas connection fee in full. In addition, the Directors expect that the continuous urbanization in Tianjin may increase the demand of properties, and the current property price is relatively low compared to other developed cities such as Beijing and Shanghai. Therefore, the Directors are of the view that the business of property developers in Tianjin is unlikely to be materially and adversely affected. As at 30 June 2010, the subsequent settlement of the trade receivables representing approximately 47.2% of the total trade receivables as at 31 December 2009. The Directors advise that all of the subsequent settlement were made by property developers.

BUSINESS OF THE GROUP

As at 31 December 2009, the Group's long overdue accounts receivables net of bad debt provisions was approximately RMB43.0 million. As at 30 June 2010, the subsequent settlement of the long overdue accounts receivables was approximately RMB14.3 million, representing approximately 33.3% of the total long overdue amount as at 31 December 2009.

The Group's principal customers can be classified into two broad categories, namely (I) connection fee-based customers and (II) gas users.

(I) Connection fee-based customers

For the connection fee-based customers, a lump sum is collected from the customer for the connection to the pipeline network. The connection fee-based customers can be mainly further sub-categorized into three types of customers, namely (i) property developers; (ii) individual existing residential customers and (iii) commercial and industrial customers.

Property developers

According to the Rules of Urban Gas Enterprise Administration in Tianjin (天津市燃氣管理條例) promulgated by the Committee of the People's Congress of Tianjin (天津市人大委員會) on 22 October 1997 and subsequently amended on 24 May 2005, all new residential developments are required to have piped gas connections. The Group liaises with the property developers to arrange the construction of pipeline network to new residential developments. Such connection fees, which are determined by the total floor area of the household units, are collected by installment from the property developers based on the stage of completion of the pipeline construction work. The Group is entitled to receive full payment of connection fees once construction is completed irrespective of whether the household units are sold or occupied.

Individual existing residential customers

For individual existing residential customers, the connection fees are charged at a fixed amount in the sum of RMB2,400 per household unit irrespective of the floor area of the household units. During the Track Record Period, the revenue in respect of individual existing residential customers accounted for less than 1% of the Group's turnover for the three financial years ended 31 December 2009 and the six months ended 30 June 2010.

Commercial and industrial customers

The Group enters into connection contracts with industrial and commercial customers for the connection of gas to their premises. The connection fees are payable in advance.

BUSINESS OF THE GROUP

The gas connection fees of the Group derived from property developers, individual existing residential customers and industrial and commercial customers during the Track Record Period are set out below:

	For the year ended 31 December			For the six months ended
	2007	2008	2009	30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property developers	136,465	126,930	98,622	32,187
Individual existing residential customers	1,012	1,970	699	405
Industrial and Commercial customers	—	6,160	3,078	400
Total	<u>137,477</u>	<u>135,059</u>	<u>102,399</u>	<u>32,992</u>

(II) Gas users

Gas users of the Group can be sub-categorized into Domestic Users and Industrial and Commercial Users.

During the Track Record Period, the number of Domestic Users represented over 99% of the total number of the Group's gas users.

The Group's gas fee collection staff pays visits to the Industrial and Commercial Users of the Group in Hexi District (河西區) and Jinnan District (津南區) to take readings from the gas meters and bill the fee for gas usage at the applicable tariff on a monthly basis. The fee collection staff will take the meter reading at the customers' premises and issue the bill using the Group's invoice on the spot. The customers can settle the bill by cash or cheque. As to domestic users of the Group in Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City, the Group's gas fee collection staff pays visits to them on a bi-monthly basis (except for those users who purchase pre-paid cards from the Group) to take readings from the gas meters and bill the fee for gas usage at the applicable tariff. The fee collection staff will issue one bill using the Group's invoice on the spot. The customers can settle the bill by cash.

The Group has authorised Tianjin Gas to collect gas fees in Xiqing District (西青區), Hangu District (漢沽區) and Ninghe County (寧河縣) due to administrative convenience.

Sale of gas appliances

The Group also supplies gas appliances, namely gas meters, to property developers and individual existing residential customers. Property developers generally settle such purchases upon signing of the sales contract whilst individual domestic users generally settle such purchases by cash on delivery. Trading of gas appliances accounted for approximately 0.2%, 0.6%, 0.3% and 1.0% of the Group's turnover for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively.

BUSINESS OF THE GROUP

Provision of gas transportation services

The Company entered into the Gas Transportation Contract with Tianjin Gas on 2 July 2009, pursuant to which the Company has agreed to allow Tianjin Gas to transmit natural gas to end users and gas operators via the Gangnan Pipeline and the Beihuan Pipeline owned and managed by the Company. In return, Tianjin Gas will pay to the Company the Gas Transportation Fees.

MARKETING

As the Group operates in the public utility industry and connection to gas supply network is a compulsory requirement for newly developed estates in Tianjin City, the Group does not need to launch large scale marketing campaigns. The marketing expenses for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 mainly comprised of the designing and printing cost of the promotional materials. These promotional materials were generally used to promote the general public's awareness in the use of natural gas and the safety measures in the use of natural gas.

PRICING

Tianjin City

The gas tariff and connection fees in Tianjin City are regulated by the Tianjin City Commodity Price Bureau (天津市物價局) of the Tianjin Municipal Government. Both Tianjin Gas and the Group charge gas tariff and connection fees to their customers in accordance to the rate set by the Tianjin City Commodity Price Bureau. The maximum gas tariff for supply of natural gas for residential use has been fixed at RMB2.2 per m³ since 1 August 2006. Pursuant to the "Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City" (《關於我市調整工業用天然氣銷售價格的通知》津價商 [2007] 263號) issued by Tianjin Commodity Price Bureau dated 30 November 2007, the classifications of pricing of natural gas was revised from "residential use" and "non-residential use" to "residential use", "industrial use" and "other use". Please see below for a summary of the gas tariff after the revision:—

Effective Date	Classification of pricing			Relevant Notice
	Residential use	Industrial use	Other use	
10 November 2007	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.0 per m ³ to RMB2.4 per m ³	"Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City" (《關於我市調整工業用天然氣銷售價格的通知》津價商[2007] 263號)
1 May 2009	RMB2.0 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	"Notice in relation to adjustment of natural gas tariff of certain uses in Tianjin City" (《關於我市調整部份天然氣銷售價格的通知》津價商[2009] 93號)
1 June 2010	RMB2.0 per m ³	RMB2.75 per m ³ to RMB3.15 per m ³	RMB2.4 per m ³ to RMB2.8 per m ³	"Notice in relation to adjustment of natural gas tariff of non-domestic use in Tianjin City" (《關於我市調整非居民用天然氣銷售價格的通知》津價管[2010]110號)

BUSINESS OF THE GROUP

The maximum connection fee for new residential apartments and luxury houses are RMB28 per m² and RMB40 per m² respectively throughout the Track Record Period. For existing residential buildings, connection fees are charged at a fixed amount in the sum of RMB2,400 per household unit irrespective of the floor area of the household units. The maximum connection fees charged to commercial and industrial users are determined on a case by case basis.

Jining City

Regarding the Jining Project, pursuant to the price as set out by the Ulaan Chab Jining District Commodity Price Bureau (烏蘭察布市工商行政管理物價科), the maximum connection fee for new residential buildings and existing residential buildings are RMB2,300 per household. For commercial and industrial users, the connection fees are charged on a case by case basis. The gas tariff for residential and non-residential gas users are fixed at RMB3.0 per m³ and RMB3.5 per m³ respectively.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Company had registered one trademark in the PRC. Details of the intellectual property rights of the Group are set forth in the sub-section headed “Intellectual Property Rights” in Appendix IX to this circular.

COMPETITION

Even though the Group has only obtained the approval to operate the gas supply businesses in the existing Operational Locations in Tianjin City on a non-exclusive basis, due to the nature of the piped gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, the Directors believe that it is not economically or practically feasible for more than one piped gas distributor to operate in the same location with different sets of pipeline owned by different gas distributors. To the best knowledge of the Directors after making reasonable enquiries, the local government will normally grant the right to one selected distributor to operate in one location. Once the Group has successfully obtained a right to operate piped gas distribution, that location is considered to be secured and the Group will generally not face competition from another piped gas distribution company for the same location. Although there is no legal barrier which can prevent another competitor from doing so, to the best knowledge of the Directors after making reasonable enquiries, Tianjin Municipal Government generally will not allow a new player to construct similar facilities and operate in the same region if piped gas facilities and infrastructure are already in place in a particular region as such projects normally involve large-scale construction works, to avoid further interruption to the residents of the region. Given the Group’s extensive experience and sound track record in the piped gas supply industry, the Directors believe that the Group will be able to successfully obtain the right to supply gas to new locations despite strong competition from other companies.

BUSINESS OF THE GROUP

In an Operational Location, the Group faces competition from existing providers of other fuel substitutes such as bottled natural gas or LPG, coal and to a lesser extent electricity, as electricity for heating purposes is more expensive than gas and less popular for cooking purposes. The Directors believe that with the PRC Government's planned phasing out of the use of coal as a result of its environmental policies, and the comparative advantages of natural gas over coal as a safer, cleaner and more convenient form of fuel, competition from other fuel substitutes will not affect the growth potential to the Group's business.

In Jining City, given the Group has obtained the exclusive rights to operate piped gas operations in Jining City, the Group has monopoly in the piped gas supply market in Jining City.

LICENCES AND APPROVALS

Tianjin City

As at the Latest Practicable Date, the PRC Legal Adviser confirmed that the Group has obtained all the relevant licences and certificates for its gas supply operations in the existing Operational Locations in Tianjin City. The following sets out a summary of the principal permits/licences held by the Group in relation to its piped natural gas supply operations in the existing Operational Locations in Tianjin City:

Issuing Authority	Type of Permit	Issue Date	Expiration Date
Tianjin City Gas Administrative Bureau (天津市燃氣管理處)	Fuel Gas Operation Licence	20 January 2007	There is no expiry date

The PRC Legal Adviser confirmed that the Fuel Gas Operation Licence held by the Company allows the Company to conduct gas supply operations in Tianjin, including its existing Operational Locations as well as in respect of the Transferred Assets in Hedong District and Heping District and the Group is not required to obtain any further approval or licenses for its operation in Tianjin, including its existing Operational Locations as well as in respect of the Transferred Assets. The Gas Management Office of Tianjin (天津市燃氣管理處) has issued a confirmation letter dated 21 January 2010 that, inter alia, the Company can conduct gas supply operations with the Fuel Gas Operation Licence it held and no other licences or approvals are necessary.

BUSINESS OF THE GROUP

The Group has the right to supply piped natural gas to Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區) and Ninghe County (寧河縣) of Tianjin City, the PRC, on a non-exclusive basis. According to the PRC Legal Adviser, as all the Group's main and branch pipelines are underground pipelines, pursuant to the PRC Land Laws, the underground areas where the Group's pipelines are placed do not fall into the categories that require land use rights. Given the Group has already obtained the approval from Tianjin City Land Development Planning Bureau (天津市土地規劃局) to construct the gas pipeline network in the Operational Locations in Tianjin City, the PRC Legal Adviser has confirmed that the Group is not required to obtain land use rights for the underground areas where the Group's pipelines are placed.

The PRC Legal Adviser confirmed that according to the Concession Measures, the relevant PRC government authorities in charge of the utilities at municipality directly under the central government, city or county level, is, with the authorization of the people's government, responsible for the implementation of the Concession Measures at its administrative region and the Group is required to enter into a special operating agreement with the relevant local construction bureau in Tianjin. However, the relevant local construction bureau in Tianjin i.e. The Gas Management office of Tianjin (天津市燃氣管理處) has not yet formulated the format of the special operating agreement and accordingly the Group was not required to execute a special operating agreement for its operations in Tianjin as at the Latest Practicable Date.

Urban Rural Construction & Communications Commission of Tianjin Municipal Government (天津市城鄉建設和交通委員會) is an administration department in Tianjin principally responsible for the gas industry management of Tianjin city. The Gas Management Office of Tianjin (天津市燃氣管理處) is a subordinate authority of Urban Rural Construction & Communications Commission of Tianjin Municipal Government (天津市城鄉建設和交通委員會), its principal functions are the implementation of the policies, laws and regulations of Tianjin and the PRC, formulation and implementation of measures, regulations and system in relation to management of gas. Accordingly, the Gas Management Office of Tianjin (天津市燃氣管理處) is responsible for the implementation of the Concession Measures in Tianjin. The Gas Management Office of Tianjin (天津市燃氣管理處) has issued a confirmation letter dated 21 January 2010 that, inter alia, as Tianjin has not yet implemented the special operating agreement policy, the operation of the Company in Tianjin would not be affected even if it has not entered into a special operating agreement with the relevant local bureau in Tianjin. The PRC Legal Adviser advised that as the non-execution of the special operating agreement is caused by the local policy, the operation of the Group in Tianjin would not be affected. The PRC Legal Adviser is of the opinion that the Gas Management Office of Tianjin (天津市燃氣管理處), as the responsible government authority of piped gas in Tianjin, is the appropriate authority to confirm that the Group is not necessary to enter into any agreement in accordance with the Concession Measures and its decision will not be subject to challenge from higher authority.

BUSINESS OF THE GROUP

The PRC Legal Adviser further confirmed that it is not required under the PRC laws and regulations that notice be given to the relevant authorities in Tianjin regarding the transfer of natural gas network. However, the PRC Legal Adviser confirmed that gas operators have to hold either Urban Gas Enterprise Qualification Certificates or Fuel Gas operation Licences for their operation in Tianjin. The Company has obtained the Fuel Gas Operation Licence, which allows the Company to conduct gas supply operations in Tianjin, inclusive of the existing Operational Locations as well as in Hedong District and Heping District. Thus, the Sponsor is of the view that the Company already has operation rights in Hedong District and Heping District and the Proposed Assets Transfer is in essence an acquisition of assets for the supply of piped gas in the ordinary course of business of the Group.

The Proposed Assets Transfer has already been approved by the Tianjin State-owned Assets Administrative Bureau and the Urban Rural Construction & Communications Commission of Tianjin Municipal Government (天津市城鄉建設和交通委員會). Accordingly, the PRC Legal Adviser advises that the relevant PRC government authorities in charge of utilities in Tianjin, i.e. the Gas Management Office of Tianjin (天津市燃氣管理處), which is the subordinate authority of Urban Rural Construction & Communications Commission of Tianjin Municipal Government (天津市城鄉建設和交通委員會), is aware of the Proposed Assets Transfer.

Jining Project

The Jining City Government has not yet promulgated the local administrative rules regarding the Concession Measures. Besides, the relevant construction bureau in Jining has not yet formulated the format of the special operating agreement and accordingly the Group was not required to execute a special operating agreement for its operations in Jining as at the Latest Practicable Date. The PRC Legal Adviser advised that as the non-execution of the special operating agreement is caused by the local policy, the operation of the Group in Jining would not be affected.

Pursuant to the agreement entered into between Jining Branch and the Jining City Government dated 14 January 2003, Jining Branch was granted the special operating permit to operate piped natural gas supply operations on an exclusive basis in Jining City.

SAFETY

The Group has an inspection team to oversee safety issues in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City. The Group has set up a policy that required the inspection team to make regular inspections on the pipelines in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City and perform necessary maintenance works accordingly. The Group also carries out routine inspection of the customers' pipelines and gas meters at the customers' premises in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City once a year and provides maintenance services to the gas appliances sold by the Group. These inspections and maintenances are provided to the customers free of charge. As to Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II, since Tianjin Gas has to carry out regular inspection and maintenance for its own pipeline network, it is more efficient for the inspection and maintenance work for such acquired assets to be carried out by Tianjin Gas. The Directors consider that the free routine inspection and maintenance as a value-added service provided by the Group to its customers so as to further enhance the Group's reputation as a safe and reliable piped gas supply service provider.

BUSINESS OF THE GROUP

The Group believes in educating users about safety procedures. The Group regularly arranges seminars and distributes publication materials on safety to end users. The Group also maintains a 24-hour hotline for enquiries and emergency repairs.

Due to the Group's strict implementation of safety control procedures, the Directors confirm that there have been no major accidents which have resulted in serious injury or death since the Company began its operations in 1998.

The Group has obtained insurance for its pipelines. The maximum coverage is approximately RMB81,636,000. The Group has also taken out third party liability insurance policies covering the loss of life or property of third parties arising out of any accident that may occur at processing stations of the Group (with maximum coverage being RMB10,000,000). The Directors consider that the Group's present insurance coverage is sufficient.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries, that would have a material adverse effect on the Company's results of operations or financial condition.

As disclosed in the announcement of the Company dated 1 June 2007, the Company disposed of its 75% equity interest in Guangxi Beiliu Gas Company Limited* (廣西北流燃氣有限公司) as well as the assets and external liabilities of the branch set up by the Company in Beiliu City (北流市), Guangxi Zhuang Autonomous Region, to Tianjin Deyili Thermal Insulation Materials Company Limited* (天津市德意利保溫材料有限公司, hereinafter called "Tianjin Deyili") pursuant to an equity transfer agreement and an assets transfer agreement both dated 11 November 2005. Two of the conditions precedent to the said assets transfer agreement were that the Company, Tianjin Deyili and creditors under 48 contracts signed the "Consent to transfer of debt" and "Consent to transfer of contractual rights and obligations" respectively.

Pursuant to the "Consent to transfer of debt" and "Consent to transfer of contractual rights and obligations" entered into between one of the creditors of the branch set up by the Company in Beiliu City, North China Municipal Engineering Design & Research Institute* (中國市政工程華北設計研究院, hereinafter called "North China Institute"), the Company, Tianjin Deyili and North China Institute agreed that the debt of RMB4,766,661 owed to North China Institute by the Company to be transferred to Tianjin Deyili.

However, when North China Institute exercised its claims of the above debt on Tianjin Deyili, North China Institute found that Tianjin Deyili was deregistered on 23 November 2004. North China Institute instituted legal proceedings to the Tianjin No.1 Intermediate People's Court against the Company as the defendant on 14 January 2007, requesting for revocation of the "Consent to transfer of debt" and "Consent to transfer of contractual rights and obligations" and an order for repayment of the debt of RMB4,766,661 together with interests of RMB272,593, totaling approximately RMB5,039,250 by the Company.

* For identification purpose only

BUSINESS OF THE GROUP

In order to protect the interests of the Company from any damage, Tianjin Gas submitted an application to The First Intermediate People's Court on 9 February 2007, applying for substituting the Company as the defendant and according to the No.5 Conciliation Letter on Civil Suit issued by The First Intermediate People's Court of Tianjin (2007) (M) CZ (天津市第一中級人民法院出具(2007)一中民一初字第5號民事調解書), the total amount paid was RMB4,900,230, of which RMB60,980 was the fee paid to the court. On the same day, North China Institute submitted a consent to the court that Tianjin Gas became the defendant in lieu of the Company. On 10 May 2007, the court issued a judgment which confirmed that Tianjin Gas was the defendant and the Company was the third party. As verified by the PRC Legal Adviser, the total amount shall be paid and borne by Tianjin Gas.

As disclosed in the said announcement, the Company inquired the PRC Legal Adviser for opinion on the impact of de-registration of Tianjin Deyili and the legal proceedings instituted by North China Institute. The PRC Legal Adviser is of the view that:

- (1) The legal proceedings between North China Institute and the Company had been concluded. Further, the Company was not required to undertake to North China Institute and Tianjin Gas any debt repayment obligations.
- (2) As the registration of Tianjin Deyili had been cancelled when the relevant agreement was executed, Tianjin Deyili did not have a legal capacity in entering into any agreement. Hence, the equity transfer agreement and the assets transfer agreement both dated 11 November 2005 shall be deemed to be void at the outset. Dong Qicheng, being the controlling shareholder and legal representative of Tianjin Deyili, shall be personally liable for making use of a deregistered company to perform civil acts.
- (3) Since the Company and Tianjin Deyili completed the transfer of assets and equity interests and Tianjin Deyili paid the consideration in full, such transactions were de facto completed.
- (4) In view of the de facto completion of the assets transfer agreement and equity transfer agreement and conclusion of the legal proceedings between North China Institute and the Company, the Company was not required to undertake any debt repayment obligations to North China Institute and Tianjin Gas and the outstanding debts owed to the remaining creditors had been handled properly, it is unlikely that there are any potential serious legal disputes threatened against the Company.
- (5) The Company shall not be liable for any claim or damage arising out of the future operation in relation to assets held by the branch set up by the Company in Beiliu City and the equity interests of Guangxi Guangxi Beiliu Gas Company Limited* (廣西北流燃氣有限公司).

* For identification purpose only

BUSINESS OF THE GROUP

INVENTORY CONTROL

The Directors advise that the Group does not have storage facility in Tianjin City. The piped gas is supplied by Tianjin Gas on a continuous basis and as such the Group have no need for storage facilities. Given the substantial daily demand of the natural gas in Tianjin, it is impractical and costly to maintain a natural gas storage facility of a volume that is sufficient to meet the demand of a reasonable period of time in Tianjin. Thus, the Group's inventory is kept at low level. The piped gas inventory represented the cost of gas passed through the meter between the Company's pipelines and Tianjin Gas's supplying pipelines, but not yet consumed by the customers, and thus remained in the Group's pipeline network.

Regarding the Jining Project, the Group purchases CNG from CNG suppliers in Inner Mongolia Autonomous Region. Given that the gas purchased for the Jining Project will be stored in the Group's gas storage facilities in Jining City, the Group keeps certain level of gas reserve.

The Group purchases gas appliances, namely gas meters, in bulk directly from mainly local manufacturers and carries a limited amount of stock for sale to customers. The Group's purchases of gas appliances for sale accounted for approximately 1.3%, 1.3%, 0.7% and 1.4% of the Group's total purchases for the three financial years ended 31 December 2009 and the six months ended 30 June 2010 respectively. Purchases for gas appliances stock were made when customers ordered from the Group. The Group does not have stock provision policy for gas appliances.

QUALITY CONTROL

The Group exercises its quality control on the sales of natural gas to customers in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City through its inspection team. By setting up a policy that requires staff of the inspection team to make regular inspections on the pipelines and perform necessary maintenance works in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City, the Group effectively prevents any disruption of its supply of natural gas to customers in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City. The Group also carries out routine inspection of the customers' pipelines and gas meters at the customers' premises once a year in Xiao Hai Di (小海地) of Hexi District (河西區) and Jinnan District (津南區) of Tianjin and in Jining City and provides maintenance services to the gas appliances sold by the Group. As to Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II, since Tianjin Gas has to carry out regular inspection and maintenance for its own pipeline network, it is more efficient for the inspection and maintenance work for such acquired assets to be carried out by Tianjin Gas. These inspections and maintenances are provided to the customers free of charge. The Directors consider that the free routine inspection and maintenance as a value-added service provided by the Group to its customers so as to further enhance the Group reputation as a safe and reliable piped gas supply service provider.

The Group subcontracts all pipeline construction work to sub-contractors. To ensure the quality of work of the sub-contractors, the Group only sub-contracts the pipeline infrastructure construction works to qualified pipeline infrastructure sub-contractors who comply with the relevant laws and regulations in the PRC. Pursuant to the Law of Management of Infrastructure and Construction Quality (建設工程質量管理條例), the sub-contractors shall bear the possible liabilities in relation to quality of work during the pipeline construction and a period of at least two years after completion of construction.

BUSINESS OF THE GROUP

During the Track Record Period, the Directors confirm that the Group has not encountered any material complaints on product quality, or any material sales returns, which reflected the quality assurance capability of the Group.

ENVIRONMENTAL PROTECTION

The PRC Legal Adviser advises that since the principal business of the Group is sales of piped gas, which is not under any key environmental protection regulations, the Directors are of the view that the operation of the Group does not and will not discharge any serious pollutant, toxic gas, sewage or industrial waste as compared to traditional energy such as coal.

The Group is obliged to comply with all the environmental protection laws and regulations of the PRC relating to the supply of natural gas industry. During the Track Record Period, the Group has never been required to pay any penalties and fines regarding violation of environmental protection laws, rules or regulations in the PRC.

TAXATION

As confirmed by the relevant supervising tax bureaux, the Group has not violated any relevant tax rules and regulations in the PRC, and has not been penalized by the supervising PRC tax bureaux.

The PRC Legal Adviser advised that such supervising tax bureaux are the proper supervising tax bureaux overseeing the tax position of the Group.

AWARDS AND CERTIFICATES

As at the Latest Practicable Date, the Group has received the following awards:—

Year of grant	Awards	Issuer
2009	Top 10 Enterprise (2007-2008) (2007-2008年度十佳企業)	Communist Committee of Jinan District, Tianjin (中共天津市津南區委員會) Municipal Government of Jinan District, Tianjin (天津市津南區人民政府)
2008	A-class tax-paying creditworthiness (2008年度A級納稅信用等級)	Tianjin National Tax Bureau (天津市國家稅務局) Tianjin Local Tax Bureau (天津市地方稅務局)
2008	Outstanding service provider in the natural gas industry in Tianjin (2007) (天津市燃氣行業2007年度 服務工作先進單位)	Tianjin Construction Management Committee (天津市建設管理委員會)

BUSINESS OF THE GROUP

LABOUR MATTERS

In respect of social responsibilities, in particular, labour, health and safety insurance, pursuant to the regulations of the Labour Contract Law of the People's Republic of China《中華人民共和國勞動合同法》and its implementation regulations, the Labour Law of the People's Republic of China《中華人民共和國勞動法》and Opinions on Several Questions concerning the implementation of the Labour Law of the People's Republic of China《關於貫徹執行〈中華人民共和國勞動法〉若干問題的意見》, an enterprise is required to execute an employment contract with each employee according to law and shall not rescind the employment contract without cause. Employees are entitled to have rest and annual leave according to the laws and provisions stipulated in an employment contract. An enterprise is required to have health and safety policies and provide health and safety training to its staff. It is also required to provide its staff with a safe and hygienic working environment as well as any protective equipment if necessary. Pursuant to the regulations of the Decision of the State Council on Establishing the Basic Medical Insurance System for Urban Employees《國務院關於建立城鎮職工基本醫療保險制度的決定》, Decision of the State Council on Establishing a Uniform Basic Endowment Insurance System for Enterprise Employees《國務院管理建立統一的企業職工基本養老保險制度的決定》, the Provisional Insurance Measures for Maternity of Enterprise Employees《企業職工生育保險試行辦法》, Regulations on the Management of Housing Provident Fund《住房公基金條例》, Regulations on Unemployment Insurance《失業保險條例》and Regulations on Industrial Injury Insurance《工傷保險條例》, an enterprise is required to purchase basic medical insurance, pension insurance, maternity insurance, unemployment insurance, and personal injury insurance for its staff and pay the relevant insurance premiums according to law.

During the Track Record Period, there was no material violation of currently applicable PRC labour, health and safety regulations, nor were there any material employee safety issues involving the Group. The Group fully complies with the new PRC labour contract laws and does not expect such compliance to affect the Group's business operations in any material respect. The Directors believe that by protecting the interests of the Group's employees, the Group is able to enhance employee morale and long term retention of quality personnel.

In order to comply with the relevant laws and regulations, the Group participates in various defined retirement contribution plans organized by the PRC provincial and municipal governments for its employees. The Group pays on behalf of its employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, personal injury insurance and housing provident fund.

RELATIONSHIP WITH TIANJIN GAS

OVERVIEW

Tianjin Gas is a Promoter and a substantial shareholder within the meaning of the GEM Listing Rules before and after the Proposed Assets Transfer. As at the Latest Practicable Date, Tianjin Gas held 253,809,687 Domestic Shares, representing approximately 22.08% shareholding of the Company. Immediately following completion of the Proposed Assets Transfer, Tianjin Gas will be beneficially interested in about 51.30% of the entire issued share capital of the Company.

Tianjin Gas is a State-owned enterprise and is the sole wholesale supplier of natural gas in the Operational Locations of the Group and was the largest gas operator in Tianjin for the year 2009. The principal businesses of Tianjin Gas comprise operation of gas pipeline infrastructure, supply of natural gas to other gas supply operators in the Tianjin area and the sales and distribution of piped gas to end users in Tianjin. In particular, Tianjin Gas (i) supplies natural gas purchased from gas producers to gas supply operators in Tianjin and certain adjacent areas including the Group in the existing Operational Locations in Tianjin; and (ii) provides piped natural gas to end users in Tianjin City.

Apart from operating gas supply business in Tianjin, Tianjin Gas has no gas supply operations or investments in relation to the gas supply industry.

Apart from the Group, Tianjin Gas also supplies piped gas to other gas operators.

The Group has entered into the Gas Purchase Agreements to purchase natural gas from Tianjin Gas for the Group's natural gas supply operation in the existing Operational Locations in Tianjin City. Conditional upon completion of the Proposed Assets Transfer, Tianjin Gas will supply piped gas to the Group for the Transferred Assets under the 2011 Gas Supply Contract, details of which are set out in the section headed "Connected Transactions" of this circular. Hence, Tianjin Gas has the contractual duty to supply gas to the Group. Upon expiry of the 2011 Gas Supply Contract and the Gas Purchase Agreements, the option to renew the same rests on both the Company and Tianjin Gas.

Regarding the possibility of the Group purchasing natural gas directly from the upstream gas suppliers i.e. gas producers, the Directors consider that it is not feasible as so far as the Directors are able to ascertain, the upstream gas suppliers require large amounts of deposits to be made which the Group cannot afford currently.

As mentioned above, Tianjin Gas is the sole gas wholesaler in the Operational Locations of the Group as well as Heping District and Hedong District. It was the largest gas operator in Tianjin City for the year 2009. According to the statistics given by the Gas Management Office of Tianjin (天津市燃氣管理處), Tianjin Gas accounted for approximately 83% of the total sales of natural gas in Tianjin City for the year 2009. Hence, the Directors are of the view that, since Tianjin Gas has significant influence in the supply of natural gas in the Tianjin City, they believe that the majority of the gas operators in Tianjin City, including the Group as well as other gas operators, purchase natural gas from Tianjin Gas. At the same time, the price of natural gas is regulated by the Tianjin Municipal Price Bureau. Reference to the notice issued by Tianjin City Municipal Price Bureau dated 30 November 2007, Tianjin Gas is required to supply gas to various gas operators in Tianjin accordance to the price set by Tianjin City Municipal Price Bureau. As far as the purchase of natural gas is

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concerned, the Group is no different from any gas supplier independent from Tianjin Gas. Therefore, the Directors consider the fact that the Group purchases natural gas only from Tianjin Gas does not render the Group not capable of carrying on its business independently.

Furthermore, to enable the supply of piped gas to the Group, the gas pipelines of the Group are connected to Tianjin Gas and currently only to Tianjin Gas. Also, after completion of the Proposed Assets Transfer, the gas pipelines of the Group in Heping District and Hedong District will be connected to Tianjin Gas only. If the Group purchases natural gas from other supplier, assuming that such supplier exists in the Operational Locations of the Group and Heping District and Hedong District in future, the Group will then have to construct additional gas pipelines to connect to that supplier and, hence extra cost will be incurred by the Group. Therefore, the Directors consider it not in the best interest to the Group to purchase gas from another gas supplier from cost management perspective and there is no commercial and practical alternative to this reliance currently.

COMPETITION

In the wholesale distribution of natural gas, no competition between Tianjin Gas and the Group exists given the fact that the Group only supplies natural gas to end users but is not engaged in wholesale distribution business.

In the provision of piped natural gas to end users, Tianjin Gas and the Group are not competing with each other due to the nature of the piped gas supply business, which required fixed pipelines be installed and connected to the customers' pipelines, it is practically infeasible for more than one set of pipelines connecting to the same customer's pipeline. Besides, pursuant to a non-competition undertaking dated 9 December 2003 given by Tianjin Gas and the Supplemental Non-Competition Agreement, it undertakes not to compete with the Group. Given the terms of the non-competition undertaking and the Supplemental Non-Competition Agreement given by Tianjin Gas and the inherent nature of pipe gas supply business, the Directors are of the view that Tianjin Gas does not compete with the Group's operations in the provision of piped natural gas. For details of the non-competition undertaking, please refer to the paragraph headed "Non-competition Undertaking by Tianjin Gas" in this section.

Directors' Competing Interests

Each of Mr. Sun Bo Quan (a non-executive Director and the chairman of the Company), Mr. Jin Jian Ping and Mr. Dong Hui Qiang (both of whom are executive Directors) holds positions with Tianjin Gas. They do not have any equity interest in Tianjin Gas nor the Company. Save as their positions with Tianjin Gas, each of the Directors and their respective associates has confirmed that he/she does not have any interest in a business which competes or may compete with the business of the Group.

Save as disclosed, as at the Latest Practicable Date, the Directors, the substantial Shareholders and their respective associate (as defined in the GEM Listing Rules) did not engage in any business that competes or may compete with the business of the Group.

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NON-COMPETITION UNDERTAKING BY TIANJIN GAS

On 9 December 2003, Tianjin Gas has entered into a non-competition agreement with the Company. Under the non-competition agreement, save for Tianjin Gas's then existing piped gas operations in Tianjin City, which is outside the scope of operation of the Group in Tianjin at that time (the "Previous Operational Locations"), Tianjin Gas has irrevocably undertaken and covenanted with the Company that, except with the Company's prior written consent, it would not and would procure that its subsidiaries should not, carry on for their own accounts or for any other persons to carry on and/or have an interest in, any business of which is or may be in competition with the Group's business within the Previous Operational Locations or outside its existing operating district in Tianjin City. On 28 December 2010, Tianjin Gas further enters into the Supplemental Non-Competition Agreement to supplement certain terms of the non-competition agreement dated 9 December 2003, pursuant to which the meaning of "subsidiary(ies)" as mentioned in the above-mentioned undertaking has been amended to include "associates" under the definition of the GEM Listing Rules and the Previous Operational Locations have been amended to cover the Operational Locations of the Group (i.e. Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區) and Ninghe County (寧河縣)) which have been served by the Group's pipelines as well as Hedong District (河東區) and Heping District (和平區) after completion of the Proposed Assets Transfer which are served by the Transferred Assets.

Furthermore, pursuant to the Supplemental Non-Competition Agreement, Tianjin Gas further undertakes that (A) where business opportunities which may compete with the business of the Group arises, or if Tianjin Gas desires to sell any of its existing piped gas business or the underlying assets for the piped gas business in Tianjin, Tianjin Gas shall give the Company's notice in writing and the Company shall have a right of first refusal to take up such business opportunities. The Company shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such proposed transactions); and (B) Regarding the assets which have not yet been transferred to the Company by Tianjin Gas in Hedong District, Heping District, Xiqing District, Hangu District and Ninghe County, the Company has the right to require Tianjin Gas to sell these assets to the Company at any time, subject to compliance with the applicable requirements under the relevant PRC laws as well as the GEM Listing Rules, at a price that is fair and reasonable, and acceptable to the independent non-executive Directors (who do not have any interest in such proposed transaction).

The non-competition agreement and the Supplemental Non-Competition Agreement (together, the "Non-compete Undertaking") given by Tianjin Gas took effect from 9 December 2003 and remains effective until the securities of the Company which they hold cease to be listed on GEM or on other exchanges or until they no longer hold, directly or indirectly, any securities of the Company whichever is earlier.

CORPORATE GOVERNANCE MEASURES

The Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest between the Group, Tianjin Gas and the Directors including:

- Tianjin Gas undertakes to make an annual declaration on compliance with the Non-compete Undertaking in the annual report of the Company;

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- the independent non-executive Directors will review, at least on an annual basis, the information provided by Tianjin Gas in respect of the compliance and enforcement of the Non-compete Undertaking and whether to exercise the right of first refusal under the Non-compete Undertaking;
- Tianjin Gas undertakes to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-compete Undertaking; and
- the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Non-compete Undertaking, either through the annual report or by way of announcements to the public.

INDEPENDENCE FROM TIANJIN GAS

Having considered the following factors, the Directors are of the view that the Enlarged Group will be able to conduct its businesses independently of Tianjin Gas upon completion of the Proposed Assets Transfer.

Independence of Board and Management

Assuming Mr. Tam Tak Kei, Raymond be elected as an additional independent non-executive Director at the EGM, the Board will consist of ten Directors immediately after completion of the Proposed Assets Transfer. Set out below is a table summarizing the positions held by the Directors at the Company and at Tianjin Gas as at the Latest Practicable Date:

Name	Position with the Company	Position with Tianjin Gas	Duties and responsibilities in Tianjin Gas
Mr. Jin Jian Ping	Executive Director	General Manager; Vice Party Secretary; Vice Chairman of the board of directors	Responsible for the overall management of Tianjin Gas; Responsible officer of safety management in Tianjin Gas; Manager of the General Manager Office, Audit Department and Supervisory Department
Mr. Dong Hui Qiang	Executive Director	Chief Economist	Responsible for assets management in Tianjin Gas; Responsible officer of corporate assets, investment management and safety; Manager of Assets Management Department
Mr. Bai Shao Liang	Executive Director	None	N/A
Ms. Tang	Executive Director	None	N/A

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Name	Position with the Company	Position with Tianjin Gas	Duties and responsibilities in Tianjin Gas
Mr. Sun Bo Quan <i>(Chairman)</i>	Non-executive Director	Chairman of the board of directors	Responsible for deciding the future plan and development of Tianjin gas and making material decision in relation to Tianjin Gas
Mr. Gong Jing	Non-executive Director	None	N/A
Professor Zhang Yu Li	Independent non-executive Director	None	N/A
Mr. Luo Wei Kun	Independent non-executive Director	None	N/A
Mr. Chan Shun Kuen, Eric	Independent non-executive Director	None	N/A

Three Directors hold concurrent directorships and/or senior management positions in Tianjin Gas. It was believed that the Group would benefit significantly from their experience and expertise in the industry, in particular in formulating strategic development and planning for the ongoing business development of the Company. Notwithstanding the concurrent positions, the Directors believe that they are able to perform their roles in the Company independently and the Enlarged Group will be capable of managing its business independently of Tianjin Gas after completion of the Proposed Assets Transfer for the following reasons:

- (1) The independence of the Directors who also serve in the Tianjin Gas will not be affected by their concurrent positions since the business of the Company has been managed by the Board as a whole, including the independent non-executive Directors, and not by the Tianjin Gas. Of the four executive Directors, one holds concurrent directorship and senior management position in Tianjin Gas and another holds senior management position in Tianjin Gas. Mr. Jin Jian Ping and Mr. Dong Hui Qiang currently each allocate 50% of their working time to manage the business of the Group, whereas Mr. Sun Bo Quan, who is a non-executive Director, devotes a majority of his working time in managing the business of the Tianjin Gas. The Directors are of the view that as the Company is managed by the Board as a whole, the fact that these three Directors allocate resources between their directorships and their concurrent directorships and senior management positions in Tianjin Gas would not affect the discharge of their duties as Directors.
- (2) The executive Directors are not involved in the day-to-day business operations, but instead are primarily responsible for the formulation of development strategies, overall project and investment plans, financial budgeting, and decision-making on mergers and acquisitions of the Company. The day-to-day business operations of the Enlarged Group will continue to be managed by the senior management of the Company, namely, Mr. Zheng Tai Qi (the general manager), Ms. Zhang Zhi Hua (the chief engineer), Mr. Sun Xue Gang (the deputy general manager) and Ms. Wang Li Ping (manager of the finance department), who are all independent of the Tianjin Gas and are full time employees of the Group.

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- (3) The independent non-executive Directors will be responsible for deciding whether or not to take up a business opportunity referred to the Company under the deed of non-competition undertaking dated 9 December 2003 and the Supplemental Non-Competition Agreement, and the independent non-executive Directors may, at the cost of the Company, appoint an independent financial adviser as they consider necessary to advise them on the terms of taking up any such business opportunity.
- (4) The Board has established corporate governance procedures of the decision-making mechanism of the Board to avoid conflicts of interest of the Directors by providing, among other things, that (i) each Director is entitled to one vote at board meetings and decisions of the Board are passed by a majority of votes; (ii) in the event of any conflict of interests, such as where it involves the passing of resolutions in relation to transactions where any Director is materially interested, the relevant Director will abstain from voting and will not be counted in the quorum; and (iii) where it involves the passing of resolutions in relation to transactions with its controlling shareholder or its associates, the Director who holds directorship or senior management position in such controlling shareholder or its associates will be excused from the meeting for such matter, will abstain from voting and will not be counted in the quorum, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors.
- (5) Tianjin Gas is a State-owned enterprise and none of the Directors has any equity interest in Tianjin Gas.

On the basis of the foregoing, the Directors believe that the Board as a whole, together with the senior management of the Enlarged Group, are able to manage the Enlarged Group independently.

During the three financial years ended 31 December 2009 and the six months ended 30 June 2010, each of the three Directors who held concurrent directorships and senior management positions in Tianjin Gas has received remuneration of RMB50,000, RMB50,000, RMB50,000 and RMB25,000 respectively from the Group.

Save for the proposed appointment of an additional independent non-executive Director at the EGM, there is no intention to change the composition of the Board after completion of the Proposed Assets Transfer.

Independence of Business Operations

The Enlarged Group will hold all the relevant licences that are material to its business operations and will have sufficient operation capacity in terms of capital, equipment and employees to operate its businesses independently.

Sales and Operation

The Directors are satisfied that the Company will have independent access to the Industrial and Commercial Users and Domestic Users upon completion of the Proposed Assets Transfer, and will be able to conduct sales under its own sales team retained by the Company and the new staff members to be recruited by the Group. The Company will also engage its own agents for the sale of its products when it deems necessary and appropriate. These measures will ensure the smooth transfer of the relevant customer base of Tianjin Gas in relation to the Transferred Assets to the Enlarged Group.

RELATIONSHIP WITH TIANJIN GAS

In order to minimise the administrative inconvenience to the users, the Group has authorised Tianjin Gas, as a temporary measure, to collect gas fees from the users in certain Operational Locations that the Group has acquired the relevant operating assets (being Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II) from Tianjin Gas in the past. Tianjin Gas pays such gas fees in a lump sum to the Group every month.

In addition, the maintenance work of such acquired assets is being carried out by Tianjin Gas for the Group. Since there was no maintenance work required for the pipelines of Xiqing Assets I, which were acquired in October 2006, the amounts incurred by Tianjin Gas to carry out the maintenance work for the Group were nil for the two years ended 31 December 2008. The maintenance cost (including those for Hangu Assets, Ninghe Assets and Xiqing Assets II which were acquired in November 2008) in the year of 2009 and for the first half of 2010 was less than RMB500,000, the amount which the Directors consider is minimal. Since Tianjin Gas has to carry out regular maintenance for its own pipeline network, it is more efficient that the maintenance work for the Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II to be carried out by Tianjin Gas. As confirmed by the Directors, the Company intends to take over the meter-taking, fee collection and maintenance work in relation the Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II after completion of the Proposed Assets Transfer and it is expected that such take over can be implemented three weeks after completion of the Proposed Assets Transfer. As confirmed by the Directors, the Company intends to (a) newly recruit approximately 620 new staff to carry out meter-taking, fee collection and maintenance work, in respect of Xiqing Assets I, Hangu Assets, Ninghe Assets, Xiqing Assets II and the Transferred Assets. Approximately 500 new staff will be responsible for operation in respect of the Transferred Assets (among them approximately 250 and 150 new staff will be responsible for carrying out the meter-taking and fee collection and maintenance work in respect of the Transferred Assets respectively); (b) enter into gas supply contracts with the Industrial and Commercial Users directly; and (c) utilize the operation records (including mainly the customer database) of the Transferred Assets provided by Tianjin Gas to ensure the smooth operation of gas supply in respect of the Transferred Assets from Tianjin Gas to the Company.

The Group has formed its own maintenance team to carry out the maintenance work in Xiao Hai Di of Hexi District, part of Jinnan District as well as Jining District although in a smaller scale. The Group expects to recruit 120 new staff, with an annual salaries of approximately RMB50,000 per staff, to be responsible for the collection of the gas fees and to carry out maintenance work in Xiqing District, Hangu District and Ninghe District. Additional 150 new staff will be recruited, with an annual salaries of approximately RMB50,000 per staff, to be responsible for the maintenance work of the Transferred Assets. On top of recruiting the 620 new staff, Mr. Jin Jian Ping, the executive Director, is a senior engineer. In addition, Mr. Zheng Tai Qi and Ms. Zhang Zhi Hua, both being the senior management of the Company, are senior engineers who have worked in Tianjin Gas previously. With their working experience in Tianjin Gas and the 620 new staff to be recruited, the Directors are of the view that the Company has the expertise and resources to handle the maintenance work itself after the completion of the Proposed Assets Transfer.

If the Group taken on the meter-taking, fee collection and maintenance work in relation to the Xiqing Assets I, Hangu Assets, Ninghe Assets and Xiqing Assets II, the total costs is estimated to be approximately RMB6 million per year, which comprised mainly staff costs.

RELATIONSHIP WITH TIANJIN GAS

Tianjin Gas is the sole gas wholesaler in the Operational Locations of the Group and it is the largest gas operator in Tianjin City. According to the statistics given by The Gas Management Office of Tianjin, Tianjin Gas accounted for approximately 83% of the total sales of natural gas in Tianjin City for the year ended 31 December 2009. Hence, the Directors are of the view that, since Tianjin Gas has significant influence in the supply of natural gas in the Tianjin City, they believe that the majority of the gas operators in Tianjin City, including the Group as well as other gas operators, purchase natural gas from Tianjin Gas.

At the same time, the price of natural gas is regulated by the Tianjin Municipal Price Bureau. As far as the purchase of natural gas is concerned, the Group is no different from any gas supplier independent from Tianjin Gas. Therefore, the Directors consider the fact that the Group purchases natural gas only from Tianjin Gas does not render that the Group is not capable of carrying on its business independently.

Furthermore, to enable the supply of gas to the Group, the gas pipelines of the Group are connected to Tianjin Gas and currently only to Tianjin Gas. If the Group purchases natural gas from other supplier, assuming that such supplier exists in the Operational Locations of the Group, the Group will then have to construct additional gas pipelines to connect to that supplier and, hence extra cost will be incurred by the Group. Therefore, the Directors consider it not in the best interest to the Group to purchase gas from another gas supplier from cost management perspective and there is no commercial and practical alternative to this reliance currently.

On the other hand, the PRC Legal Adviser confirmed that Tianjin Gas is obliged to ensure supply of natural gas to its downstream operator, including the Company, pursuant to the Rules of Urban Gas Enterprise Administration in Tianjin, in particular (i) Article 6 stipulates that “Enterprises engaging in the production and operation of gas shall conduct their productions in accordance with the gas resource plan issued by the State or the local government and the pressure and quality standard on gas supply required by the State to ensure gas supply”; and (ii) Article 43 stipulates that “Direct economic losses incurred by gas users that were caused by the reduction of volume and pressure and the termination of gas supply by enterprises engaging in the operation of gas without reasons shall be compensated.”

Given the stable supply of natural gas is a subject of public interest and the relevant rules requiring the proper supply of gas, the Directors see no reason why Tianjin Gas will not supply natural gas to the Company. The Directors further consider the fact that Tianjin Gas as a major shareholder of the Company shall have no impact on its supply of natural gas to the Company.

The Directors advised that the 620 new staff members are proposed to be recruited by open recruitment which may include individuals previously employed by Tianjin Gas to carry out similar duties in Heping District and Hedong District if such individuals take the initiative to apply for the job openings and successfully pass the job interviews to be carried out by the Group. The Directors confirm that there is currently no arrangement between Tianjin Gas and the Group for transfer of staff from Tianjin Gas to the Group.

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There is no written agreement on the novation of existing customers in relation to the Transferred Assets to the Group and it is not a term of the Assets Acquisition Agreement that the existing customers served by the Transferred Assets will be transferred to the Group. The Sponsor is of the view that the Proposed Assets Transfer does not constitute a novation of customers from Tianjin Gas to the Group, as there is no written agreement on such novation. However, as these existing customers are connected by the pipelines which are part of the Transferred Assets, the Directors consider that it will be unlikely for any customer not to utilize the same gas pipelines for the continuation of gas supply after the completion of the Proposed Assets Transfer.

Based on the foregoing, the Directors are satisfied that there will be no reliance on Tianjin Gas in terms of sales and operation upon completion of the Proposed Assets Transfer.

Continuing connected transactions

The Group has entered into the 2011 Gas Supply Contract with Tianjin Gas, which constitute continuing connected transaction under the GEM Listing Rules. The terms and conditions of the Gas Supply Transaction are on normal commercial terms which the Directors believe to be fair and reasonable and in the interests of the Shareholders taken as a whole. Further details of the Gas Supply Transaction are set out in the section headed “Connected Transactions” of this circular.

On the basis of the foregoing, the Directors are of the view that the Enlarged Group will be able to operate independently from Tianjin Gas upon completion of the Proposed Assets Transfer.

Financial Independence

The Enlarged Group has historically had, and the Enlarged Group will following completion of the Proposed Assets Transfer continue to have, its own internal control and accounting systems, its own finance department responsible for discharging the treasury function for cash and receipts and payments, accounting, reporting and internal control functions independent from Tianjin Gas.

During the Track Record Period, Tianjin Gas has provided guarantees to borrowings of the Company. However, as at the Latest Practicable Date, such guarantees have been released. As at the Latest Practicable Date, the amount of outstanding borrowings by the Company as guaranteed by Tianjin Gas was nil. The Directors are of the view that the Enlarged Group is capable of obtaining financing from third parties without relying on any loan, guarantee or security provided by Tianjin Gas upon completion of the Proposed Assets Transfer.

On the basis of the foregoing, the Directors are of the view that, following completion of the Proposed Assets Transfer, the Enlarged Group will be able to operate independently from Tianjin Gas from a financial perspective.

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Undertakings by Tianjin Gas and the Company

Tianjin Gas, being the controlling shareholder of the Company under the GEM Listing Rules upon completion of Assets Acquisition Agreement, has undertaken to the Stock Exchange that, save as provided under Rule 13.18 of the GEM Listing Rules:

- (1) in the period commencing on the date of completion of the Proposed Assets Transfer and ending on the date which is 6 months from the date of completion of the Proposed Assets Transfer (the “First Six-month Period”), it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares held by it (including but not limited to the Consideration Shares which fall to be issued upon completion of the Proposed Assets Transfer) or any beneficial or other interests therein;
- (2) in the period of six months commencing on the date on which the First Six-month Period referred to in sub-paragraph(1) above expires, it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares held by it (including but not limited to the Consideration Shares which fall to be issued upon completion of the Proposed Assets Transfer) or any beneficial or other interests therein if, immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrances, Tianjin Gas would cease to be a controlling shareholder of the Company under the GEM Listing Rules;
- (3) when it pledges or charges any direct or indirect interest in the relevant securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in sub-paragraphs (1) and (2) above, it must pursuant to Rule 13.19 of the GEM Listing Rules inform the Company in writing immediately thereafter, disclosing the details as specified in the GEM Listing Rules; and
- (4) in the event of it having pledged or charged any of its interests in the relevant securities under sub-paragraph (3) above then when it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, it will pursuant to Rule 13.19 of the GEM Listing Rules immediately inform the Company of such indications and the number of the Shares affected.

The Company undertakes that it will publish an announcement upon receipt of such notifications.

The Company undertakes that it will not, save for the exceptions provided under Rule 17.29 of the GEM Listing Rules and the issue of the Consideration Shares, within the First Six-month Period issue or agree to issue any shares or any other security in the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, Shares or any other securities of the Company.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Given Tianjin Gas is a Promoter and a substantial shareholder within the meaning of the GEM Listing Rules, the transactions described below constitute continuing connected transactions.

(1) Transactions already approved by the Shareholders/announced

Transactions	Date of agreement	Term	Transaction amount (excluding tax)	Caps
Gas Purchase Agreements	27 October 2009	From 1 January 2010 to 31 December 2012	For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the actual purchase amounts paid by the Group amounted to approximately RMB28,524,000, RMB61,259,000, RMB165,451,000 and RMB100,987,000, respectively	RMB290,000,000, RMB348,000,000 and RMB416,000,000 for each of the year ending 31 December 2010, 2011, and 2012
2010 Pipeline Design Agreement	27 October 2009	From 1 January 2010 to 31 December 2012	For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the actual transaction amounts was approximately RMB591,800, RMB171,600, RMB965,000 and RMB138,000, respectively	RMB4,400,000, RMB5,280,000 and RMB6,330,000 for each of the 12 months ending 31 December 2010, 2011 and 2012
Gas Transportation Contract	2 July 2009	The three years ending 31 December 2011	For the financial year ended 31 December 2009 and the six months ended 30 June 2010, the actual amount received by the Group amounted to approximately RMB2.5 million and RMB2.6 million, respectively	RMB18 million, RMB40 million and RMB55 million for each of the three years ending 31 December 2011

(2) Transactions arised as a result of the Proposed Assets Transfer and subject to independent Shareholders' approval to be sought in the EGM

Transactions	Date of agreement	Term	Actual purchase volume of gas in relation to the Transferred Assets	Caps
2011 Gas Supply Contract	16 September 2009	For the year ending 31 December 2011, subject to completion of the Proposed Assets Transfer and the Independent Shareholders' approval (<i>Note</i>)	For the financial year ended 31 December 2009 and the six months ended 30 June 2010, the actual purchase volume was approximately 464,305,000 cubic meters and 270,756,000 cubic meters, respectively.	RMB1,470,000,000 for the year ending 31 December 2011, subject to completion of the Proposed Assets Transfer and the Independent Shareholders' approval (<i>Note</i>)

Note: The cap for the year ending 31 December 2011 has been announced by the Company in the announcement dated 5 October 2009.

CONNECTED TRANSACTIONS

(1) Transactions already approved by the Shareholders/announced

Gas Purchase Agreements

The Company and Tianjin Gas has entered into the Gas Purchase Agreements on 27 October 2009 in respect of renewal of the supply of natural gas by Tianjin Gas to the Group for the period from 1 January 2010 to 31 December 2010, 1 January 2011 to 31 December 2011, and 1 January 2012 to 31 December 2012 to cover the gas demand for the Group's current operation and are independent from the Gas Supply Contracts.

Pursuant to the Gas Purchase Agreements, Tianjin Gas agreed to supply to the Company and the Company agreed to purchase from Tianjin Gas natural gas at a price of RMB2.00 per cubic metre (the then unit price of natural gas fixed by Tianjin Municipal Price Bureau when entering into the Gas Purchase Agreement) (subject to adjustment in accordance with the direction of the Tianjin municipal price bureau from time to time). Pursuant to the "Notice in relation to adjustment of natural gas tariff of industrial use in Tianjin City" (《關於我市調整工業用天然氣銷售價格的通知》津價商 [2007] 263號) issued by Tianjin Commodity Price Bureau dated 30 November 2007, the classifications of pricing of natural gas was revised from "residential use" and "non-residential use" to "residential use", "industrial use" and "other use".

Currently, Tianjin Gas supplies natural gas to the Group at RMB2.26 per m³, which is exactly the rate fixed by Tianjin Municipal Price Bureau.. According to the Gas Purchase Agreements, the Group is required to make payment to the Tianjin Gas by cheque on the 25th day of each month, based on the actual usage of natural gas made by the Group during the month.

For the three financial years ended 31 December 2009 and the six months ended 30 June 2010, the Group has purchased natural gas from Tianjin Gas of approximately 26,665,000 m³, 34,623,000 m³, 93,479,556 m³ and 57,057,513 m³, and the purchase amounts paid by the Group amounted to approximately RMB28,524,000, RMB61,259,000, RMB165,451,000 and RMB100,987,000, respectively, for the corresponding periods. The respective caps of RMB290,000,000, RMB348,000,00 and RMB416,000,000 for each of the year ending 31 December 2010, 2011, and 2012 represent an annual increase of approximately 20% for the two years ending 31 December 2012.

When calculating the annual cap for the year ending 31 December 2010, the Company first estimated the quantity demanded of natural gas, which was determined with reference to three major factors (1) past consumption; (2) estimation of potential demand of natural gas and (3) additional buffer to ensure constant supply of gas:—

(1) Past consumption

Reference was made to the actual natural gas purchase quantity for the nine-month period ended September 2009 (i.e. 68,243,479 cubic meters).

CONNECTED TRANSACTIONS

(2) Estimation of potential demand of natural gas

Reference was made to the significant increase in the actual transaction amount for the nine-month period ended September 2009 (i.e. RMB120,784,912) from the actual transaction amount in the year ended 31 December 2008 (i.e. RMB61,259,261).

(3) Additional buffer to ensure constant supply of gas

The Group's principal activities are the operation of gas pipeline infrastructure and the sale and distribution of piped gas in the PRC, a steady supply of natural gas is essential to the Group's business, and any interruption or suspension of the gas supply would be disastrous to the Group's business. Hence, when determining annual caps, the Company has to ensure that the annual caps are sufficient to cover the existing demand as well as the potential demand of natural gas in the relevant areas.

Based on the above three factors, the Directors estimated the quantity demanded of natural gas for the year ending 31 December 2010 to be approximately 145,000,000 cubic meters.

The annual cap for the year ending 31 December 2010 was then calculated by multiplying the estimated purchase natural gas quantity for the year ending 31 December 2010 i.e. 145,000,000 cubic meters with the then unit price of natural gas fixed by Tianjin Municipal Price Bureau when entering into the Gas Purchase Agreements i.e. RMB2.00 per cubic meter, which equals to RMB290,000,000.

The Directors consider that the annual caps were determined in compliance with Rule 20.35(2) of the GEM Listing Rules.

The Directors, including the independent non-executive Directors, have confirmed that the Gas Purchase Agreements are on normal commercial terms, fair and reasonable, in the usual and ordinary course of business and in the interests of the Shareholders as a whole.

Pursuant to the letter from Evolution Watterson Securities Limited dated 11 November 2009, they opined that (i) the Gas Purchase Agreement and the continuing connected transactions contained therein are on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable and in the interest of the Company and its Shareholders as a whole; and (ii) the annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

The transactions contemplated under the Gas Purchase Agreement have been approved by the Shareholders in an extraordinary general meeting held on 28 December 2009.

CONNECTED TRANSACTIONS

2010 Pipeline Design Agreement

On 27 October 2009, the Company and Design Institute, the wholly owned subsidiary of Tianjin Gas, entered into the 2010 Pipeline Design Agreement in respect of renewal of provision of pipeline design service by Design Institute to the Company for the period from 1 January 2010 to 31 December 2012.

Design Institute provides services in relation to the planning and design of pipeline network but is not involved in the actual connection and construction of the same. The Directors consider that Design Institute is specialized and has experience in piped gas pipeline network related projects. In particular, as Design Institute is a subsidiary of Tianjin Gas, it is familiar with the pipeline design requirements for projects involving Tianjin Gas. The Directors are also satisfied with the services provided by Design Institute pursuant to the 2007 Pipeline Design Agreement. Accordingly, if the terms offered by Design Institute are not less favourable than those terms offered by other qualified designers, the Company agreed to give priority to Design Institute as it would ensure the Group to have access to good quality design services in the event that the Group's in-house design team cannot handle the design work internally. The Directors confirm that the terms under the 2010 Pipeline Design Agreement are no less favourable than the terms provided by Design Institute to its other customers. If the Company commissions Design Institute to carry out the pipeline design in a particular project, the Company and Design Institute will enter into a separate contract which will contain the relevant contract price. The payment terms will be separately negotiated.

Pursuant to the 2010 Pipeline Design Agreement, Design Institute agreed to, for a term of three years commencing from 1 January 2010, providing pipeline design service to the Company upon the Company's order at a consideration to be determined by the parties based on the principles of justness, fairness and reasonableness and normal commercial practices, provided that the total fee for service provided by Design Institute to the Company for each of the 12 months ending on 31 December 2010, 31 December 2011 and 31 December 2012 shall not exceed RMB4,400,000, RMB5,280,000 and RMB6,330,000, respectively. These caps were determined with regard to the capacity of the Company's in-house pipeline design team, whose major role is to coordinate and monitor pipeline design work, and the forecast of the Company's need for outsourced pipeline design service for the said three years' period.

The respective caps of RMB4,400,000, RMB5,280,000 and RMB6,330,000 for each of the 12 months ending 31 December 2010, 2011 and 2012 represent an increase of approximately 100% from the cap of RMB2,200,000 for the year ending 31 December 2009, and an annual increase of approximately 20% for the two years ending 31 December 2012. The annual caps take into account for the pipeline network design service charge to be incurred by the Company for the year ending 31 December 2010, 31 December 2011 and 31 December 2012.

The Directors, including the independent non-executive Directors, have confirmed that the 2010 Pipeline Design Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

CONNECTED TRANSACTIONS

During the Track Record Period, the Group does not have alternative supplier for the planning and design of pipeline networks other than the Design Institute. Since the actual transaction amounts in respect of pipeline network design services provided by Design Institute to the Company for each of the three years ended 31 December 2009 and the six months ended 30 June 2010 were relatively small (i.e. RMB496,000, RMB171,600, RMB965,000 and RMB138,000 respectively) the Group did not require the Design Institute to go through any bidding or tendering process. However, if the transaction amount shall become more significant in future, the Group will consider requesting the Design Institute to go through an open and fair bidding or tendering process.

As each of the percentage ratios (other than the profits ratio) for the caps of the transactions contemplated under the 2010 Pipeline Design Agreement are on an annual basis more than 2.5% but less than 25% and the annual consideration is less than HK\$10,000,000, the 2010 Pipeline Design Agreement is exempt from the independent shareholders' approval requirement and are only subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules. Therefore, no independent financial adviser was engaged by the Company to opine of the 2010 Pipeline Design Agreement. The Company will comply with the annual review requirements under Rules 20.37 to 20.40 of the GEM Listing Rules regarding the 2010 Pipeline Design Agreement.

The Company has entered into a contract with the Design Institute in respect of pipeline network design services for the year 2010 in the amount of approximately RMB1.9 million.

Gas Transportation Contract

On 6 October 2008, the Company entered into the Entrusted Construction Agreement with Tianjin Gas, pursuant to which the Company entrusted Tianjin Gas and Tianjin Gas agreed to undertake the construction of the Entrusted Projects. The Entrusted Projects comprise two projects, namely the Beihuan Pipeline Project and the Gangnan Distribution Project. Pursuant to the Entrusted Construction Agreement, Tianjin Gas is only responsible for the construction of the Beihuan Pipeline and the Gangnan Pipeline, the ownership of these pipelines remains with the Company.

The Entrusted Construction Agreement has been duly approved by the independent Shareholders in an extraordinary general meeting held on 23 March 2009.

Tianjin Gas and the Company has entered into the Gas Transportation Contract on 2 July 2009, pursuant to which the Company agreed to allow Tianjin Gas to transmit natural gas to end users and gas operators via the gas pipelines owned and managed by the Company. In return, Tianjin Gas agreed to pay to the Company the Gas Transportation Fees. The Directors confirm that up to the latest practicable date of the Company's circular dated 5 February 2009, the exact plan of business development in Binhai New District had not been formulated yet and they were not aware that Tianjin Gas had any intention to use the pipelines to transmit natural gas to its end users and gas operator customers in Binhai New District. The Gas Transportation Fees are calculated based on the actual volume of natural gas and actual distance transmitted at RMB0.8 per 1,000 m³ per km.

CONNECTED TRANSACTIONS

The unit Gas Transportation Fee is arrived at after arm's length negotiation between Tianjin Gas and the Company. If the relevant state price bureau adjusts the indicative price for the Gas Transportation Fees, such unit fee shall be changed after further agreement between Tianjin Gas and the Company. In any event, the annual caps for the Gas Transportation Fees in respect of the three years ending 31 December 2011 are RMB18 million, RMB40 million and RMB55 million respectively.

At the time of the announcement of the Gas Transportation Contract, the annual caps were determined based on the estimated total transportation gas volume of Gangnan Pipeline and Beihuan Pipeline in year 2009, 2010 and 2011 at 690 million m³, 1,540 million m³ and 2,120 million m³, respectively, multiplied by a unit price of RMB0.02 per m³ (given both Gangnan Pipeline and Beihuan Pipeline were originally estimated to be 25 km in length respectively, RMB0.02 per cubic metre was equivalent to RMB0.8 per 1,000 cubic metres per kilometre). Base on the estimated total transportation gas volume as mentioned above, the utilization rate for Gangnan Pipeline and Beihuan Pipeline for the three years ending 31 December 2011 will be approximately 69%, 51% and 71% respectively. The Directors advise that, since it is expected that the Beihuan Pipeline would not be completed by the end of 31 December 2009, only the designed capacity of the Gangnan Pipeline is taken into consideration when calculating the utilization rate for the year ended 31 December 2009. The 25 km was only the estimated length of each of the Gangnan Pipeline and the Beihuan Pipeline. The Gangnan Distribution Project was completed in May 2009 and the actual length of the Gangnan Pipeline is approximately 22 km. The Beihuan Pipeline Project is still under construction and the Beihuan Pipeline is now expected to be approximately 29 km in length. It was agreed between the parties that a buffer of approximately 30% was included in the annual caps. The annual cap for year 2009 has only taken the transportation volume of Gangnan Pipeline into account as Beihuan Pipeline was only expected to commence to operate in December 2009. As Binhai New District is a newly developed area, a steady growth of demand for natural gas is expected and hence the annual caps for year 2010 and 2011 have been adjusted accordingly. Should the payable amount of Gas Transportation Fees in a particular year exceeds the respective annual cap, the excess shall not be paid until its payment has been approved by the Independent Shareholders of the Company in accordance with the GEM Listing Rules or other requirements prescribed by the Stock Exchange.

As at the Latest Practicable Date, the Directors confirmed that Gangnan Pipeline and the Beihuan Pipeline are only directly connected to the branch pipelines and customer pipelines owned by Tianjin Gas. The Group may utilize the Gangnan Pipeline and the Beihuan Pipeline to supply gas to end users in Binhai New District itself by constructing branch pipelines and customer pipelines directly connecting the end users to the Gangnan Pipeline and the Beihuan Pipeline.

When Tianjin Gas commences the transmission of natural gas via the Gangnan Pipeline and the Beihuan Pipeline, the Gas Transportation Fees will be recognized as revenue. The major costs would be the depreciation/amortization of the relevant assets provided for the relevant period. The Directors advise that there are minimal maintenance costs for the two pipelines except in circumstances where the two pipelines were damaged accidentally, which the

CONNECTED TRANSACTIONS

maintenance costs will be determined case by case. The Directors expect maintenance costs will be insignificant under normal circumstances. In addition, only a few existing staff are required to oversee the whole operation of Gangnan Pipeline and Beihuan Pipeline. The Directors estimated that the Beihuan Pipeline Project and the Gangnan Distribution Project will breakeven in 6-8 years.

The entering into the Gas Transportation Contract by the Company has created a new revenue stream for the Company. The Directors are of the view that the Gas Transportation Fees derived from the Gangnan Pipeline and the Beihuan Pipeline will become a substantial revenue stream to the Group in the future due to the development of Binhai New District.

The Group commenced the provision of gas transportation services in 2009, and the actual gas transportation fees received by the Group was approximately RMB2.5 million and RMB2.6 million, for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

The Directors, including the independent non-executive Directors, have confirmed that the Gas Transportation Contract is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the letter from Evolution Watterson Securities Limited dated 24 July 2009, they opined that (i) it is in the Company's ordinary and usual course of business to enter into the Gas Transportation Contract; (ii) the Gas Transportation Contract would provide the Company with a steady stream of income; (iii) major terms of the Gas Transportation Contract are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iv) the annual cap amount for each of the three years ending 31 December 2011 are fair and reasonable so far as the Independent Shareholders are concerned.

Tianjin Gas is required to settle the Gas Transportation Fees by collection payment or cheque on or before the 10th day of each month, based on the gas transportation volume confirmed by the parties at the end of the previous month.

The Gas Transportation Contract has been duly approved by the independent Shareholders in an extraordinary general meeting held on 11 September 2009.

(2) Transactions arised as a result of the Proposed Assets Transfer and subject to independent Shareholders' approval to be sought in the EGM

Gas Supply Contracts

To meet the increase in demand of natural gas of the Company as a result of completion of the Assets Acquisition Agreement, the Company entered into the Gas Supply Contracts with Tianjin Gas on 16 September 2009. The Gas Supply Contracts comprise the 2009 Gas Supply Contract, the 2010 Gas Supply Contract and the 2011 Gas Supply Contract, all dated 16 September 2009. The Gas Supply Contracts are conditional on the completion of Assets Acquisition

CONNECTED TRANSACTIONS

Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Transaction, will be held on 15 February 2011, the 2009 Gas Supply Contract and the 2010 Gas Supply Contract have lapsed. Accordingly, only the 2011 Gas Supply Contract will be tabled in the EGM for consideration by the Independent Shareholders.

2011 Gas Supply Contract

Date:

16 September 2009

Parties:

Supplier: Tianjin Gas

User: The Company

Major terms:

Pursuant to the 2011 Gas Supply Contract, Tianjin Gas agreed to supply to the Company and the Company agreed to purchase from Tianjin Gas up to 735,000,000 cubic metres of natural gas for the twelve months ending 31 December 2011 at a price of RMB2.00 per cubic metre (the then unit price of natural gas fixed by Tianjin Municipal Price Bureau when entering into the Gas Supply Contracts) (subject to adjustment in accordance with the direction of Tianjin Municipal Price Bureau from time to time) i.e. up to RMB1,470,000,000, being the annual cap for the year ending 31 December 2011 required under GEM Listing Rules. When calculating the annual cap for the financial year ending 31 December 2011, the Company estimated the quantity demanded of natural gas, which was also determined with reference to three major factors namely (1) past consumption; (2) estimation of potential demand of natural gas and (3) additional buffer to ensure constant supply of gas. In particular, reference was made to the increases in the actual gas sales generated from the Transferred Assets for the year ended 31 December 2007 (i.e. RMB604,774,000) from the actual gas sales generated from the Transferred Assets in the year ended 31 December 2006 (i.e. RMB496,121,000), which represented an increase of 21.9% and for the year ended 31 December 2008 (i.e. RMB785,693,000) from the actual gas sales generated from the Transferred Assets in the year ended 31 December 2007 (i.e. RMB604,774,000), which represented an increase of 30.0%, being the historical data available to the Company when calculating the annual cap in September 2009. The unit price of natural gas is regulated by Tianjin Municipal Price Bureau. The Company is required to settle the gas charge by cheque before the 25th day of each month, based on the actual consumption of natural gas by the Group during the month.

CONNECTED TRANSACTIONS

The table below sets out (i) actual purchase volume of gas in relation to the Transferred Assets for the financial year ended 31 December 2009 and the six months ended 30 June 2010; and (ii) the calculations of the annuals cap for the year ending 31 December 2011 in relation to the Transferred Assets:

Period	Actual purchase volume (cubic meters)	Estimated purchase volume (cubic meters)	The then unit price of natural gas fixed by Tianjin Municipal Price Bureau when entering into the Gas Supply Contracts (RMB per cubic metre)	Annual cap (RMB)
Full financial year ended 31 December 2009	464,305,000	—	—	—
For the six months ended 30 June 2010	384,850,000	—	—	—
Full financial year ending 31 December 2010	—	565,000,000	2.00	N/A (Note1)
Full financial year ending 31 December 2011	—	735,000,000	2.00	1,470,000,000 (Note2)

Notes: (1) The 2010 Gas Supply Contract is conditional on the completion on the completion of the Assets Acquisition Agreement and approval by the Independent Shareholders. As the EGM, in which the Independent Shareholders will consider the resolutions concerning the Assets Acquisition Agreement and the Gas Supply Transaction, will be held on 15 February 2011, the 2010 Gas Supply Contract has lapsed.

(2) The cap for the year ending 31 December 2011 has been announced by the Company in the announcement dated 5 October 2009.

Condition precedent to the Gas Supply Contracts

The 2011 Gas Supply Contract is conditional on the completion of the Assets Acquisition Agreement and the approval by Independent Shareholders.

The Directors (including the independent non-executive Directors) consider that the terms of the 2011 Gas Supply Contract were arrived at after arm's length negotiation between the parties and that the Gas Supply Transaction is on normal commercial terms, and is entered into in the ordinary and usual course of business of the Company and that the terms of the 2011 Gas Supply Contract are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Independent Financial Adviser is of the opinion that (i) the Assets Acquisition Agreement; (ii) the Whitewash Waiver; and (iii) the 2011 Gas Supply Contract and the continuing connected transaction contained therein including the annual cap is fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and its Shareholders as a whole. They also consider that the continuing connected transaction contemplated under the 2011 Gas Supply Contract is on normal commercial terms and in the ordinary course of business of the Enlarged Group.

CONNECTED TRANSACTIONS

LISTING RULES IMPLICATIONS

Under Chapter 20 of the GEM Listing Rules, the Gas Supply Contracts, the Gas Purchase Agreements and the Gas Transportation Contract constitute non-exempt continuing connected transactions for the Company which require Independent Shareholders' approval and/or disclosure by way of announcement.

The annual caps of the 2011 Gas Supply Contract, the Gas Purchase Agreements and the Gas Transportation Contract do not fall under the exemption in Rules 20.33 and 20.34 of the GEM Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Rules 20.45 to 20.54 of the GEM Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the cap of the transactions contemplated under the 2010 Pipeline Design Agreement are on an annual basis more than 2.5% but less than 25% and the annual consideration is less than HK\$10,000,000, the 2010 Pipeline Design Agreement is exempt from the Independent Shareholders' approval requirement and are only subject to the reporting and announcement requirements under Rule 20.34 of the GEM Listing Rules.

Independent Shareholders' approval in relation to the Gas Transportation Contract has already been obtained by the Company at an extraordinary general meeting of the Company on 11 September 2009, while Independent Shareholders' approval in relation to the Gas Purchase Agreements have been obtained on 28 December 2009. Independent Shareholders' approval in relation to the 2011 Gas Supply Contract will be sought in the EGM.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

The following sets out the biographical details of the Directors, Supervisors and senior management of the Company immediately following completion of the Proposed Assets Transfer:

DIRECTORS

Executive Directors

Mr. Jin Jian Ping (金建平), aged 51, is an executive Director. Mr. Jin graduated from the School of Architecture of the University of Tianjin (天津大學建築分校) in 1983. Mr. Jin has obtained the qualification of senior engineer in 2002. He joined Tianjin Gas in August 1983. He is also the general manager, vice party secretary and vice chairman of the board of directors of Tianjin Gas. Mr. Jin was appointed as an executive Director on 4 January 2006 and is responsible for management of operation and safety management of the Company.

Mr. Dong Hui Qiang (董惠強), aged 57, is an executive Director. Mr. Dong is a graduate of the postgraduate course for investment management organized by Chinese Academy of Social Sciences in 2000. Mr. Dong worked in Tianjin Water Works Group Company Limited (天津自來水集團有限公司) from 1975 to 2003 and has acted as, among others, the deputy general manager and chief economist. Mr. Dong joined Tianjin Gas in June 2004 and is currently working as the chief economist. Mr. Dong is also a director of Tianlian Investment, a subsidiary of the Company. Mr. Dong was appointed as an executive Director on 4 January 2006 and is responsible for designing yearly and medium-to-long term investment plan of the Company.

Mr. Bai Shao Liang (白少良), aged 51, is an executive Director. Mr. Bai has obtained a master degree in business administration from Nan Kai University (南開大學) in 2005. Mr. Bai has been the chairman of the board of directors and general manager of Wanshun Real Estate, a substantial shareholder of the Company, since 1993. Mr. Bai Shao Liang holds 76% interests in Wanshun Real Estate. Under the SFO, Mr. Bai Shao Liang is taken to be interested in all the Shares held by Wanshun Real Estate. Mr. Bai was appointed as an executive Director on 26 May 2006. Mr. Bai is responsible for making material decisions of the Company.

Ms. Tang Jie (唐潔), aged 43, is an executive Director. Ms. Tang graduated from the Tianjin Institute of Finance (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學)), majoring in accounting, in 1991. Ms. Tang is one of the promoters of the Company and had been working for the Company as an accountant and deputy general manager in the account department since December 1998. She had been appointed as a deputy general manager of the Company in 2001. Ms. Tang was appointed as an executive Director on 28 December 2001 and is responsible for making material decisions of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

Non-executive Directors

Mr. Sun Bo Quan (孫伯全), aged 59, is a non-executive Director and the chairman of the Board. Mr. Sun has obtained a master degree in business administration from Nan Kai University (南開大學), the PRC in 2005. He was the deputy bureau head of Tianjin Public Utility Bureau (天津市公用局) in September 1997. He subsequently joined Tianjin Gas in August 2001 and is the chairman of the board of directors of Tianjin Gas. Mr. Sun had been an independent non-executive director of Ming Hing Holdings Limited (now known as Mongolia Investment Group Limited), whose shares are listed on the Main Board (Stock Code: 402), for the period from October 2006 to March 2009. Mr. Sun was appointed as a non-executive Director on 13 August 2004. Mr. Sun is responsible for the overall planning, strategic development and major policy making of the Company.

Mr. Gong Jing (宮靖), aged 46, is a non-executive Director. Mr. Gong is a graduate of the University of Tianjin (天津大學) in 2009 with a Doctor of technology economics and management degree (技術經濟及管理博士學位). He has been the general manager of the investment development department of both Tianjin Beacon and Tsinlien Group Co., Ltd. (津聯集團有限公司) since 2001. Mr. Gong had been an executive director of Tianjin Development Holdings Limited, whose shares are listed on the Main Board (Stock Code: 882), since April 2009. Mr. Gong was appointed as a non-executive Director on 28 December 2001. Mr. Gong participates in the decision making process for major policy making of the Company.

Independent non-executive Directors

Professor Zhang Yu Li (張玉利), aged 45, was appointed as an independent non-executive Director on 25 June 2007. Professor Zhang is a graduate of the Nan Kai University (南開大學) in the PRC. He received a bachelor's degree in economic management in 1987, a master's degree in corporate management in 1990, and was awarded a doctorate in economics, majoring in corporate management in 1996. Professor Zhang had been the associate dean of the School of Business of Nan Kai University (南開大學), the PRC. He has been the head of the Entrepreneurship Management Studies Centre (創業管理研究中心) of the School of Business of Nan Kai University (南開大學), the PRC since 2008.

Mr. Luo Wei Kun (羅維崑), aged 71, was appointed as an independent non-executive Director on 28 October 2002. Mr. Luo graduated from the Tsinghua University (清華大學) in the PRC with a bachelor's degree in civil architecture in 1964. He started his postgraduate studies in civil engineering in the same year and was subsequently awarded a postgraduate diploma in 1967. He was a technician in the Wuhan Branch of the China National Pharmaceutical Industry Corporation (中國醫藥工業公司武漢分公司) (now known as China National Pharmaceutical Industry Corporation Limited) (中國醫藥工業有限公司) in 1968. He worked in the State Ministry of Medicine-Hubei Medical Manufactory Branch (國家醫葯總局湖北製葯製劑分廠) from 1969 to 1985 and successively held various positions, including deputy chief engineer. He worked as an engineer, section head and assistant to factory manager in Tianjin Second Coal Gas Factory (天津市第二煤氣廠) from 1986 to 1992. He was the deputy chief engineer in Tianjin Public Utility Bureau (天津市公用局) since 1992 and up to

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

his retirement in March 2000. Mr. Luo acted as a consultant in Tianjin City Gas Administrative Office (天津市燃氣管理處) since 2000, and had been a committee member of Urban Coal Gas Association of Civil Engineering Association in China (中國土木工程學會城市煤氣學會理事會), a member of the technical consultant committee in the Planning Office of Tianjin City (天津市建設管理委員會技術顧問委員會). Mr. Luo is currently an independent non-executive director of China Leason Investment Group Co., Limited (中國聯盛投資集團有限公司), whose shares are listed on GEM (Stock Code: 8270).

Mr. Chan Shun Kuen, Eric (陳舜權), aged 48, was appointed as an independent non-executive Director on 12 November 2004. Mr. Chan is an external consultant of Development Principles Group (Hong Kong) Limited. Mr. Chan holds a Master of Commerce degree and a Bachelor of Laws degree and is an associate member of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). Mr. Chan is currently a non-executive director of China Au Group Holdings Limited (formerly known as “Blu Spa Holdings Limited”), whose shares are listed on GEM (Stock Code: 8176). On 3 December 2008, the SFC issued a press release regarding a decision of the Securities and Futures Appeal Tribunal (the “SFAT”). It stated that the SFAT confirmed the SFC’s disciplinary sanction to fine Mr. Chan HK\$200,000 for his lapse in duties when acting on behalf of his former employer as a sponsor for a listing application in 2003. Full particulars surrounding this matter are available on the SFC’s website. The Company has published an announcement in relation to the same on 25 October 2010.

SUPERVISORS

Mr. Cao Shu Jing (曹書經), aged 59, was appointed as a Supervisor on 4 January 2006. Mr. Cao graduated from the Management Institute of Tianjin City (天津市管理幹部學院), majoring in corporate ideological and political work in 1985, and subsequently in administration of commerce and industry management in 1990. Mr. Cao joined Tianjin Gas in March 1973. Mr. Cao is a qualified senior political officer, and is currently the deputy general manager of Tianjin Gas.

Independent Supervisors

Professor Qi Yin Feng (齊寅峰), aged 72, was appointed as an independent Supervisor on 28 October 2002. He graduated from Nan Kai University (南開大學), the PRC, with a bachelor’s degree in mathematics. Since his graduation in 1962, Professor Qi taught in Nan Kai University (南開大學), the PRC, He was awarded the Third Prize of the Technology Advance Award (科學技術進步獎三等獎) by the State Educational Commission (國家教育委員會), the PRC. Since 1988, Professor Qi had been a vice president in the Society of System Engineering of Tianjin (天津市系統工程學會). He acted as a consultant for Kunming National High & New Tech Industry Development Zone (昆明高新技術產業開發區) from 1993 to 1996. In 2002, Professor Qi completed a training course for independent directors of listed companies jointly organized by the CSRC and School of Economics and Management of the Tsinghua University (清華大學), the PRC.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

Mr. Sha Jin Cheng (沙錦程), aged 66, was appointed as an independent Supervisor on 25 June 2007. He graduated from Shanghai Chemical College (上海化工學院), the PRC, majoring in basic organic chemical engineering. Mr. Sha then worked for the Long-Term Planning Department of Tianjin Chemical Bureau (天津市化工局長遠規劃處) the PRC and the Department of Foreign Investment of Tianjin City (天津市外經貿委外資處) from 1992 to 1996. He was the deputy general manager in the group investment department of Tsinlien Group Co., Ltd. (津聯集團有限公司) from 1996 to 2006. Mr. Sha has been working as a deputy general manager in Suryamas Daily Chemical (Tianjin) Co., Ltd. (源達日化(天津)有限公司) since November 2006.

Staff Representative Supervisors

Mr. Sun Xue Gang (孫學剛), aged 35, is a Supervisor and a deputy general manager of the Company. Mr. Sun graduated from the Tianjin Institute of Finance (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學)), the PRC, majoring in economic information management, in 1997. Between 1997 and 2006, he worked for Tianjin Water Works Group Company Limited (天津市自來水集團有限公司) and had successively been a management cadre in the human resources department and a vice party secretary, and had been a deputy manager of Tianjin Water Works Group Company Limited (天津市自來水集團有限公司) retail branch in the northern part of Tianjin. He was appointed as a deputy general manager of the Company in 2006 and has been appointed as a Supervisor on 25 June 2007. Mr. Sun is responsible for corporate investment and financing, investor relationship and internal audit of the Company. He is also responsible for organising feasibility study and application for approval in relation to the investment projects of the Company and managing the Jining Branch.

Ms. Hao Li (郝力), aged 40, is a Supervisor. Ms. Hao graduated from the School of Tianjin Committee of the Communist Party (中共天津市委黨校), majoring in economics and management, in 2005. She worked in the planning department of Tianjin Gas from 1988 to 2005, and subsequently joined the Company and worked in the management department. She was appointed as a Supervisor on 25 June 2007.

SENIOR MANAGEMENT

Mr. Zheng Tai Qi (鄭太琪), aged 57, is a graduate of the Tianjin Institute of Financial (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學)), the PRC, in 1987. Mr. Zheng is a senior engineer. He joined Tianjin Gas in August 1974. Mr. Zheng was a deputy manager of the First Sales Branch of Tianjin Gas, and has been the general manager of the Company since December 2004. Mr. Zheng is responsible for the management of the production and operation of the Company, formulating and implementing annual operation plan of the Company, formulating internal control procedures and organising on-the-job training of employees of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

Ms. Zhang Zhi Hua (張芷華), aged 51, graduated from the School of Architecture of the University of Tianjin (天津大學建築分校), the PRC, in 1984. She is a senior engineer. She joined Tianjin Gas in August 1983. She was the section head of the measurement technical section of the First Sales Branch of Tianjin Gas, and the chief engineer of Heping District Sales Offices. She has been the chief engineer of the Company since April 2008.

Mr. Sun Xue Gang (孫學剛), aged 35, is a deputy general manager of the Company. His biographical details are set out above under the paragraph headed “Supervisors” in this section.

Ms. Wang Li Ping (王莉萍), aged 45, graduated from Tianjin Institute of Finance (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學)), the PRC in 1985. She is an accountant. She was the deputy head of the Financial Department of Tianjin Gas from 2004 to 2005, and has been the manager of the Finance Department of the Company thereafter.

COMPANY SECRETARY

Mr. Kwok Shun Tim (郭純恬), aged 36, graduated from the Hong Kong University of Science and Technology in 1999 and obtained a bachelor degree (business administration in accounting) and he also obtained a master degree in China Business Studies from the Hong Kong Polytechnic University in 2004 and a master degree in International Economic Law from the City University of Hong Kong in 2008. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

PARTICULARS OF DIRECTOR PROPOSED TO BE APPOINTED

The Board has nominated Mr. Tam Tak Kei, Raymond for election as an additional independent non-executive Director at the EGM.

Tam Tak Kei, Raymond, aged 47, holds a Bachelor of Arts Degree in Accounting with Computing from University of Kent at Canterbury, England and is an associate member of the Institute of Chartered Accountants in England and Wales. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Currently, Mr. Tam is the financial controller of an international law firm and has over 20 years of professional accounting experience. He is also an independent non-executive director of Sun Innovation Holdings Limited, whose shares are listed on the Main Board (Stock Code: 547).

Further particulars of Mr. Tam, which are required to be disclosed pursuant to the GEM Listing Rules, are set out in Appendix VII to this circular.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

EMPLOYEES

As at the Latest Practicable Date, the Group had an aggregate of 88 full-time employee, all worked in the PRC. A breakdown of the number of employees of the Group by function is as follows:

Function	As at the Latest Practicable Date
Senior management	4
Business Development Department	3
Engineering Department	4
Management Department	4
Finance Department	4
Information Technology Department	1
Internal Audit Department	1
Administration Department	4
Tianjin Branch Office	44
Jining Branch	19
Total	88

The staff cost (including Directors and Supervisors' emoluments) was approximately RMB3.2 million, RMB3.8 million and RMB2.5 million for the two years ended 31 December 2009 and the six months ended 30 June 2010, respectively. Emoluments of employees were determined with reference to the common practice of the industry as well as individual performance. In addition to basic salaries, the Group also paid discretionary bonus to eligible employees subject to the Group's operating results and individual performance. The Group also made contributions to medical welfare and retirement funds as well as provided other benefits to all employees.

STAFF RELATIONS

The Group maintains good relations with its employees and has not experienced any major difficulty in the recruitment or retention of employees. There were no material interruptions to its operations due to labour disputes or strikes in the past.

RETIREMENT SCHEMES

The Group operates retirement benefits scheme for its employees in the PRC, details of which are set out in note 35 to the accountants' report of the Group set out in Appendix I. The Group has complied with the applicable PRC regulations on social insurance.

REMUNERATION POLICY FOR DIRECTORS

Currently, the remuneration policy of the Company for Directors and Supervisors is to maintain fair and competitive packages under a formal and transparent procedure to attract and retain Directors and Supervisors.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

The aggregate remuneration paid to the Directors and Supervisors were RMB856,000, RMB883,000 and RMB440,000 for the two years ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Under the existing arrangement currently in force, the aggregate remuneration payable to and benefits-in-kind receivable by the Directors (including the three independent non-executive Directors) and Supervisors, in respect of the year ending 31 December 2010 are estimated to be approximately RMB500,000 and RMB383,000, respectively.

The remuneration of Directors (including the independent non-executive Directors) is determined by the remuneration committee of the Company, with reference to the Directors' respective qualifications and experience.

AUDIT COMMITTEE

The Company established its audit committee (the "Audit Committee") on 3 December 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules.

The primary duties of the Audit Committee are, among other things, to (i) serve as a focal point for communication between Directors, the external auditors and internal auditors, (ii) to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system, and (iii) to review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor.

The Audit Committee is currently chaired by Professor Zhang Yu Li, and its other members are Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric. All of the members of the Audit Committee are independent non-executive Directors, and none of them is a former partner of the external auditor of the Group.

REMUNERATION COMMITTEE

The Company established its remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in appendix 15 to the GEM Listing Rules.

The primary duties of the Remuneration Committee are, among other things, to formulate remuneration policy and make recommendations on the annual remuneration review, and to determine the remuneration of executive Directors and members of the senior management.

Currently, the Remuneration Committee is chaired by Mr. Sun Bo Quan, a non-executive Director, and Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric, independent non-executive Directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company does not have any nomination committee. The Board as a whole is responsible for the procedure of approving the appointment of its members and for nominating appropriate person for election by Shareholders at the annual general meeting or extraordinary general meeting, either to fill a casual vacancy or as an addition to the existing directors.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

COMPLIANCE OFFICER

Mr. Jin Jian Ping is the compliance officer of the Company. His biographical details are set out above under the paragraph headed “Directors” in this section.

COMPLIANCE ADVISER

The Company has appointed Kingsway as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. The terms of the appointment will commence on the date of completion of the Proposed Assets Transfer and will end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of completion of the Proposed Assets Transfer.

Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise the Company in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases; and
- (3) where the Stock Exchange makes an inquiry of the Company under Rule 17.11 of the GEM Listing Rules.

SHARE CAPITAL

This section provides certain information regarding the share capital of the Company following the completion of the Proposed Assets Transfer:—

BEFORE COMPLETION OF THE PROPOSED ASSETS TRANSFER

As at the Latest Practicable Date, the registered share capital of the Company is RMB114,960,000. Particulars of the shareholdings are as follows:—

<i>Registered share capital:</i>		<i>RMB</i>
649,540,000	Domestic Shares of RMB0.1 each	64,954,000
<u>500,060,000</u>	H Shares of RMB 0.1 each	<u>50,006,000</u>
<u>1,149,600,000</u>	Shares	<u>114,960,000</u>

UPON COMPLETION OF THE PROPOSED ASSETS TRANSFER

Immediately following the completion of the Proposed Assets Transfer, the share capital of the Company will be RMB183,930,780. Particulars of the shareholdings will be as follows:—

<i>Registered share capital:</i>		<i>RMB</i>
649,540,000	Domestic Shares in issue as at the date of this circular	64,954,000
689,707,800	Domestic Shares to be issued as Consideration Shares	68,970,780
<u>500,060,000</u>	H Shares	<u>50,006,000</u>
<u>1,839,307,800</u>	Shares	<u>183,930,780</u>

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of completion of the Proposed Assets Transfer and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

SHARE CAPITAL

LISTING OF H SHARES ON GEM

The H Shares of the Company are listed on GEM. No part of the Company's share or loan capital is listed or dealt with on the Main Board or any other stock exchange. The Shareholders at an extraordinary general meeting and separate class meetings held on 29 October 2008 approved the special resolutions, among other things, on the making of the relevant applications for the proposed transfer of listing of H Shares from GEM to the Main Board. As advised by the PRC Legal Adviser, the aforesaid shareholders' approval remains valid. On 11 December 2009, the listing application for the transfer of listing of H Shares from GEM to the Main Board has been submitted to the CSRC and the said listing application has been approved by the CSRC on 10 November 2010. As advised by the PRC Legal Adviser, the aforesaid approval by the CSRC will remain valid upon the completion of the Proposed Assets Transfer and the change in shareholding of Tianjin Gas in the Company as a result of the issue and allotment of the Consideration Shares immediately after the completion of the Proposed Assets Transfer. As at the Latest Practicable Date, the Company has not yet filed the application to the Stock Exchange for the transfer of listing of its H Shares from GEM to the Main Board. Save as aforesaid, at present, the Company is not seeking or proposing to seek listing of or permission to deal in any part of its share or loan capital on any other stock exchanges.

Registration of Subscription, Purchase and Transfer of H Shares

The Company has instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless such holder delivers to the H Share Registrar a signed form in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with the Company and each of the Shareholders, and the Company agrees with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- (b) agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and officer agrees with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive;
- (c) agrees with the Company and each Shareholder, that the H Shares are freely transferable by the holder thereof;
- (d) authorises the Company to enter into a contract on its behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to Shareholders stipulated in the Articles of Association.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

REVENUE MODEL

The Group is principally engaged in the operation and management of gas pipeline infrastructure and the sales and distribution of piped gas in the PRC. The Group's other operating activities include the sale of gas appliances, investment in gas supply projects and the provision of other services in connection with gas supply.

The Group's revenue profile consists of the following four revenue streams:

- **Gas connection fee**, one-off fee received from either property developers, individual existing residential units or commercial/industrial enterprises for providing piped gas connection, accounted for around 32.2% and 19.9% of the Group's total revenue for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.
- **Revenue from sales of gas**, the gas usage fee paid by the end users for consumption of gas, the Group's major revenue contributor since 2009. As the total number of users who are connected to the Group's pipelines continue to increase over time, the revenue from sales of gas to such users is expected to increase over time. As a result, it is expected that the revenue from sales of gas will continue to account for a significant portion of the Group's total revenue in the future.
- **Revenue from sales of appliances** currently accounts for an insignificant portion of the Group's total revenue of approximately 1%. This revenue stream is not expected to be a significant contributor to the Group's total revenue.
- **Revenue from provision of gas transportation services**, the gas transportation fee paid by Tianjin Gas for transmission of natural gas to end users and gas operators via the Gangnan Pipeline owned and managed by the Company. The Group commenced the provision of gas transportation services in 2009, and revenue in this connection was recognised in for the year ended 31 December 2009. The revenue from gas transportation accounted for approximately 0.8% and 1.5% of the Group's total revenue for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.

Set out is a breakdown of revenue of the Group by services categories for the three years ended 31 December 2009 and six months ended 30 June 2009 and 30 June 2010:

	For the year ended 31 December						For the six months ended			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Gas connection	137,477	76.9	135,059	62.2	102,399	32.2	32,219	23.6	32,992	19.9
Sales of piped gas	35,200	19.7	74,381	34.2	206,219	64.9	99,759	73.0	125,459	75.7
Gas transportation	—	—	—	—	2,479	0.8	—	—	2,550	1.5
Sales of gas appliances	386	0.2	1,279	0.6	1,071	0.3	14	0.0	1,620	1.0
Construction of gas pipeline infrastructure (Note)	5,808	3.2	6,450	3.0	5,824	1.8	4,691	3.4	3,112	1.9
Total	178,871	100.0	217,169	100.0	317,992	100.0	136,683	100.0	165,733	100.0

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Note: The Group as a gas supply operator has access to operate the gas pipeline infrastructure to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement contract and also carry out gas connection work to the public. The Group has applied HK(IFRIC)-Int 12 “Service Concession Arrangements” which is effective for annual periods beginning on or after 1 January 2008. HK(IFRIC)-Int 12 provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services. In accordance with HK (IFRIC)-Int 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. This interpretation requires that the infrastructure that the Group acquired from a third party for the purpose of the public service arrangement is recognised as an intangible asset in accordance with HKAS 38 “Intangible Assets” if the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the services in relation to the operation of the gas pipeline infrastructure in accordance with HKAS 18 “Revenue”. The above accounting treatment will also be applied to the Enlarged Group upon the completion of the Proposed Assets Transfer.

For the two years ended 31 December 2008, revenue from gas connection contributed to the majority of the total revenue of the Group, accounted for approximately 76.9% and 62.2%, respectively, of the total revenue. For the year ended 31 December 2009 and for the six months ended 30 June 2010, revenue from sales of piped gas became the major source of revenue to the Group, which accounted for 64.9% and 75.7% respectively of the total revenue of the Group during the periods.

- sales of piped gas

The sales of piped gas revenue has been increasing for the three years ended 31 December 2009, as the Group expanded its Operational Locations by acquiring pipeline assets in other districts in the Tianjin City. For the year ended 31 December 2007, sales of piped gas increased by 149.0%, mainly due to the increase in total gas usage after completion of the acquisition of Xiqing Assets I in October 2006. For the year ended 31 December 2008, sales of piped gas increased by 111.3%, because the Group completed the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008, and the gas usage in these newly acquired districts was much higher than the Group’s areas under operation prior to the acquisition. For the year ended 31 December 2009, the sales of piped gas increased by 177.2% compared to the year of 2008, as the full-year revenue from the Hangu Assets, Ninghe Assets and Xiqing Assets II was recognised in 2009. For the six months ended 30 June 2010, the sales of piped gas increased by 25.8% compared to the same period in 2009 due to the increase in sales of piped gas of Hangu Assets, Ninghe Assets and Xiqing Assets II during the period.

Overall, the revenue from sales of piped gas has become a more significant revenue stream to the Group, accounted for approximately 19.7%, 34.2%, 64.9% and 75.7% of the total revenue of the Group, respectively, for the three years ended 31 December 2009 and the six months ended 30 June 2010.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

- gas connection

The revenue from gas connection is an one-off income received from customers for providing piped gas connection, which depends on the size of the relevant property projects, the progress of urban development and property development in Tianjin City. For the year ended 31 December 2007, the revenue from gas connection increased by 73.7%, because there were more gas connection projects in Tianjin City in the year. For the year ended 31 December 2008, the revenue from gas connection declined slightly by 1.8%, as there were delays in gas connection projects which were affected by the slowdown of general economic activities. For the year ended 31 December 2009, the revenue from gas connection decreased by 24.2% compared to the year of 2008, mainly due to delay of new projects in 2009 and further delay of certain projects in 2008. For the six months ended 30 June 2010, the revenue from gas connection slightly increased by 2.4% compared with the corresponding period in 2009. However, the revenue from gas connection only accounted for approximately 19.9% of the total revenue of the Group for the six months ended 30 June 2010, compared with approximately 23.6% of the total revenue of the Group for the corresponding period in 2009. The Directors are of the view that, in general, gas connection revenue depends on the progress of urban development and property development in the Operational Locations, which is different from district to district and different from year to year. The Directors expect that once the general economy recovers, there will be more gas connection projects and the gas connection revenue will also increase.

Gross Profit Margin

The following table sets out the gross profit margin (*Note*) by each revenue stream of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Gas connection	75.7	68.1	71.6	77.4	71.8
Construction of gas pipeline infrastructure	9.1	9.1	9.1	8.5	8.2
Sales of piped gas	-0.4	5.9	10.9	9.9	11.8
Gas transportation	—	—	42.3	—	50.0
Sales of gas appliances	22.8	-1.6	22.4	42.9	19.3
Overall	59.1	49.4	30.1	25.8	24.4

Note:

The gross profit margin by revenue for the Group is calculated as the segment profit before tax divided by the segment revenue from external customers. The consolidated segment profit by revenue may be different from the overall gross profit of the Group because the segment profit before tax does not take into account of unallocated depreciation and expenses and the adjustment of bad debts.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the three years ended 31 December 2009 and the six months ended 30 June 2010, the overall gross profit margin of the Group was 59.1%, 49.4%, 30.1% and 24.4%, respectively. The gas connection revenue enjoyed the highest gross profit margin among the various revenue streams of the Group, and as its proportion to total revenue declined in the Track Record Period, the overall gross profit margin of the Group also declined. For the year ended 31 December 2009 and the six months ended 30 June 2010, the sales of piped gas became the major source of revenue to the Group, resulting in a more evident decline in the overall gross profit margin of the Group when compared to the year ended 31 December 2008 and the six months ended 30 June 2009, respectively.

Average Gas Sales Per User

The following table sets out the unaudited average gas sales for each type of users of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Domestic Users (per user)	174.8	150.6	299	158.2	159.2
Industrial and Commercial Users (per user)	253,607.5	288,509.3	798,907.5	392,624.4	482,702.6

As discussed under “sales of gas piped gas” above, the gas sales revenue of the Group has been in an increasing trend for the three years ended 31 December 2009 and the six months ended 30 June 2010, mainly driven by the completion of the acquisition of Hangu Assets, Nignhe Assets and Xiqing Assets II in November 2008. As noted in the table above, the average gas sales per Industrial and Commercial User of the Group has been increasing for the three years ended 31 December 2009 and the six months ended 30 June 2010 accordingly. While the growth effect from acquisition was mostly recognised in the year ended 31 December 2009, for the six months ended 30 June 2010, the average gas sales per Industrial and Commercial Users continued to increased by 22.9% as compared to the corresponding period in the previous year as the total gas sales to Industrial and Commercial Users increased by approximately 29.1%. Overall, the Directors consider that the increase in average gas sales per Industrial and Commercial User was due to the increase in gas usage by such users, however, every year, the gas usage of each Industrial and Commercial User may vary depending on its nature of business and its respective business development, and as such the average gas sales per Industrial and Commercial Users varied.

As for average gas sales per Domestic User of the Group, there is a decrease in the average gas sales per Domestic User for the year ended 31 December 2008 compared with 2007. It was mainly because when calculating the average gas sales per user, only one month of revenue was recognised for the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008 but all users as of the end of the year in relation to those acquired assets were included in the number of Domestic users. The average gas sales per Domestic User of the Group for the year ended 31 December 2009

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

was higher than that of 2008, mainly because the full-year revenue generated from the Hangu Assets, Ninghe Assets and Xiqing Assets II, which were acquired by the Group in November 2008, was recognized in 2009. For the six months ended 30 June 2010, since the growth impact from acquisition was mostly recognised in 2009, the average gas sales per Domestic user was only slightly higher than that of the same period in 2009.

Capital Expenditure

The breakdown of the capital expenditure of the Group for the three years ended 31 December 2009 and for the six months ended 30 June 2010 are set as below:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Construction of gas pipeline infrastructure	258	6,030	165,874 <i>(Note 1)</i>	12,000
Acquisition of assets from Tianjin Gas <i>(Note 2)</i>	—	89,517	—	—
Other capital expenditures <i>(Note 3)</i>	2,285	256	22,041	—
Total	<u>2,543</u>	<u>95,803</u>	<u>187,915</u>	<u>12,000</u>

Notes:

- (1) Representing the capital expenditure for the Gangnan Distribution Project and the Beihuan Pipeline Project.
- (2) Acquisition of assets from Tianjin Gas represents the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008.
- (3) Other capital expenditures consist of capital expenditure for electronic equipment, buildings and transportation equipment.

The estimated capital expenditure for the year ending 31 December 2011 of the Enlarged Group is approximately RMB40.0 million, comprising mainly the capital expenditure for the existing Group, while capital expenditure for the Transferred Assets are estimated to be negligible.

Set out below is the management discussion and analysis of the Group for the three financial years ended 31 December 2009 and the six months ended 30 June 2010:

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 December 2007

Business review

During the year ended 31 December 2007, total revenue represents revenue generated from gas connection contract, construction of gas pipeline infrastructure, the sales of piped gas and the sales of gas appliances.

For the year ended 31 December 2007, the Group's total revenue was approximately RMB178.9 million, representing an increase of approximately RMB85.2 million, or approximately 90.9% as compared to the previous year. The gas connection contract revenue increased by approximately RMB58.3 million to approximately RMB137.5 million because there were more gas connection projects in Tianjin in the year. Sales of piped gas revenue increased by approximately RMB21.1 million to approximately RMB35.2 million which is mainly due to the increase in total gas usage after completion of the acquisition of Xiqing Assets I in October 2006.

The gas connection revenue remained the major source of income of the Group, accounted for approximately 76.9% (2006: 84.5%) of total revenue. On the other hand, the proportion of sales of piped gas revenue has increased from 15.1% to 19.7% of the total revenue (2006: 15.1%).

For the year ended 31 December 2007, the Group recorded gross profit of approximately RMB105.7 million as compared with that of approximately RMB57.1 million in 2006 mainly due to the increase in overall revenue. The gross profit margin was 59.1% for the year ended 31 December 2007, which was comparable to that of 61.0% in 2006 as gas connection revenue remained the major source of revenue of the Group.

During the year ended 31 December 2007, the selling expenses amounted to approximately RMB0.04 million (2006: RMB0.2 million) and the administrative expenses amounted approximately RMB12.8 million (2006: RMB14.5 million) respectively. The administrative expenses mainly included auditors' remuneration, staff costs including directors' and supervisors' remunerations, amortization of prepaid lease payments and allowances for bad and doubtful debts.

The Group's net profit attributable to owner of the Company for the year ended 31 December 2007 amounted to approximately RMB62.3 million, significantly increased by approximately 119.3% as compared with the previous year. Such increase was mainly attributable to the increase in total revenue. The Group's net profit margin for the year ended 31 December 2007 was approximately 34.8% (2006: 30.3%).

Assets and liabilities

As at 31 December 2007, total assets of the Group amounted to approximately RMB370.4 million (2006: RMB281.7 million) while total liabilities were approximately RMB92.9 million (2006: RMB66.5 million). The net asset value was approximately RMB277.5 million (2006: RMB215.2 million). The increase in net asset value was mainly due to the increase in the bills and trade receivables of approximately RMB35.5 million which was in line with the increase in total revenue during the year and the increase in the bank balances and cash of approximately RMB38.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities or guarantees.

Capital commitments

As at 31 December 2007, the Group had approximately nil (2006: 6.5 million) capital expenditure in respect of acquisition of property, plant and equipment that was contracted for but not provided in the consolidated financial statements; and approximately RMB29.2 million (2006: 35.0 million) capital expenditure in respect of acquisition of property, plant and equipment that was authorised but not contracted for.

Foreign exchange exposure

The Group mostly used Renminbi in its operation and it had not used any financial instrument for currency hedging purposes, as it considered that its exposure to fluctuations in exchange rates is only minimal.

For the year ended 31 December 2008

Business review

During the year ended 31 December 2008, total revenue represents revenue generated from gas connection, construction of gas pipeline infrastructure, the sales of piped gas and the sales of gas appliances.

For the year ended 31 December 2008, the Group reported a total revenue of approximately RMB217.2 million, representing an increase of approximately 21.4% as compared with the previous year. Increase in total revenue was mainly due to the increase in the revenue of sales of piped gas by RMB39.2 million. The gas connection revenue was still the major source of total revenue of the Group, which accounted for approximately 62.2% (2007: 76.9%) of the Group's revenue for the year ended 31 December 2008, but there was a slight decrease of 1.8% in gas connection revenue from approximately RMB137.5 million for the previous year to approximately RMB135.1 million for the year ended 31 December 2008 as there were delays in gas connection projects which were affected by the slowdown of general economic activities.

On the other hand, the sales of piped gas revenue has been increasing from year to year, from approximately RMB35.2 million in 2007 to approximately RMB74.4 million for the year ended 31 December 2008, representing an increase of approximately 111.3% because the Group completed the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008, and the gas usage in these newly acquired districts was much higher than the Group's areas under operation prior to the acquisition. The sales of piped gas also accounted for a bigger proportion of the total revenue, from 19.7% in 2007 to 34.2% in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 December 2008, the Group recorded gross profit of approximately RMB107.3 million as compared with that of approximately RMB105.7 million in 2007. The gross profit margin was 49.4% for the year ended 31 December 2008 (2007: 59.1%). Decrease in the Group's gross profit margin in 2008 was mainly due to the increase in revenue generated from the sales of piped gas, which has a lower gross profit margin than gas connection. With the continuing increase in the sales of piped gas which has lower margin than gas connection revenue, the Group's gross profit margin decreased accordingly.

During the year ended 31 December 2008, the selling expenses amounted to approximately RMB0.06 million (2007: RMB0.04 million) and the administrative expenses amounted to approximately RMB33.7 million (2007: RMB12.8 million) respectively. Increase in administrative expenses was mainly due to the increase in allowances for bad and doubtful debts to approximately RMB11.6 million as compared with the same of approximately RMB2.7 million in 2007 the increase in foreign exchange losses of approximately RMB6.3 million, the increase in profession fees of approximately RMB2.2 million and the increase in travelling expenses of approximately RMB2.1 million in 2008 as compared with that of 2007. The administrative expenses mainly included foreign exchange losses, travelling expenses, auditors' remuneration, staff costs including directors' and supervisors' remunerations, amortization of prepaid lease payments and allowances for bad and doubtful debts.

The Group's net profit attributable to the owners of the Company for the year 2008 amounted to approximately RMB60.5 million, representing a slight decrease of approximately 3.0% as compared with the previous year.

Assets and liabilities

As at 31 December 2008, total assets of the Group amounted to approximately RMB673.5 million (2007: RMB370.4 million) while total liabilities were approximately RMB84.1 million (2007: RMB92.9 million). The net asset value was approximately RMB589.4 million (2007: RMB277.5 million). The increase in the net asset value was mainly due to the increase in bank balance and cash from the issue of new H shares (details of which have been stated in the announcement dated 29 February 2008 of the Company) and the increase in intangible assets, which represented the right for distribution of gas.

Contingent liabilities

As at 31 December 2008, the Group had no material contingent liabilities or guarantees.

Capital commitments

As at 31 December 2008, the Group had a commitment in relation to a capital expenditure authorized but not contracted for in respect of acquisition of property, plant and equipment amounting to RMB23.4 million (2007: RMB29.2 million).

In addition, on 6 October 2008, the Company entered into an entrusted agreement with Tianjin Gas. The construction fees of the projects will be approximately RMB218.0 million. The Company undertook to pay Tianjin Gas entrustment fees not exceeding approximately RMB6.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Foreign exchange exposure

For the year ended 31 December 2008, the Group had net foreign exchange losses of approximately RMB6.3 million (2007: nil). Starting from the year of 2008, the Company has foreign currency bank balances, which exposed the Group to foreign currency risk. Approximately 41%, amounting to HK\$113.9 million, of the Group's bank balances were denominated in Hong Kong dollar as at 31 December 2008.

The Group mostly used Renminbi, functional currency of the Company, in its operation and it had not used any financial instrument for currency hedging purposes, as it considered that its exposure to fluctuations in exchange rates is only minimal. However, the management will keep monitoring the foreign exchange exposure and will enter into foreign exchange forward contracts to mitigate the foreign currency risk, if necessary.

For the year ended 31 December 2009

Business review

During the year ended 31 December 2009, total revenue represents revenue generated from gas connection, sales of piped gas, construction of gas pipeline infrastructure, gas transportation and sales of gas appliances.

For the year ended 31 December 2009, the Group reported total revenue of approximately RMB318.0 million, representing an increase of approximately 46.4% as compared with the previous year. Increase in total revenue was mainly due to the significant increase in the revenue of sales of piped gas of approximately RMB131.8 million due to the completion of the acquisition of Hangu Assets, Ninghe Xiqing Assets II in November 2008. At the same time, there was a decrease of 24.2% in gas connection revenue from approximately RMB135.1 million for the previous year to approximately RMB102.4 million for the year ended 31 December 2009, mainly due to delay of new projects in 2009 and further delay of certain projects in 2008.

The sales of piped gas revenue has been increasing from year to year, from approximately RMB74.4 million in 2008 to approximately RMB206.2 million for the year ended 31 December 2008, representing an increase of approximately 177.2%. After the Group completed the acquisition of Hangu Assets, Ninghe Assets and Xiqing Assets II in November 2008, the revenue from sales of piped gas in these newly acquired districts contributed substantially to the total revenue from sales of piped gas as the gas usage in these districts was much higher than the Group's areas under operation prior to the acquisition. The sales of piped gas also accounted for a bigger proportion of the total revenue, from 34.2% in 2008 to 64.9% in 2009, and became the major source of revenue to the Group in 2009. On the other hand, the proportion of revenue from gas connection has dropped from 62.2% in 2008 to 32.2% in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 December 2009, the Group recorded gross profit of approximately RMB95.7 million as compared with that of approximately RMB107.3 million in 2008. The gross profit margin was 30.1% for the year ended 31 December 2009 (2008: 49.4%). Decrease in the Group's gross profit margin in 2009 was mainly due to the increase in revenue generated from the sales of piped gas, which has a lower gross profit margin than gas connection. With the continuing increase in the sales of piped gas which has lower margin than gas connection revenue, the Group's gross profit margin decreased accordingly.

During the year ended 31 December 2009, the selling expenses amounted to approximately RMB0.03 million (2008: RMB0.06 million) and the administrative expenses amounted to approximately RMB14.0 million (2008: RMB33.7 million) respectively. Despite the increase in total revenue, there was a decrease in administrative expenses compared to the previous year, mainly due to the decrease in allowances for bad and doubtful debts to nil as compared with the same of approximately RMB11.6 million in 2008. The administrative expenses mainly included auditors' remuneration, staff costs including directors' and supervisors' remunerations, amortization of prepaid lease payments, travelling expense and tax expenses.

The Group's net profit attributable to the owners of the Company for the year 2009 amounted to approximately RMB66.4 million, representing an increase of approximately 9.7% as compared with the previous year.

Assets and liabilities

As at 31 December 2009, total assets of the Group amounted to approximately RMB735.9 million (2008: RMB673.5 million) while total liabilities were approximately RMB97.4 million (2008: RMB84.1 million). The net asset value was approximately RMB638.6 million (2008: RMB589.4 million). The increase in the net asset value was mainly due to the increase in property, plant and equipment (which is mainly attributable from the addition in cost of construction in progress for the Entrusted Projects) by approximately RMB169.0 million, which is offset by the decrease in trade receivables of approximately RMB47.1 million and bank balances and cash of approximately RMB57.8 million as compared to that of the year of 2008. The decrease in bank balances and cash is mainly due to the acquisition of property, plant and equipment (mainly construction in progress for the Entrusted Projects) during year 2009.

Contingent liabilities

As at 31 December 2009, the Group had no material contingent liabilities or guarantees.

Capital commitments

As at 31 December 2009, the Group had a commitment in relation to a capital expenditure authorized but not contracted for in respect of acquisition of property, plant and equipment amounting to RMB18.4 million (2008: RMB23.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas the Transferred Assets at consideration of approximately RMB620,737,000. The Company will allot and issue new shares to Tianjin Gas to satisfy the consideration. The Proposed Assets Transfer has not been completed up to the date the consolidated financial statements of the year ended 31 December 2009 are authorised for issue.

Pursuant to the Entrusted Construction Agreement dated 6 October 2008 entered between the Company and Tianjin Gas, in relation to the entrustment of Tianjin Gas for the construction of pipelines projects in Tianjin, with total consideration not exceeding RMB224,500,700 (include entrustment fee RMB6,538,700), the Group has paid construction fee amounting to RMB162,641,000 to Tianjin Gas during the year ended 31 December 2009. Therefore, the remaining construction fee amounted to be less than RMB61,859,700.

Foreign exchange exposure

For the year ended 31 December 2009, the Group had net foreign exchange losses of approximately RMB0.3 million (2008: RMB6.3 million).

The Group mostly used Renminbi, functional currency of the Company, in its operation and it had not used any financial instrument for currency hedging purposes, as it considered that its exposure to fluctuations in exchange rates is only minimal.

For the six months ended 30 June 2010

Business review

During the six months ended 30 June 2010, total revenue represents revenue generated from gas connection, sales of piped gas, construction of gas pipeline infrastructure, gas transportation and sales of gas appliances.

For the six months ended 30 June 2010, the Group reported total revenue of approximately RMB165.7 million, representing an increase of approximately 21.3% as compared with the corresponding period in previous year. Increase in total revenue was mainly due to the increase in gas sales revenue as both the gas sales volume to domestic users and industrial and commercial users increased, and the gas sales volume to the latter increased to a larger extent. The sales of piped gas revenue has been increasing, from approximately RMB99.8 million for the six months ended 30 June 2009 to approximately RMB125.5 million for the six months ended 30 June 2010, representing an increase of approximately 25.8%. The sales of piped gas also accounted for a bigger proportion of the total revenue, from 73.0% for the six months ended 30 June 2009 to 75.7% for the six months ended 30 June 2010, and remained the major source of revenue to the Group in 2010. On the other hand, the proportion of revenue from gas connection has dropped from 23.6% for the six months ended 30 June 2009 to 19.9% for the six months ended 30 June 2010. There was a slight increase of 2.4% in gas connection revenue of approximately RMB 33.0 million for the six months ended 30 June 2010, compared with RMB32.2 million for the same period in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Since the second half of 2009, gas transportation income became a new source of income to the Group, and revenue of approximately RMB2.6 million was recorded for the six months ended 30 June 2010.

For the six months ended 30 June 2010, the Group recorded gross profit of approximately RMB40.3 million as compared with that of approximately RMB35.2 million for the six months ended 30 June 2009. The gross profit margin was 24.4% for the six months ended 30 June 2010, as compared with a gross profit margin of 25.8% for the six months ended 30 June 2009. Decrease in the Group's gross profit margin for the six months ended 30 June 2010 was mainly due to the increase in revenue generated from the sales of piped gas, which has a lower gross profit margin than gas connection. With the continuing increase in the sales of piped gas which has lower margin than gas connection revenue, the Group's gross profit margin decreased accordingly.

During the six months ended 30 June 2010, the selling expenses amounted to approximately RMB13,000, which was approximately the same as the selling expenses for the six months ended 30 June 2009. The administrative expenses for the six months ended 30 June 2010 amounted to approximately RMB7.3 million, which was lower than the administrative expenses of approximately RMB7.7 million for the six months ended 30 June 2009.

The Group's net profit attributable to the owners of the Company for the six months ended amounted to approximately RMB26.7 million, representing an increase of approximately 13.2% as compared with the corresponding period in the previous year.

Assets and liabilities

As at 30 June 2010, total assets of the Group amounted to approximately RMB761.8 million (31 December 2009: RMB735.9 million) while total liabilities were approximately RMB96.5 million (31 December 2009: RMB97.4 million). The net asset value was approximately RMB665.3 million (31 December 2009: RMB638.6 million). The increase in the net asset value was mainly due to the increase in the amount due from Tianjin Gas, which was the amount of gas fees from the users in certain Operational Locations collected by Tianjin Gas net of the gas purchase cost of the Group from Tianjin Gas. Bank balances and cash was slightly decreased from RMB187.1 million as at 31 December 2009 to RMB184.8 million as at 30 June 2010.

Contingent liabilities

As at 30 June 2010, the Group had no material contingent liabilities or guarantees.

Capital commitments

As at 30 June 2010, the Group had a commitment in relation to a capital expenditure authorized but not contracted for in respect of acquisition of property, plant and equipment amounting to RMB15.9 million (31 December 2009: RMB18.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas the Transferred Assets at consideration of approximately RMB620,737,000. The Company will allot and issue new shares to Tianjin Gas to satisfy the consideration. The Proposed Assets Transfer has not been completed up to the date the consolidated financial statements of the six months ended 30 June 2010 are authorised for issue.

Pursuant to the Entrusted Construction Agreement dated 6 October 2008 entered between the Company and Tianjin Gas, in relation to the entrustment of Tianjin Gas for the construction of pipelines projects in Tianjin, with total consideration not exceeding RMB224,500,700 (include entrustment fee RMB6,538,700), the Group has paid construction fee amounting to RMB12,000,000 recognised as construction in progress of property, plant and equipment (six months ended 30 June 2009: 130,777,000) to Tianjin Gas during the six months ended 30 June 2010.

Foreign exchange exposure

The Group mostly used Renminbi, functional currency of the Company, in its operation and it had not used any financial instrument for currency hedging purposes, as it considered that its exposure to fluctuations in exchange rates is only minimal.

Significant investments

The Group had investments in equity securities listed in the PRC of approximately RMB1.4 million, RMB1.6 million and RMB1.8 million for the years ended 31 December 2008, 31 December 2009, and for the six months ended 30 June 2010, respectively.

Material acquisitions and disposals

On 6 June 2008, the Company entered into the Hangu, Ninghe and Xiqing Assets Transfer Agreement with Tianjin Gas pursuant to which the Company agreed to acquire the Hangu Assets, Ninghe Assets and Xiqing Assets II at a consideration of RMB89,516,500 to expand its business into parts of districts such as Xiqing District, Hangu District and Ninghe District of Tianjin City, as well as to boost the Company's users number and sales volume of natural gas.

For the year ended 31 December 2008, the Group established a 51% non wholly-owned subsidiary, Guizhou Mining in the PRC which is engaged in mining business. In December 2008, the Group disposed of 2% equity interest in Guizhou Mining to a minority shareholder of Guizhou Mining at a consideration of RMB320,000. Subsequent to this disposal, the Group's interest in Guizhou Mining was reduced from 51% to 49% and Guizhou Mining then became an associate of the Group.

On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas the Transferred Assets at consideration of approximately RMB620,737,000. The Company will allot and issue new shares to Tianjin Gas to satisfy the consideration. The completion of the Assets Acquisition Agreement is subject to conditions, inter alia, approval from the Stock Exchange and approval by the Independent Shareholders. As of the Latest Practicable Date, the Assets Acquisition Agreement has not been completed yet.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Save as disclosed above, the Group had no material acquisitions and disposals of subsidiaries and associates for the three years ended 31 December 2009 and six months ended 30 June 2010.

Employees and emoluments policies

As at 31 December 2007, 31 December 2008 and 31 December 2009 and 30 June 2010, the Group had a workforce of 74, 80, 82 and 88 full-time employees respectively, among which approximately 99% were working in China. For the three years ended 31 December 2009 and six months ended 30 June 2010, staff costs including directors' and supervisors' remuneration were approximately RMB2.7 million, RMB3.2 million, RMB3.8 million and RMB2.5 million, respectively.

Emoluments of employees were determined pursuant to the common practice of the industry as well as individual performance. In addition to regular salaries, the Group also paid discretionary bonus to eligible employees subject to the Group's operating results and individual performance. The Group also made contributions to medical welfare and retirement funds as well as provided other benefits to all employees.

Charges on Group assets

For the three years ended 31 December 2009 and six months ended 30 June 2010, no asset of the Group was charged.

Liquidity and financial resources

Cashflow

During the Track Record Period, the Group financed its business operation and capital expenditure from internal resources, bank borrowings and issue of new shares. The following table presents the selected cash flow information from the cashflow statements of the Group for the three years ended 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010:

	year ended 31 December			six months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash from operating activities	41,114	12,960	127,149	46,815	10,251
Net cash used in investing activities	(2,693)	(97,361)	(187,423)	(145,098)	(12,501)
Net cash from financing activities	—	259,305	2,499	10,000	—
Net increase (decrease) in cash and cash equivalents	38,421	174,904	(57,775)	(88,283)	(2,250)

Cashflow from Operating Activities

For the year ended 31 December 2007, the Group recorded net cash inflow from operating activities of approximately RMB41.1 million. The cashflow from operating activities is mainly attributable to the net profit before tax of RMB94.3 million, and is partially offset mainly by the increase in working capital of approximately RMB47.1 million and the amount of tax paid of approximately RMB16.7 million in the year.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 December 2008, the Group continued to generate positive cashflow from operating activities, recorded a net cash from operating activities of approximately RMB13.0 million. The cashflow from operating activities is mainly attributable to the net profit before tax of approximately RMB81.7 million and partially offset by the increase in working capital of RMB51.1 million, which is mainly due to the increase in trade receivables of RMB36.0 million and the amount of tax paid of RMB34.8 million. The amount of increase in working capital and tax paid for the year ended 31 December 2008 were higher than for the year ended 31 December 2007, causing the overall decrease in net cash from operating activities in 2008 when compared to 2007.

For the year ended 31 December 2009, the Group recorded net cash from operating activities of approximately RMB127.1 million. The cashflow from operating activities is mainly attributable by the net profit before tax of approximately RMB88.9 million, together with an additional cash inflow from the decrease in trade receivables of approximately RMB47.1 million.

For the six months ended 30 June 2010, the Group recorded net cash from operating activities of approximately RMB10.3 million, which was lower than the net cash from operating activities of approximately RMB46.8 million for the six months ended 30 June 2009. The lower in cash flow for the six months ended 30 June 2010 is mainly attributable to the increase in amount due from Tianjin Gas of approximately RMB43.9 million as compared to RMB7.6 million for the six months ended 30 June 2009. The amount due from Tianjin Gas relates to the gas fees in certain Operational Locations collected by Tianjin Gas, net of the gas purchase cost of the Group.

Cashflow from Investing Activities

For the year ended 31 December 2007, the Group recorded net cash outflow from investing activities of approximately RMB2.7 million. During the year, the Group purchased property, plant and equipment amounted to approximately RMB 3.1 million.

For the year ended 31 December 2008, the Group had net cash outflow from investing activities of approximately RMB97.4 million. The Group acquired the Hangu Assets, Ninghe Assets, and Xiqing Assets II in 2008 for the consideration of RMB89.5 million, which accounted for the majority of the purchase of intangible assets of approximately RMB83.6 million and purchase of property, plant and equipment of approximately RMB15.2 million.

For the year ended 31 December 2009, the Group recorded net cash outflow from investing activities of approximately RMB187.4 million. During the year, the Group purchased property, plant and equipment (mainly construction in progress for the Entrusted Projects), amounted to a cash outflow of approximately RMB 173.3 million.

For the six months ended 30 June 2010, the Group recorded net cash outflow from investing activities of approximately RMB12.5 million, which was much lower than the net cash outflow from investing activities of approximately RMB145.1 million for the six months ended 30 June 2009. During the six months ended 30 June 2010, year, the Group has paid construction fee amounting to RMB12,000,000 recognised as construction in progress (for the Entrusted Projects) of property, and was much lower than the construction fee of approximately RMB130.8 million paid for the six months ended 30 June 2009.

Cashflow from Financing Activities

For the year ended 31 December 2007, the Group had no net cashflow from financing activities. During the year, the Group repaid a bank loan of approximately RMB40.0 million, which is replaced by a new bank loan of RMB40.0 million. As a result, there was no net effect on cashflow from financing activities in 2007.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 December 2008, the net cashflow from financing activities of the Group was approximately RMB259.3 million. The net cash inflow was mainly attributable to the proceeds of RMB 264.9 million on the issue of 170.1 million H shares at HK\$1.90 per Share in March 2008, which is partly offset by the expenses of RMB13.5 million in connection with the share issue.

For the year ended 31 December 2009, the Group recorded net cash outflow from financing activities of approximately RMB2.5 million. During the year, the Group repaid a bank loan of approximately RMB30.0 million, which is replaced by a new bank loan of RMB40.0 million. In addition, there was a dividend payment of approximately RMB7.5 million during the year.

For the six months ended 30 June 2010, the cash inflow from financing activities net off against the cash outflow from financing activities. During the six months ended 30 June 2010, the Group repaid a bank loan of approximately RMB40.0 million, which is replaced by a new bank loan in the same amount.

BORROWINGS

As of the end of 31 December 2008, 31 December 2009 and 30 June 2010, the Group had unsecured bank loan amounted to RMB30 million, RMB40 million and RMB40 million, which carried interest at a floating rate of 7.47%, 5.31% and 5.31% per annum, respectively. Such bank loans are repayable within one year and classified as current liabilities on the statement of financial position of the Group as of 31 December 2008, 31 December 2009 and 30 June 2010, respectively. Save for such bank loans, the Group did not have other committed borrowing facilities as of 31 December 2008, 31 December 2009 and 30 June 2010.

NET CURRENT ASSETS

As of 30 June 2010, the net current assets of the Group was approximately RMB181.0 million, comprising current assets of approximately RMB276.6 million and current liabilities of approximately RMB95.6 million. The current assets comprised mainly bank balances and cash of approximately RMB184.8 million, trade receivables of approximately RMB41.3 million, and amount due from Tianjin Gas of approximately RMB43.9 million. The current liabilities of the Group comprised bank loans of approximately RMB40 million, trade and other payables of approximately RMB40.5 million, dividend payable of approximately RMB9.7 million, and income tax payable of approximately RMB5.3 million.

As of 31 October 2010, the unaudited net current assets of the Group was approximately RMB195.2 million, comprising unaudited current assets of approximately RMB297.3 million and unaudited current liabilities of approximately RMB102.1 million. The unaudited current assets comprised mainly bank balances and cash of approximately RMB216.9 million, trade receivables of approximately RMB43.9 million and amount due from Tianjin Gas of approximately RMB26.7 million. The unaudited current liabilities of the Group comprised bank loans of approximately RMB40 million, trade and other payables of approximately RMB51.9 million, dividend payable of approximately RMB9.7 million and income tax payable of approximately RMB0.4 million.

INDEBTEDNESS

As at the close of business on 30 November 2010, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding unsecured bank loans of approximately RMB40,000,000.

Except as described above, and apart from normal trade payables in the normal course of business, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30 November 2010.

WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion, after taking into account of the Group's internal financial resources, including cash flows to be generated from the operating activities and available banking facilities, the Enlarged Group will have sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2009 AND FOR THE SIX MONTHS ENDED 30 JUNE 2010

The audited financial statements of the Group for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010, which are audited by Deloitte Touche Tohmatsu, are unqualified.

The following is a summary of the audited consolidated statement of comprehensive income of the Group for each of the three years ended 31 December 2009 as extracted from the annual reports of the Company for the years ended 31 December 2008 and 2009 and for the six months ended 30 June 2010 as extracted from the accountants' report of the Company for the six months ended 30 June 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	178,871	217,169	317,992	165,733
Cost of sales	<u>(73,125)</u>	<u>(109,848)</u>	<u>(222,326)</u>	<u>(125,361)</u>
Gross profit	105,746	107,321	95,666	40,372
Other income (<i>Note(i)</i>)	3,780	10,180	6,816	3,279
Other gains and losses	59	284	1,711	(295)
Selling expenses	(42)	(57)	(27)	(13)
Administrative expenses (<i>Note(ii)</i>)	(12,822)	(33,715)	(14,045)	(7,280)
Share of result of associates	—	(28)	877	834
Finance costs	<u>(2,406)</u>	<u>(2,260)</u>	<u>(2,094)</u>	<u>(1,062)</u>
Profit before tax	94,315	81,725	88,904	35,835
Income tax expense	<u>(31,980)</u>	<u>(21,385)</u>	<u>(22,537)</u>	<u>(9,112)</u>
Profit for the year/period and total comprehensive income for the year/period	<u><u>62,335</u></u>	<u><u>60,340</u></u>	<u><u>66,367</u></u>	<u><u>26,723</u></u>

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year/period and total comprehensive income for the year/period attributable to:				
Owners of the Company	62,335	60,475	66,367	26,723
Non-controlling interests	—	(135)	—	—
	<u>62,335</u>	<u>60,340</u>	<u>66,367</u>	<u>26,723</u>
Dividend per share (<i>Note(iii)</i>) (<i>RMB cents</i>)	—	1.5	—	—
Earnings per share — basic (<i>RMB cents</i>)	<u>6.30</u>	<u>5.40</u>	<u>5.80</u>	<u>2.32</u>

Notes:

- i. Included in other income, there are exceptional items of value added tax refunds of RMB3,424,000, RMB7,476,000, RMB6,324,000 and RMB3,011,000 for the years ended 31 December 2007, 2008, 2009 and six months ended 30 June 2010 respectively.
- ii. Included in administrative expenses, there are exceptional items of allowance for doubtful debts of RMB2,740,000, RMB11,557,000, nil, nil and net foreign exchange losses of RMB2,000, RMB6,281,000, RMB268,000 and nil for the years ended 31 December 2007, 2008, 2009 and six months ended 30 June 2010 respectively.
- iii. The final dividend of RMB17,244,000 or RMB1.5 cents per share has been proposed by the directors in respect of the year ended 31 December 2008. No dividend was proposed in respect of the years ended 31 December 2007 and 2009 and six months ended 30 June 2010.
- iv. Save as disclosed in (i) and (ii) above, there are no material items which are exceptional because of size, nature or incidence.

The following is a summary of the consolidated statement of financial position of the Group as at 31 December 2007, 2008 and 2009 as extracted from the 2008 and 2009 annual reports of the Company and as at 30 June 2010 as extracted from the accountants' report of the Company.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at
	2007	2008	2009	30 June
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Non-current assets				
Property, plant and equipment	52,841	64,985	234,025	243,791
Prepaid lease payments	5,315	5,168	5,021	4,948
Intangible assets	120,233	201,574	207,540	202,971
Contract work in progress	12,241	13,596	3,824	6,623
Interest in associates	—	7,677	17,332	18,166
Prepayment	134	108	162	155
Deferred tax assets	—	2,889	2,889	2,889
Trade receivable	—	—	—	5,651
	<u>190,764</u>	<u>295,997</u>	<u>470,793</u>	<u>485,194</u>
Current assets				
Inventories	978	706	417	660
Trade receivables	91,505	116,750	69,673	41,279
Deposits, prepayment and other receivables	5,931	4,485	3,526	2,085
Amount due from a shareholder	11,230	9,281	830	43,905
Held for trading investments	—	1,422	1,613	1,814
Short-term bank deposits with original maturity more than three months	—	—	2,000	2,000
Bank balances and cash	69,952	244,856	187,081	184,831
	<u>179,596</u>	<u>377,500</u>	<u>265,140</u>	<u>276,574</u>
Current liabilities				
Trade and other payables	35,161	37,274	33,114	40,539
Dividend payable	—	—	9,743	9,743
Income tax payable	26,608	15,992	12,876	5,293
Borrowings	30,000	30,000	40,000	40,000
Amount due to related parties	496	75	825	43
	<u>92,265</u>	<u>83,341</u>	<u>96,558</u>	<u>95,618</u>
Net current assets	<u>87,331</u>	<u>294,159</u>	<u>168,582</u>	<u>180,956</u>
Total assets less current liabilities	<u>278,095</u>	<u>590,156</u>	<u>639,375</u>	<u>666,150</u>
Capital and reserves				
Share capital	99,500	114,960	114,960	114,960
Share premium and reserves	177,999	474,479	523,602	550,325
Equity attributable to owners of the Company	<u>277,499</u>	<u>589,439</u>	<u>638,562</u>	<u>665,285</u>
Non-current liability				
Deferred tax liabilities	596	717	813	865
	<u>596</u>	<u>717</u>	<u>813</u>	<u>865</u>
	<u>278,095</u>	<u>590,156</u>	<u>639,375</u>	<u>666,150</u>

2. ACCOUNTANTS' REPORT

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31 December 2010

The Directors
Tianjin Tianlian Public Utilities Company Limited
Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Tianjin Tianlian Public Utilities Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of two years ended 31 December 2009 and for the six months ended 30 June 2010 (the “Relevant Period”) for inclusion in the circular of the Company to its shareholders dated 31 December 2010 issued in connection with the very substantial acquisition (the “Circular”).

As of each of the respective reporting period ends and as at the date of this report, the Company has interests in the followings:

Subsidiaries	Date of establishment	Place of registration and operation	Registered capital	31.12.2008		Proportion of registered capital held by the Company as at				date of this report		Principal activities
				directly	indirectly	31.12.2009	30.06.2010	directly	indirectly	directly	indirectly	
<i>Subsidiaries</i>												
烏盟乾生天聯公用事業有限責任公司(<i>note i</i>)	2 January 2003	PRC	RMB1,000,000	60%	—	60%	—	60%	—	60%	—	Dormant
天聯投資有限公司	25 January 2008	PRC	RMB20,000,000	100%	—	100%	—	100%	—	100%	—	Investment
<i>Associates</i>												
<i>Directly-owned associate</i>												
天津市濱海燃氣有限公司	19 September 2005	PRC	RMB7,200,000	—	—	30.55%	—	30.55%	—	30.55%	—	Gas supply
<i>Indirectly-owned associate</i>												
貴州津維礦業投資有限公司	23 July 2008	PRC	RMB16,000,000	—	49%	—	49%	—	49%	—	49%	Mining business

Note i: The subsidiary is dormant and has commenced the procedure of deregistration. Up to the date of this report, the above deregistration has not been finished.

All of the above subsidiaries and associates are domestic company with limited liability established in the PRC and adopt 31 December as the financial year end date.

The statutory consolidated financial statements of the Company and its subsidiaries for the years ended 31 December 2009 and 2008 were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC and were audited by Deloitte Touche Tohmatsu CPA Ltd., Tianjin Branch. In addition, consolidated financial statements of the Company and its subsidiaries for the years ended 31 December 2009 and 2008 were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and were audited by us.

The statutory financial statements of the subsidiaries and associates for the two years ended 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to their respective jurisdictions in the PRC. They were audited by HLB (Tianjin) Certified Public Accountants (“五洲松德會計師事務所”), certified public accountant registered in the PRC, except for the followings:

Name	Financial period	Auditors
烏盟乾生天聯公用 事業有限責任公司	For the years ended 31 December 2009 and 2008	None. (<i>note i</i>)
天津市濱海燃氣有限公司	For the year ended 31 December 2009	(天津華翔聯合會計師事務所) Tianjin Huaxiang Certified Public Accountants

Note i: No statutory financial statements for 烏盟乾生天聯公用事業有限責任公司 have been prepared as it is dormant and has commenced the procedure of deregistration.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the six months ended 30 June 2010 in accordance with HKFRSs issued by the HKICPA (the “2010 Financial Statements”). We have carried out an independent audit on the 2010 Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the 2010 Financial Statements and the audited consolidated financial statements of the Group for the years ended 31 December 2009 and 2008 (the “Underlying Financial Statements”) in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Period as set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary by us to the Underlying Financial Statement in preparing our report for inclusion in the Circulars.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Circulars in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated state of affairs of the Group and the Company as of 31 December 2008, 2009 and 30 June 2010 and of the consolidated results and consolidated cash flows of the Group for the Relevant Period.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2009 together with the notes thereon have been extracted from the Group's unaudited consolidated financial information for the same period (the "30 June 2009 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2009 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2009 Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Revenue	7	217,169	317,992	136,683	165,733
Cost of sales		(109,848)	(222,326)	(101,435)	(125,361)
Gross profit		107,321	95,666	35,248	40,372
Other income	9	10,180	6,816	4,155	3,279
Other gains and losses	10	284	1,711	1,276	(295)
Selling expenses		(57)	(27)	(13)	(13)
Administration expenses		(33,715)	(14,045)	(7,651)	(7,280)
Finance costs	11	(2,260)	(2,094)	(1,007)	(1,062)
Share of result of associates		(28)	877	76	834
Profit before tax		81,725	88,904	32,084	35,835
Income tax expense	12	(21,385)	(22,537)	(8,477)	(9,112)
Profit for the year/period and total comprehensive income for the year/period	13	<u>60,340</u>	<u>66,367</u>	<u>23,607</u>	<u>26,723</u>
Profit for the year/period and total comprehensive income for the year/period attributable to:					
Owners of the company		60,475	66,367	23,607	26,723
Non-controlling interests		(135)	—	—	—
		<u>60,340</u>	<u>66,367</u>	<u>23,607</u>	<u>26,723</u>
Earnings per share					
— basic (RMB cents)	15	<u>5.4</u>	<u>5.8</u>	<u>2.05</u>	<u>2.32</u>

STATEMENTS OF FINANCIAL POSITION

	NOTES	The Group			The Company		
		31 December 2008 RMB'000	31 December 2009 RMB'000	30 June 2010 RMB'000	31 December 2008 RMB'000	31 December 2009 RMB'000	30 June 2010 RMB'000
Non-current assets							
Property, plant and equipment	17	64,985	234,025	243,791	64,985	233,982	243,752
Prepaid lease payments	18	5,168	5,021	4,948	5,168	5,021	4,948
Intangible assets	19	201,574	207,540	202,971	201,574	207,540	202,971
Contract work in progress	20	13,596	3,824	6,623	13,596	3,824	6,623
Investments in subsidiaries	21	—	—	—	20,000	20,000	20,000
Interests in associates	22	7,677	17,332	18,166	—	8,778	8,778
Prepayment		108	162	155	108	162	155
Deferred tax assets	32	2,889	2,889	2,889	2,889	2,889	2,889
Trade receivable	24	—	—	5,651	—	—	5,651
		<u>295,997</u>	<u>470,793</u>	<u>485,194</u>	<u>308,320</u>	<u>482,196</u>	<u>495,767</u>
Current assets							
Inventories	23	706	417	660	706	417	660
Trade receivables	24	116,750	69,673	41,279	116,260	69,673	41,279
Deposits, prepayment and other receivables	24	4,485	3,526	2,085	4,485	3,526	2,083
Amount due from a shareholder	25	9,281	830	43,905	9,281	830	43,905
Held for trading investments	26	1,422	1,613	1,814	—	—	—
Short-term bank deposits with original maturity more than three months		—	2,000	2,000	—	—	—
Bank balances and cash	27	244,856	187,081	184,831	234,788	177,924	176,282
		<u>377,500</u>	<u>265,140</u>	<u>276,574</u>	<u>365,520</u>	<u>252,370</u>	<u>264,209</u>
Current liabilities							
Trade and other payables	28	37,274	33,114	40,539	37,187	32,971	40,327
Dividend payable		—	9,743	9,743	—	9,743	9,743
Income tax payable		15,992	12,876	5,293	16,007	12,844	5,293
Borrowings	29	30,000	40,000	40,000	30,000	40,000	40,000
Amount due to a related party	25	75	825	43	75	825	43
		<u>83,341</u>	<u>96,558</u>	<u>95,618</u>	<u>83,269</u>	<u>96,383</u>	<u>95,406</u>
Net current assets		<u>294,159</u>	<u>168,582</u>	<u>180,956</u>	<u>282,251</u>	<u>155,987</u>	<u>168,803</u>
Total assets less current liabilities		<u>590,156</u>	<u>639,375</u>	<u>666,150</u>	<u>590,571</u>	<u>638,183</u>	<u>664,570</u>
Capital and reserves							
Share capital	30	114,960	114,960	114,960	114,960	114,960	114,960
Share premium and reserves	31	474,479	523,602	550,325	474,894	522,410	548,745
Total equity		589,439	638,562	665,285	589,854	637,370	663,705
Non-current liability							
Deferred tax liabilities	32	717	813	865	717	813	865
		<u>590,156</u>	<u>639,375</u>	<u>666,150</u>	<u>590,571</u>	<u>638,183</u>	<u>664,570</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					Attributable to non-controlling interests		Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserves RMB'000 (note i)	Enterprise expansion fund RMB'000 (note i)	Accumulated profits RMB'000	Total RMB'000	Total RMB'000	
At 1 January 2008	99,500	31,667	10,837	—	135,495	277,499	—	277,499
Profit and total comprehensive income for the year	—	—	—	—	60,475	60,475	(135)	60,340
Capital contributed from non-controlling interests of a subsidiary	—	—	—	—	—	—	7,840	7,840
Released on disposal of a subsidiary	—	—	—	—	—	—	(7,705)	(7,705)
Issue of H Shares (note ii)	15,460	249,464	—	—	—	264,924	—	264,924
Shares issue expenses	—	(13,459)	—	—	—	(13,459)	—	(13,459)
Appropriation	—	—	6,143	3,071	(9,214)	—	—	—
At 31 December 2008	114,960	267,672	16,980	3,071	186,756	589,439	—	589,439
Profit and total comprehensive income for the year	—	—	—	—	66,367	66,367	—	66,367
Dividends recognised as distribution (note 14)	—	—	—	—	(17,244)	(17,244)	—	(17,244)
Appropriation	—	—	6,032	3,016	(9,048)	—	—	—
At 31 December 2009	114,960	267,672	23,012	6,087	226,831	638,562	—	638,562
Profit for the period and total comprehensive income for the period	—	—	—	—	26,723	26,723	—	26,723
Appropriation	—	—	6,628	3,314	(9,942)	—	—	—
At 30 June 2010	114,960	267,672	29,640	9,401	243,612	665,285	—	665,285
At 1 January 2009	114,960	267,672	16,980	3,071	186,756	589,439	—	589,439
Profit and total comprehensive income for the period	—	—	—	—	23,607	23,607	—	23,607
Dividends recognised as distribution (note 14)	—	—	—	—	(17,244)	(17,244)	—	(17,244)
Appropriation	—	—	6,032	3,016	(9,048)	—	—	—
At 30 June 2009 (unaudited)	114,960	267,672	23,012	6,087	184,071	595,802	—	595,802

Notes:

(i) Basis of appropriations of reserves

Prior to August 2007, each of the Company's and its subsidiaries' Articles of Association requires the appropriation of 10% its profit after tax determined under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the share capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation. After transformation to a foreign invested joint stock company in June 2007, the transfers to statutory surplus reserve fund is based on the profit after tax stated in the financial statements prepared under the PRC accounting standards at the discretion of the board of directors.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to maintain an enterprise expansion fund. Enterprise expansion fund is non-distributable. Appropriations to such reserves are made out of net profit after tax annually of the PRC subsidiaries at the discretion of its board of directors. The enterprise expansion fund is used for expanding the capital base of the PRC companies by means of capitalisation issue.

- (ii)** On 3 February 2008, the Company obtained consent from the China Securities Regulatory Commission (the "CSRC") to issue new H Shares and also to apply for the listing of those H Shares on the Growth Enterprises Market (the "GEM Board") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Subsequently, the Company issued 154,600,000 new H Shares and converted 15,460,000 Domestic Shares into H Shares for placing and the above H Shares were listed on the GEM Board of the Stock Exchange with effect from 13 March 2008.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOTE	Year ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Operating activities					
Profit before tax		81,725	88,904	32,084	35,835
Adjustments for:					
Amortisation of intangible assets		5,911	9,645	4,980	4,881
Amortisation of prepaid lease payments		147	147	67	73
Depreciation of property, plant and equipment		2,455	4,226	1,422	2,691
Finance costs		2,260	2,094	1,007	1,062
Interest income		(2,704)	(492)	(295)	(268)
Share of results of associates		28	(877)	(76)	(834)
Allowances for bad and doubtful debts		11,557	—	—	—
Gain on disposal of a subsidiary		(6)	—	—	—
Net gain on disposal of property, plant and equipment		(278)	—	—	—
Net (gain) loss on change in fair value of held for trading investments		—	(1,711)	(1,276)	295
Operating cash flows before movements in working capital		101,095	101,936	37,913	43,735
Increase in contract work in progress		(4,998)	(1,968)	(1,529)	(2,799)
Decrease (increase) in inventories		272	289	(4)	(243)
(Increase) decrease in trade receivables		(36,032)	47,077	47,616	22,743
(Increase) decrease in deposits, prepayments and other receivables		(12,579)	905	(518)	1,448
Decrease (increase) in amount due from a shareholder		1,949	8,451	1,560	(43,075)
(Increase) decrease in held for trading investments		(1,422)	1,520	456	(496)
Increase (decrease) in trade and other payables		2,125	(4,160)	(16,568)	7,425
Increase (decrease) in amount due to a related party		(421)	750	(75)	(782)
Net cash generated from operations		49,989	154,800	68,851	27,956
Interest paid		(2,260)	(2,094)	(1,007)	(1,062)
Tax paid		(34,769)	(25,557)	(21,029)	(16,643)
Net cash from operating activities		<u>12,960</u>	<u>127,149</u>	<u>46,815</u>	<u>10,251</u>
Investing activities					
Purchase of intangible assets		(83,609)	(3,871)	(3,179)	(312)
Purchase of property, plant and equipment		(15,175)	(173,266)	(133,436)	(12,457)
Acquisition of investment in an associate		—	(8,778)	(8,778)	—
Interest received		2,704	492	295	268
Proceeds on disposal of property, plant and equipment		481	—	—	—
Increase in short-term bank deposits with original maturity more than three months		—	(2,000)	—	—
Net cash outflow arising on disposal of a subsidiary	36	(1,762)	—	—	—
Net cash used in investing activities		<u>(97,361)</u>	<u>(187,423)</u>	<u>(145,098)</u>	<u>(12,501)</u>
Financing activities					
Repayment of bank loan		(30,000)	(30,000)	(30,000)	(40,000)
New bank loan raised		30,000	40,000	40,000	40,000
Proceeds on issue of H Shares		264,924	—	—	—
Capital contributed from minority shareholders		7,840	—	—	—
Share issue expense		(13,459)	—	—	—
Dividend paid		—	(7,501)	—	—
Net cash from financing activities		<u>259,305</u>	<u>2,499</u>	<u>10,000</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents		<u>174,904</u>	<u>(57,775)</u>	<u>(88,283)</u>	<u>(2,250)</u>
Cash and cash equivalents at beginning of the year/period		<u>69,952</u>	<u>244,856</u>	<u>244,856</u>	<u>187,081</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash		<u><u>244,856</u></u>	<u><u>187,081</u></u>	<u><u>156,573</u></u>	<u><u>184,831</u></u>

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Company was established at Weishan Road, Chang Qing Science, Industry and Trade Park, Jinnan District, Tianjin, the People's Republic of China (the "PRC") as a joint stock limited company. The Company's oversea listed foreign shares ("H Shares") were listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 January 2004. In June 2007, the Company transformed to a foreign invested joint stock limited company.

The principal activities of the Company are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas.

The Group's principal operations are conducted in the PRC. The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Period, the Group and the Company have consistently applied, the Hong Kong Accounting Standards ("HKAS"s), HKFRS, amendments and interpretations ("INT"s) (hereinafter collectively referred to as "new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the accounting period beginning on 1 January 2010 except for HKFRS 3 (Revised) "Business Combination" and HKAS 27 (Revised) "Consolidated and Separate Financial Statements".

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the six months ended 30 June 2010 in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

The Group and the Company have not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ³
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁷
HK (IFRIC)-Int 14 (Amendments)	Prepayment of a Minimum Funding Requirement ⁶
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

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

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

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

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

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

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

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

The amendments to HKAS 24 “Related Party Disclosures” simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party. The previous version of HKAS 24 contained no specific exemption for government-related entities. As a result, the amendments to HKAS 24 provide a partial exemption from the disclosure requirements of HKAS 24 for government-related entities. Specifically, a reporting entity is exempted from the general disclosure requirements of HKAS 24 in relation to related party transactions and outstanding balances (including commitments) with: (i) a government that has control, joint control or significant influence over the reporting entity; and (ii) another entity that is related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The amendments to HKAS 24 also simplify the definition of a related party, clarify the intended meaning and eliminate a number of inconsistencies. The application of HKAS 24 might affect the disclosures of the Group’s related party transactions.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange and the applicable disclosure requirements of by the Hong Kong Companies Ordinances.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Non-controlling interests in subsidiaries are presented separately from the equity attributable to the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statements of financial position at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Investments in associates**

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

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Gas connection contracts and service income from construction service

When the outcome of a fixed price gas connection contract and contract for construction of pipeline infrastructure can be estimated reliably and the stage of completion of the contract activity at the end of the reporting period can be measured reliably, construction contract revenue from gas connection contracts and contracts for construction of pipelines is recognised based on the percentage of completion method, as measured by reference to the proportion that the contract costs incurred for work preformed to date bear to the estimated total contract costs.

When the outcome of a gas connection contract and contracts for construction of pipelines cannot be estimated reliably, contract revenue is recognised to the extent of contract cost incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Revenue recognition** *(continued)***Others**

Sales of gas and gas distribution income are recognised when gas is supplied to customers while sales of gas appliances are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represent lease prepayment paid for the right to use the land on which various plants and buildings are situated for a definite period, less accumulated amortisation. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the rights.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Operating leases**

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (i.e. RMB) of that entity (foreign currency) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Taxation**

Income tax expenses represent the sum of the tax currently payable and deferred tax.

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the assets is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Intangible assets**

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

When the Group has a right to charge for usage of concession infrastructure, (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses. The intangible assets of the Group and the Company represent the right for distribution of gas in certain districts in the PRC, and have finite useful lives. Such intangible assets are amortised on a straight-line basis over a period of 25 years.

Gains and losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and wherever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss (financial assets held for trading) and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At the end of the reporting period, subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period, subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a shareholder, short-term bank deposits and bank balances and cash) carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Financial instruments** *(continued)***Financial assets** *(continued)**Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimate future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or in it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Financial instruments** *(continued)***Financial liabilities and equity**

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, dividend payable, amount due to a related company and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates, judgements and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future period.

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

Recognition of sale of gas

Revenue for sales of gas includes an estimation of the gas supplied to the customers for each of the month end. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers. Notwithstanding that the management reviews and revises the estimate, the actual consumption may be higher or lower than the estimates and this will affect the revenue recognised.

5. CAPITAL RISK MANAGEMENT

The Group and the Company manage its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged during the Relevant Period.

The capital structure of the Group and the Company consists of borrowings (note 29), net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising share capital, reserves and accumulated profits.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the raise of borrowings.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	The Group			The Company		
	31 December	31 December	30 June	31 December	31 December	30 June
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets						
Loans and receivables (including cash and cash equivalents)	371,611	261,821	278,136	361,053	250,664	267,585
Held for trading investments	1,422	1,613	1,814	—	—	—
Financial liabilities						
Amortised cost	<u>65,832</u>	<u>82,655</u>	<u>89,355</u>	<u>65,745</u>	<u>82,512</u>	<u>89,143</u>

b. Financial risk management objectives and policies

The Group's principal financial instruments include trade receivables, other receivables, trade and other payables, amounts due from/(to) a shareholder and a related party, short-term bank deposits, bank balances and borrowings. The Company's principal financial instruments include trade receivables, other receivables, trade and other payables, amounts due from/(to) a shareholder and a related party, bank balances and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's and the Company's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group and the Company are exposed to some concentration of credit risk on trade receivables. At 30 June 2010, the five largest debtors accounted for approximately RMB42,208,000 (90%) (31.12.2009: RMB53,204,000 (76%), 31.12.2008: RMB68,841,000 (59%)), of the Group's and the Company's total trade receivables. The Group delegate a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk.

6. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk (continued)

The table below shows the carrying amount of 5 largest trade debtors of the Group and the Company at the end of reporting period:

Counterparty	Location	31.12.2008	31.12.2009	30.06.2010
		Carrying amount RMB'000	Carrying amount RMB'000	Carrying amount RMB'000
Company A	The PRC	44,852	32,852	28,652
Company B	The PRC	6,965	6,714	—
Company C	The PRC	7,371	6,634	5,634
Company D	The PRC	—	—	2,749
Company E	The PRC	—	3,881	2,681
Company F	The PRC	—	—	2,492
Company G	The PRC	—	3,123	—
Company H	The PRC	4,854	—	—
Company I	The PRC	4,799	—	—

The above debtors were concentrated on property development business. The balances due from the respective debtors were within the credit limit granted by the Group and the Company and the debtors received good internal credit rating assessed by the Group and the Company.

The credit risk on bank balances and cash is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

Other than concentration of credit risk on liquid funds and certain trade receivables, the Group and the Company do not have any other significant concentration of credit risk. The remaining trade receivables consists of a large number of customers which spread across diverse industries.

The Group's and the Company's geographical concentration of credit risk is totally in the PRC as at 31 December 2008 and 2009 and 30 June 2010.

6. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk

The Group's activities expose to the financial risks included interest rate risk and other price risk.

There has been no change to Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) *Interest rate risk*

The Group and the Company are exposed to cash flow interest rate risk through the impact of changes on floating-interest bearing liabilities, mainly bank loan at prevailing market interest rates. The Group and the Company currently do not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates risks for variable-rate bank loan at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of reporting period was outstanding for the whole period.

If interest rates on bank loan had been 50 basis points higher and all other variables were held constant, the Group's and the Company's post-tax profit for the year/period would:

	The Group and the Company		
	31 December 2008	31 December 2009	30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in post-tax profit for the year/period	<u>(113)</u>	<u>(150)</u>	<u>(75)</u>

If interest rate of borrowings had been 50 basis points lower, there would be an equal and opposite impact on the post-tax profit for the year/period.

6. FINANCIAL INSTRUMENTS *(continued)***b. Financial risk management objectives and policies** *(continued)***Market risk** *(continued)**(ii) Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The Group has appointed a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (31.12.2009 and 31.12.2008: 10%) higher/lower, the Group's post-tax profit for the six months ended 30 June 2010 would increase/decrease by RMB136,000 (year ended 31 December 2009: RMB121,000, year ended 31 December 2008: RMB107,000) as a result of the changes in fair value of the investments held-for-trading.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriated liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group and the Company manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring forecast, actual cash flows and the maturity profiles of financial liabilities.

The Group's holdings of cash and short-term deposits, together with net cash flow from operations, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

The following tables details the remaining contractual maturity for the financial liabilities of the Group as at 31 December 2008 and 2009 and 30 June 2010 based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of each reporting period.

6. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

*Liquidity risk management (continued)**The Group*

	Weighted average effective interest rate %	3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities						
As at 31 December 2008						
Trade and other payables	—	35,757	—	—	35,757	35,757
Borrowings	7.47	30,075	—	—	30,075	30,000
Amount due to a related party	—	75	—	—	75	75
		<u>65,907</u>	<u>—</u>	<u>—</u>	<u>65,907</u>	<u>65,832</u>
As at 31 December 2009						
Trade and other payables	—	32,087	—	—	32,087	32,087
Dividend payables	—	9,743	—	—	9,743	9,743
Borrowings	5.31	40,256	—	—	40,256	40,000
Amount due to a related party	—	825	—	—	825	825
		<u>82,911</u>	<u>—</u>	<u>—</u>	<u>82,911</u>	<u>82,655</u>
As at 30 June 2010						
Trade and other payables	—	39,569	—	—	39,569	39,569
Dividend payables	—	9,743	—	—	9,743	9,743
Borrowings	5.31	—	—	41,589	41,589	40,000
Amount due to a related party	—	43	—	—	43	43
		<u>49,355</u>	<u>—</u>	<u>41,589</u>	<u>90,944</u>	<u>89,355</u>

6. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

*Liquidity risk management (continued)**The Company*

	Weighted average effective interest rate %	3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities						
As at 31 December 2008						
Trade and other payables	—	35,670	—	—	35,670	35,670
Borrowings	7.47	30,075	—	—	30,075	30,000
Amount due to a related party	—	75	—	—	75	75
		<u>65,820</u>	<u>—</u>	<u>—</u>	<u>65,820</u>	<u>65,745</u>
As at 31 December 2009						
Trade and other payables	—	31,944	—	—	31,944	31,944
Dividend payables	—	9,743	—	—	9,743	9,743
Borrowings	5.31	40,256	—	—	40,256	40,000
Amount due to a related party	—	825	—	—	825	825
		<u>82,768</u>	<u>—</u>	<u>—</u>	<u>82,768</u>	<u>82,512</u>
As at 30 June 2010						
Trade and other payables	—	39,357	—	—	39,357	39,357
Dividend payables	—	9,743	—	—	9,743	9,743
Borrowings	5.31	—	—	41,589	41,589	40,000
Amount due to a related party	—	43	—	—	43	43
		<u>49,143</u>	<u>—</u>	<u>41,589</u>	<u>90,732</u>	<u>89,143</u>

6. FINANCIAL INSTRUMENTS *(continued)***c. Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

7. REVENUE

Revenue represents construction contract revenue from gas connection contracts, revenue from sales of piped gas and gas appliances, construction contract revenue from construction of gas pipeline infrastructure and gas transportation revenue, net of discount, during the period.

8. SEGMENT INFORMATION

For management purposes, the Group is divided into four divisions, namely gas connection, gas transportation, sales of piped gas and sales of gas appliances. The construction of gas pipeline infrastructure operation is not reported to the board of directors of the Company (being the chief operating decision maker). These divisions are the basis on which the Group reported its segment information, based on the financial information prepared on the PRC generally accepted accounting principles reported to the chief operating decision maker. The Group's operating segments based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment are as follow:

1. Gas connection — provision of piped gas connection services
2. Gas transportation — transportation of gas to 天津市燃氣集團有限公司 (“Tianjin Gas”)
3. Sales of piped gas — sales of piped gas to industrial and residential users
4. Sales of gas appliances

Information regarding the above segments is reported below.

8. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's revenue and results by operating segment for the Relevant Period:

Year ended 31 December 2008

	Gas connection <i>RMB'000</i>	Sales of piped gas <i>RMB'000</i>	Sales of gas appliances <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue from external customers	<u>135,059</u>	<u>74,381</u>	<u>1,279</u>	<u>210,719</u>
Segment profit (loss)	<u>91,983</u>	<u>4,422</u>	<u>(20)</u>	<u>96,385</u>

Reconciliation of Segment revenue

	<i>RMB'000</i>
Total segment revenue	210,719
Revenue from construction of gas pipeline infrastructure	<u>6,450</u>
Revenue	<u><u>217,169</u></u>

Reconciliation of segment profit

	<i>RMB'000</i>
Total profit for reporting segment profit	96,385
Profit from construction of gas pipeline infrastructure	586
Share of result of associates	(28)
Other income	10,180
Other gains and losses	284
Corporate expense	(23,422)
Finance costs	<u>(2,260)</u>
Profit before tax	<u><u>81,725</u></u>

8. SEGMENT INFORMATION (continued)

Year ended 31 December 2009

	Gas connection RMB'000	Gas transportation RMB'000	Sales of piped gas RMB'000	Sales of gas appliances RMB'000	Consolidated RMB'000
Segment revenue from external customers	<u>102,399</u>	<u>2,479</u>	<u>206,219</u>	<u>1,071</u>	<u>312,168</u>
Segment profit	<u>73,349</u>	<u>1,048</u>	<u>22,575</u>	<u>240</u>	<u>97,212</u>

Reconciliation of Segment revenue

	<i>RMB'000</i>
Total segment revenue	312,168
Revenue from construction of gas pipeline infrastructure	<u>5,824</u>
Revenue	<u><u>317,992</u></u>

Reconciliation of segment profit

	<i>RMB'000</i>
Total segment profit	97,212
Profit from construction of gas pipeline infrastructure	529
Share of results of associates	877
Other income	6,816
Other gains and losses	1,711
Corporate expense	(16,147)
Finance costs	<u>(2,094)</u>
Profit before tax	<u><u>88,904</u></u>

Six-months ended 30 June 2010

	Gas connection RMB'000	Gas transportation RMB'000	Sales of piped gas RMB'000	Sales of gas appliances RMB'000	Consolidated RMB'000
Segment revenue from external customers	<u>32,992</u>	<u>2,550</u>	<u>125,459</u>	<u>1,620</u>	<u>162,621</u>
Segment profit	<u>23,697</u>	<u>1,275</u>	<u>14,832</u>	<u>312</u>	<u>40,116</u>

8. SEGMENT INFORMATION (continued)

Reconciliation of segment revenue

	<i>RMB'000</i>
Total segment revenue	162,621
Revenue from construction of gas pipeline infrastructure	<u>3,112</u>
Revenue	<u><u>165,733</u></u>

Reconciliation of segment profit

	<i>RMB'000</i>
Total segment profit	40,116
Profit from construction of gas pipeline infrastructure	256
Share of result of associates	834
Other income	3,279
Other gains and losses	(295)
Corporate expenses	(7,293)
Finance costs	<u>(1,062)</u>
Profit before tax	<u><u>35,835</u></u>

Six-months ended 30 June 2009 (unaudited)

	Gas connection <i>RMB'000</i>	Sales of piped gas <i>RMB'000</i>	Sales of gas appliances <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue from external customers	<u>32,219</u>	<u>99,759</u>	<u>14</u>	<u>131,992</u>
Segment profit	<u>24,930</u>	<u>9,911</u>	<u>6</u>	<u>34,847</u>

Reconciliation of
segment revenue

	<i>RMB'000</i>
Total segment revenue	131,992
Revenue from construction of gas pipeline infrastructure	<u>4,691</u>
Revenue	<u><u>136,683</u></u>

8. SEGMENT INFORMATION (continued)

Reconciliation of segment profit

	RMB'000
Total segment profit	34,847
Profit from construction of gas pipeline infrastructure	401
Share of result of associates	76
Other income	4,155
Other gains and losses	1,276
Corporate expenses	(7,664)
Finance costs	(1,007)
Profit before tax	<u>32,084</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies, Segment profit represents the profit earned by each segment without allocation of other income, other gains and losses, share of result of associates, corporate expenses and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Other Segment Information

	Gas connection		Gas transportation		Sales of piped gas		Adjustments (Note 1)		Total	
	31 December		31 December		31 December		31 December		31 December	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts included in the measure of segment profit:										
Depreciation of property, plant and equipment	—	—	—	1,358	857	1,296	1,598	1,572	2,455	4,226
Amortisation of intangible assets	—	—	—	—	5,911	9,645	—	—	5,911	9,645
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,768</u>	<u>11,941</u>	<u>—</u>	<u>—</u>	<u>8,366</u>	<u>14,271</u>
	Gas connection		Gas transportation		Sales of piped gas		Adjustments (Note 1)		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Amounts included in the measure of segments profit or loss										
Depreciation of property, plant and equipment	—	—	—	1,199	644	671	778	821	1,422	2,691
Amortisation of intangible assets	—	—	—	—	4,980	4,881	—	—	4,980	4,881
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,960</u>	<u>9,552</u>	<u>—</u>	<u>—</u>	<u>9,960</u>	<u>9,552</u>

Note: 1. Adjustments represent corporate expenses not allocated to the measurement of segment profit.

For the six months ended 30 June 2010, the Group had carried out gas connection contract work with revenue of approximately RMB3.9 million (year ended 31 December 2009: RMB23.6 million, year ended 31 December 2008: RMB38.7 million, six months ended 30 June 2009 (unaudited): RMB7.5 million) in certain areas in Tianjin, in which the gas supply is being separately provided by Tianjin Gas, a substantial shareholder of the Company, to its own customers.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the board of directors of the Company for review.

8. SEGMENT INFORMATION (continued)

Geographical segment

The Group's operations are all located in the PRC and all its revenue are earned from customers located in the PRC. Accordingly, no geographical segment analysis is presented.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Customer A ¹	— ³	71,450	31,678	45,322
Customer B ¹	— ³	35,836	17,088	21,067
Customer C ²	28,852	— ⁴	— ⁴	— ⁴
	<u>28,852</u>	<u>—</u>	<u>—</u>	<u>—</u>

¹ Revenue from sales of piped gas.

² Revenue from gas connection.

³ Revenue from customers A and B in 2008 does not contribute over 10% of the Group's total sales in 2008.

⁴ No revenue contributed by customer C to the Group's total sales during the year ended 31 December 2009, six months ended 30 June 2010 and six months ended 30 June 2009.

9. OTHER INCOME

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Value added tax refund	7,476	6,324	3,860	3,011
Bank interest income	2,704	492	295	268
	<u>10,180</u>	<u>6,816</u>	<u>4,155</u>	<u>3,279</u>

10. OTHER GAINS AND LOSSES

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Net gain on disposal of property, plant and equipment	278	—	—	—
Gain on disposal of a subsidiary	6	—	—	—
Net gain (loss) on fair value change of held for trading investment	—	1,711	1,276	(295)
	<u>284</u>	<u>1,711</u>	<u>1,276</u>	<u>(295)</u>

11. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Interest on bank borrowing wholly repayable within five years	2,260	2,094	1,007	1,062

12. INCOME TAX EXPENSE

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
The charge comprises:				
PRC Enterprise Income Tax	24,153	22,441	8,389	9,060
Deferred tax (note 32)	(2,768)	96	88	52
	<u>21,385</u>	<u>22,537</u>	<u>8,477</u>	<u>9,112</u>

The Company and its subsidiaries are subject to PRC Enterprise Income Tax rate of 25% for the Relevant Period.

The subsidiaries did not have taxable profit for the both periods ended 30 June 2010 and 2009 and two years ended 31 December 2009.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The tax charge for the year/period can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Tax expense for the year/period	<u>81,725</u>	<u>88,904</u>	<u>32,084</u>	<u>35,835</u>
Tax at the domestic income tax rate of 25%	20,431	22,226	8,021	8,959
Tax effect of share of result of associates	—	(219)	(19)	(209)
Tax effect of expenses that are not deductible in determining taxable profit	<u>954</u>	<u>530</u>	<u>475</u>	<u>362</u>
Tax expense for the year/period	<u>21,385</u>	<u>22,537</u>	<u>8,477</u>	<u>9,112</u>

13. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period has been arrived at after charging (crediting):			(unaudited)	
Auditor's remuneration	629	630	941	1,981
Staff costs including directors' and supervisors' remuneration	3,172	3,756	1,917	2,547
Depreciation of property, plant and equipment	2,455	4,226	1,422	2,691
Amortisation of intangible assets (included in cost of sales)	5,911	9,645	4,980	4,881
Amortisation of prepaid lease payments (included in administrative expense)	147	147	67	73
Operating lease rentals in respect of rented premises	529	519	256	262
Allowance for bad and doubtful debts	11,557	—	—	—
Cost of gas purchased	62,258	169,985	80,121	103,157
Net loss (gain) on fair value change of held for trading investments	—	(1,711)	(1,276)	295
Net foreign exchange losses	6,281	268	262	(9)

14. DIVIDEND

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Dividend recognised as distribution during the year ended 31 December 2009:			(unaudited)	
2008 Final — RMB 1.5 cents (2008 and six months ended 30 June 2010: Nil)	—	17,244	17,244	—

No dividend was declared during the six months ended 30 June 2010, nor has any dividend been declared since 30 June 2010.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the six-month period ended 30 June 2010 attributable to the owners of the Company of RMB26,723,000 (year ended 31.12.2009: RMB66,367,000, year ended 31.12.2008: RMB60,475,000, six months ended 30.6.2009 (unaudited): RMB23,607,000) and the weighted average number of shares of 1,149,600,000 (year ended 31.12.2009: 1,149,600,000 shares, year ended 31.12.2008: 1,119,186,885 shares, six months ended 30.6.2009 (unaudited): 1,149,600,000 shares) in issue during the six months ended 30 June 2010.

No diluted earnings per share has been presented as the Company had no outstanding potential shares during both period or at the end of each reporting period.

16. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors and supervisors

Details of remuneration paid to the directors and supervisors during the Relevant Period are as follows:

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Fees	750	750	375	375
Salaries and other benefits	92	122	57	61
Performance bonus	—	—	—	—
Retirement benefit scheme contributions	14	11	8	4
	<u>856</u>	<u>883</u>	<u>440</u>	<u>440</u>

Fees analysed into:

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Bai Shaoliang	50	50	25	25
Cao Shujing	50	50	25	25
Chan Shun Kuen Eric	100	100	50	50
Dong Huiqiang	50	50	25	25
Gong Jing	50	50	25	25
Hao Li	50	50	25	25
Jin Jianping	50	50	25	25
Luo Weikun	50	50	25	25
Qi Yinfeng	50	50	25	25
Sha Jincheng	50	50	25	25
Sun Boquan	50	50	25	25
Sun Xuegang	50	50	25	25
Tang Jie	50	50	25	25
Zhang Yuli	50	50	25	25
	<u>750</u>	<u>750</u>	<u>375</u>	<u>375</u>
Salaries and other benefits analysed into:				
Sun Xuegang	68	88	41	43
Hao Li	24	34	16	18
	<u>92</u>	<u>122</u>	<u>57</u>	<u>61</u>
Retirement benefit scheme contributions analysed into:				
Sun Xuegang	14	11	8	4
	<u>14</u>	<u>11</u>	<u>8</u>	<u>4</u>

No director waived or agreed to waive any emoluments during the Relevant Period.

16. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES
(continued)

Employees

The five highest paid employees in the Group for the six months ended 30 June 2010 included one supervisor (year ended 31.12.2009: one supervisor, year ended 31.12.2008: one supervisor, six months ended 30.6.2009 (unaudited): one supervisor). The details of the remuneration of the remaining highest paid employees for six months ended 30 June 2010 (year ended 31.12.2009: four, year ended 31.12.2008: four, six months ended 30.6.2009 (unaudited): four) are as follows:

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other benefits	659	522	259	360
Performance bonus	—	—	—	—
Retirement benefit scheme contributions	—	—	—	—
	<u>659</u>	<u>522</u>	<u>259</u>	<u>360</u>

Their emoluments are within the following band:

	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
			(unaudited)	
Nil-RMB872,400 (31.12.2009: Nil to RMB880,500, 31.12.2008: Nil to RMB881,900, 30.6.2009 (unaudited): Nil to RMB881,500) (equivalent to HK\$1,000,000)	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

No emoluments were paid by the Group to the directors or the five highest paid employees as inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Pipelines	Machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2008	32,807	—	21,061	2,440	4,619	1,556	62,483
Additions	832	—	8,006	242	1,845	4,250	15,175
Reclassification	—	—	3,530	—	—	(3,530)	—
Disposal of a subsidiary	—	—	—	(10)	—	(363)	(373)
Disposal	—	—	—	(371)	(1,750)	—	(2,121)
At 31 December 2008	33,639	—	32,597	2,301	4,714	1,913	75,164
Additions	1,575	—	2,088	432	105	169,066	173,266
Reclassification	920	66,606	—	—	—	(67,526)	—
At 31 December 2009	36,134	66,606	34,685	2,733	4,819	103,453	248,430
Additions	—	—	362	95	—	12,000	12,457
At 30 June 2010	36,134	66,606	35,047	2,828	4,819	115,453	260,887
DEPRECIATION							
At 1 January 2008	2,966	—	2,046	1,034	3,596	—	9,642
Provided for the year	763	—	857	313	522	—	2,455
Disposal	—	—	—	(350)	(1,568)	—	(1,918)
At 31 December 2008	3,729	—	2,903	997	2,550	—	10,179
Provided for the year	812	1,358	1,296	375	385	—	4,226
At 31 December 2009	4,541	1,358	4,199	1,372	2,935	—	14,405
Provided for the period	413	1,199	672	217	190	—	2,691
At 30 June 2010	4,954	2,557	4,871	1,589	3,125	—	17,096
CARRYING VALUES							
At 31 December 2008	29,910	—	29,694	1,304	2,164	1,913	64,985
At 31 December 2009	31,593	65,248	30,486	1,361	1,884	103,453	234,025
At 30 June 2010	31,180	64,049	30,176	1,239	1,694	115,453	243,791

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Buildings	Pipelines	Machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2008	32,807	—	21,061	2,430	4,619	1,193	62,110
Additions	832	—	8,006	242	1,845	4,250	15,175
Reclassification	—	—	3,530	—	—	(3,530)	—
Disposal	—	—	—	(371)	(1,750)	—	(2,121)
At 31 December 2008	33,639	—	32,597	2,301	4,714	1,913	75,164
Additions	1,575	—	2,088	386	105	169,066	173,220
Reclassification	920	66,606	—	—	—	(67,526)	—
At 31 December 2009	36,134	66,606	34,685	2,687	4,819	103,453	248,384
Additions	—	—	362	96	—	12,000	12,458
At 30 June 2010	36,134	66,606	35,047	2,783	4,819	115,453	260,842
DEPRECIATION							
At 1 January 2008	2,966	—	2,046	1,034	3,596	—	9,642
Provided for the year	763	—	857	313	522	—	2,455
Disposal	—	—	—	(350)	(1,568)	—	(1,918)
At 31 December 2008	3,729	—	2,903	997	2,550	—	10,179
Provided for the year	812	1,358	1,296	372	385	—	4,223
At 31 December 2009	4,541	1,358	4,199	1,369	2,935	—	14,402
Provided for the period	413	1,199	672	214	190	—	2,688
At 30 June 2010	4,954	2,557	4,871	1,583	3,125	—	17,090
CARRYING VALUES							
At 31 December 2008	<u>29,910</u>	<u>—</u>	<u>29,694</u>	<u>1,304</u>	<u>2,164</u>	<u>1,913</u>	<u>64,985</u>
At 31 December 2009	<u>31,593</u>	<u>65,248</u>	<u>30,486</u>	<u>1,318</u>	<u>1,884</u>	<u>103,453</u>	<u>233,982</u>
At 30 June 2010	<u>31,180</u>	<u>64,049</u>	<u>30,176</u>	<u>1,200</u>	<u>1,694</u>	<u>115,453</u>	<u>243,752</u>

The above items of property, plant and equipment other than construction in progress are depreciated, after taking into accounts their residual value, on a straight-line basis at the following rate per annum:

Buildings	Over the shorter of the term of lease or 40 years
Pipelines	25 years
Machinery	10-25 years
Furniture, fixtures and equipment	5-8 years
Motor vehicles	5 years

The buildings are situated in the PRC and are situated on land held under medium-term land use rights.

At 30 June 2010, the Group and the Company are in the process of applying title certificates for certain buildings with a carrying value of approximately RMB 4,123,000 (31.12.2009: RMB 4,176,000, 31.12.2008: RMB4,179,000).

18. PREPAID LEASE PAYMENTS

The Group's and the Company's prepaid lease payments comprise:

	31 December		30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Leasehold land outside Hong Kong:			
medium-term lease	<u>5,315</u>	<u>5,168</u>	<u>5,095</u>
Analysed for reporting purpose as:			
Current portion (included in deposits, prepayment and other receivables)	147	147	147
Non-current portion	<u>5,168</u>	<u>5,021</u>	<u>4,948</u>
	<u>5,315</u>	<u>5,168</u>	<u>5,095</u>

The cost of prepaid lease payments is amortised over 40 to 50 years on a straight-line basis.

19. INTANGIBLE ASSETS

The Group and the Company

	Right for distribution of gas <i>RMB'000</i>
COST	
At 1 January 2008	143,119
Additions	<u>87,252</u>
At 31 December 2008	230,371
Additions	<u>15,611</u>
At 31 December 2009	245,982
Additions	<u>312</u>
At 30 June 2010	<u>246,294</u>
AMORTISATION	
At 1 January 2008	22,886
Provided for the period	<u>5,911</u>
At 31 December 2008	28,797
Provided for the year	<u>9,645</u>
At 31 December 2009	38,442
Provided for the period	<u>4,881</u>
At 30 June 2010	<u>43,323</u>
CARRYING VALUES	
At 31 December 2008	<u>201,574</u>
At 31 December 2009	<u>207,540</u>
At 30 June 2010	<u>202,971</u>

The intangible assets of the Group and the Company represent the right for distribution of gas in certain districts in the PRC, and have finite useful lives. Such intangible assets are amortised on a straight-line basis over a period of 25 years. The price of selling the gas is regulated by the PRC Government price bureau.

20. CONTRACT WORK IN PROGRESS

The Group's and the Company's contract work in progress included contract costs incurred plus recognised profits of RMB6,623,000 (31.12.2009: RMB3,824,000, 31.12.2008: RMB13,596,000).

21. INVESTMENTS IN SUBSIDIARIES

	The Company		
	31 December		30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>

22. INTERESTS IN ASSOCIATES

	The Group			The Company		
	31 December		30 June	31 December		30 June
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of investment						
in associates — unlisted	7,705	16,483	16,483	—	8,778	8,778
Share of post-acquisition						
(loss) profits	<u>(28)</u>	<u>849</u>	<u>1,683</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>7,677</u>	<u>17,332</u>	<u>18,166</u>	<u>—</u>	<u>8,778</u>	<u>8,778</u>

As at the end of each reporting period, the Group and the Company had interests in the following associates:

The Group

Name of entity	Form of entity	Place of registration/ Principal place of operation	Proportion of nominal value of issued capital			Proportion of voting power held			Principal activity
			held by the Group						
			31.12.2008	31.12.2009	30.6.2010	31.12.2008	31.12.2009	30.6.2010	
Directly-owned associate									
天津市濱海燃氣有限公司	Incorporated	PRC	—	30.55%	30.55%	—	30.55%	30.55%	Gas supply
Indirectly-owned associate									
貴州津維礦業投資有限公司	Incorporated	PRC	49%	49%	49%	49%	49%	49%	Mining business

22. INTERESTS IN ASSOCIATES (continued)

The Company

Name of entity	Form of entity	Place of registration/ Principal place of operation	Proportion of nominal value of issued capital held by the Group			Proportion of voting power held			Principal activity
			31.12.2008	31.12.2009	30.6.2010	31.12.2008	31.12.2009	30.6.2010	
			Directly-owned associate 天津市濱海燃氣有限公司	Incorporated	PRC	—	30.55%	30.55%	

Included in the cost of investment in associates is goodwill of RMB3,597,000 (31.12.2009: RMB3,597,000, 31.12.2008:Nil) arising on acquisitions of associates during 2009.

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

	31 December		30 June
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Total assets	15,704	192,588	179,734
Total liabilities	(35)	(157,091)	(138,794)
Net assets	<u>15,669</u>	<u>35,497</u>	<u>40,940</u>
Group's share of net assets of associates	<u>7,677</u>	<u>13,735</u>	<u>14,569</u>
	Year ended		Six months
	31 December	2009	ended
	2008	2009	30 June
	RMB'000	RMB'000	2010
	RMB'000	RMB'000	RMB'000
Revenue	<u>—</u>	<u>88,935</u>	<u>70,555</u>
(Loss) profit for the year/period	<u>(56)</u>	<u>2,870</u>	<u>2,729</u>
Group's share of result of associates for the year/period	<u>(28)</u>	<u>877</u>	<u>834</u>

23. INVENTORIES

	The Group and the Company		
	31 December	2009	30 June
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Gas appliances	256	171	179
Gas	81	66	31
Spare parts and consumables	369	180	450
	<u>706</u>	<u>417</u>	<u>660</u>

24. TRADE RECEIVABLES/DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

	The Group			The Company		
	31 December	31 December	30 June	31 December	31 December	30 June
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	129,652	82,575	59,832	129,162	82,575	59,832
Less: impairment loss recognised	(12,902)	(12,902)	(12,902)	(12,902)	(12,902)	(12,902)
Net trade receivables	<u>116,750</u>	<u>69,673</u>	<u>46,930</u>	<u>116,260</u>	<u>69,673</u>	<u>46,930</u>
Analysed for reporting purposes as:						
Current assets	116,750	69,673	41,279	116,260	69,673	41,279
Non-current assets (<i>note</i>)	—	—	5,651	—	—	5,651
	<u>116,750</u>	<u>69,673</u>	<u>46,930</u>	<u>116,260</u>	<u>69,673</u>	<u>46,930</u>

Note: Pursuant to a repayment schedule signed by one of the customers in March 2010, the customer will settle its outstanding balance by instalment. The last instalment with amounting of RMB5,651,000 will be repaid in the third quarter of 2011.

	The Group			The Company		
	31 December	31 December	30 June	31 December	31 December	30 June
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	3,467	4,980	3,213	3,467	4,980	3,211
Less: impairment loss recognised	(2,743)	(2,743)	(2,743)	(2,743)	(2,743)	(2,743)
Total other receivables	724	2,237	470	724	2,237	468
Deposits and prepayment	3,761	1,289	1,615	3,761	1,289	1,615
	<u>4,485</u>	<u>3,526</u>	<u>2,085</u>	<u>4,485</u>	<u>3,526</u>	<u>2,083</u>

Movement in impairment loss recognised:

	The Group and the Company		
	Year ended 31 December		six months
	2008	2009	ended 30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables:			
Balance at beginning of the year/period	2,115	12,902	12,902
Amounts provided during the year/period	10,787	—	—
Balance at end of the year/period	<u>12,902</u>	<u>12,902</u>	<u>12,902</u>
Other receivables:			
Balance at beginning of the year/period	1,973	2,743	2,743
Amounts provided during the year/period	770	—	—
Balance at end of the year/period	<u>2,743</u>	<u>2,743</u>	<u>2,743</u>

24. TRADE RECEIVABLES/DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES *(continued)*

Included in the carrying amount of trade and other receivables as at 30 June 2010 was accumulated impairment loss of RMB12,902,000 (31.12.2009 and 31.12.2008: RMB12,902,000) and RMB2,743,000 (31.12.2009 and 31.12.2008: RMB2,743,000) for trade receivables and other receivables respectively, most of which are past due for over one year as at the end of each reporting date and with no subsequent settlement records.

The Group has a policy of allowing an average credit period of 90 days to its customers. For certain customers with long-established relationship and good repayment histories, a longer credit period up to 180 days may be granted.

Before accepting any new customer, the Group will assess credit worthiness by customer in considering the customers' quality and determine the credit terms for that customers.

Included in the Group's and the Company's trade receivables balance are debtors with aggregate carrying amount of RMB38 million (31.12.2009: RMB48 million 31.12.2008: RMB33 million) which are past due at the reporting date for which the Group and the Company have not provided for impairment loss because there has no significant change in credit quality of that customers and the amounts are still considered recoverable. The Group and the Company do not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group and the Company to the counterparty.

Aging of trade receivables based on past due date which are past due but not impaired:

	The Group and the Company		
	31 December		30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
91-180 days	6,424	—	1,539
181-270 days	5,857	1,959	6,520
271-365 days	300	3,006	—
Over 365 days	20,218	43,010	30,438
	<u>32,799</u>	<u>47,975</u>	<u>38,497</u>

The aged analysis of trade debtors net of allowance based on past due date is as follows:

	The Group			The Company		
	31 December	31 December	30 June	31 December	31 December	30 June
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days	66,097	21,698	8,433	65,607	21,698	8,433
91-180 days	16,619	—	1,539	16,619	—	1,539
181-270 days	7,626	1,959	6,520	7,626	1,959	6,520
271-365 days	490	3,006	—	490	3,006	—
Over 365 days	25,918	43,010	30,438	25,918	43,010	30,438
	<u>116,750</u>	<u>69,673</u>	<u>46,930</u>	<u>116,260</u>	<u>69,673</u>	<u>46,930</u>

25. AMOUNTS DUE FROM (TO) A SHAREHOLDER/A RELATED PARTY**The Group and the Company**

The amounts were incurred through operating activities and were unsecured, interest-free and with credit period of 90 days. Details of the balances are set out in note 37 (a). Both the amount due from a shareholder and amount due to a related party were aged within 90 days at the end of reporting date.

26. HELD FOR TRADING INVESTMENTS**The Group**

Held for trading investments represent investments in equity securities listed in the PRC and stated at quoted market bid price.

27. BANK BALANCES AND CASH**The Group and the Company**

Bank balances carry interest at market rate at 0.36% (31.12.2009: 0.36% to 1.8%, 31.12.2008: 0.36%) per annum.

28. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis based on past due date as follows:

	The Group and the Company		
	31 December	30 June	
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days	22,929	16,976	5,840
91-180 days	3,130	301	2,103
181-270 days	1,586	90	9,910
271-365 days	610	—	301
Over 365 days	759	759	849
	<u>29,014</u>	<u>18,126</u>	<u>19,003</u>

29. BORROWINGS

	The Group and the Company		
	31 December	30 June	
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unsecured bank loan	<u>30,000</u>	<u>40,000</u>	<u>40,000</u>

The above loan was unsecured, carried interest at floating rate of 5.31% (31.12.2009: 5.31%, 31.12.2008: 7.47%) per annum.

30. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic Shares	H Shares	
Shares of RMB0.1 each			
At 1 January 2008	665,000,000	330,000,000	99,500
Issue of H shares	—	154,600,000	15,460
Conversion of domestic shares to H shares	(15,460,000)	15,460,000	—
At 31 December 2008, 31 December 2009 and 30 June 2010	649,540,000	500,060,000	114,960

The Company issued 154,600,000 H shares at HK\$1.9 per share and converted 15,460,000 Domestic shares into H shares by way of placing for listing of H shares on the GEM Board of the Stock Exchange on 13 March 2008. The H Shares and Domestic shares rank pari passu in all respects.

31. SHARE PREMIUM AND RESERVES

The Company

	Attributable to owners of the Company				Total RMB'000
	Share premium RMB'000	Statutory surplus reserves RMB'000	Enterprise expansion fund RMB'000	Accumulated profits RMB'000	
At 1 January 2008					
Profit for the year and total comprehensive income for the year	31,667	10,837	—	135,495	177,999
Appropriation	—	—	—	60,890	60,890
Issue of H Share	249,464	—	—	—	249,464
Shares issue expenses	(13,459)	—	—	—	(13,459)
Appropriation	—	6,143	3,071	(9,214)	—
At 31 December 2008	267,672	16,980	3,071	187,171	474,894
Profit for the year and total comprehensive income for the year	—	—	—	64,760	64,760
Dividends recognised as distribution (<i>note 14</i>)	—	—	—	(17,244)	(17,244)
Appropriation	—	6,032	3,016	(9,048)	—
At 31 December 2009	267,672	23,012	6,087	225,639	522,410
Profit for the period and total comprehensive income for the period	—	—	—	26,335	26,335
Appropriation	—	6,628	3,314	(9,942)	—
At 30 June 2010	267,672	29,640	9,401	242,032	548,745

32. DEFERRED TAXATION

The following is the major deferred taxation recognised and movements thereon during the Relevant Period:

The Group and the Company

	Provision for bad and doubtful debts	Accelerated tax depreciation	Service concession arrangement	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2008	—	464	132	596
Charge (credit) for the year	(2,889)	(24)	145	(2,768)
At 31 December 2008	(2,889)	440	277	(2,172)
Charge (credit) for the year	—	(25)	121	96
At 31 December 2009	(2,889)	415	398	(2,076)
Charge (credit) for the period	—	(12)	64	52
At 30 June 2010	(2,889)	403	462	(2,024)

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset, the following is the analysis of the deferred tax balances for financial reporting purpose:

	The Group and the Company		
	31 December 2008	2009	30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	2,889	2,889	2,889
Deferred tax liabilities	(717)	(813)	(865)
	2,172	2,076	2,024

33. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group and the Company		
	31 December		30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	464	427	259
In the second year	396	—	—
	<u>860</u>	<u>427</u>	<u>259</u>

The leases are negotiated for an average term of one to two years with fixed monthly rentals.

34. COMMITMENTS

At the end of each reporting period, the Group and the Company have the following commitments:

	31 December		30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u>23,379</u>	<u>18,397</u>	<u>15,853</u>

- (a) On 16 September 2009, the Company entered into an asset acquisition agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas (both are branches of Tianjin Gas), including outdoor pipelines, in the consideration for issuing 689,707,800 shares of the Company. This transaction has not been completed up to the date the Financial Information is authorised for issue.
- (b) Pursuant to a conditional entrusted construction agreement dated 6 October 2008 entered between the Company and Tianjin Gas, in relation to the entrustment of Tianjin Gas for the construction of pipelines projects in Tianjin, with total consideration not exceeding RMB224,500,700 (include entrustment fee RMB6,538,700), the Group has paid construction fee amounting to RMB12,000,000 recognised as construction in progress of property, plant and equipment (year ended 31.12.2009: RMB162,641,000, year ended 31.12.2008: Nil) to Tianjin Gas during the six months ended 30 June 2010.

35. RETIREMENT BENEFIT SCHEME

As stipulated in the rules and regulations in the PRC, the Group contributes to the retirement benefit scheme managed by a local social security bureau in the PRC. The Group contributes a certain percentage of basic salaries of its employees to the retirement plan, and has no further obligation for the actual payment of the previous or post retirement benefit. The retirement benefit scheme is responsible for the entire present obligation to retired employees.

During the six months ended 30 June 2010, the retirement benefit scheme contributions amounted to RMB201,000 (31.12.2008: RMB285,000, 31.12.2009: RMB329,000, 30.6.2009 (unaudited): RMB135,000).

36. DISPOSAL OF A SUBSIDIARY

The Group established a 51% non wholly-owned subsidiary, 貴州津維礦業投資有限公司 (“貴州津維”) in the PRC which is engaged in mining business during 2008. In December 2008, the Group disposed of 2% equity interest in 貴州津維 to a non-controlling shareholder of 貴州津維 at a consideration of RMB320,000. Subsequent to this disposal, the Group’s interest in 貴州津維 was reduced from 51% to 49% and 貴州津維 then became an associate of the Group on 1 December 2008. The net assets of 貴州津維 at the date of disposal of that 2% equity interest was as follows:

	<i>RMB'000</i>
Net assets disposed of:	
Property, plant and equipment	373
Deposits, prepayment and other receivables	13,281
Bank balances and cash	2,082
Trade and other payables	(12)
	<u>15,724</u>
Non-controlling interests	(7,705)
	<u>8,019</u>
Transfer to interest in an associate	(7,705)
	<u>314</u>
Gain on disposal	6
	<u>320</u>
Total consideration, satisfied by cash	<u>320</u>
Net cash outflow arising on disposal:	
Cash consideration	320
Bank balances and cash disposed of	(2,082)
	<u>(1,762)</u>

37. RELATED PARTY TRANSACTIONS/BALANCES

(a) During the Relevant Period, the following related party transactions/balances took place:

Name of related party	Nature of transactions	The Group and the Company			
		Year ended		Six months ended	
		31 December	31 December	30 June	30 June
		2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Tianjin Gas (<i>Note i</i>)	Purchase of gas	61,259	165,451	80,121	100,987
	Purchase of property, plant and equipment	7,360	—	—	—
	Purchase of the right for distribution of gas	82,156	—	—	—
	Construction fee paid	—	162,641	130,777	12,000
	Gas transportation income	—	2,479	—	2,550
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
天津市煤氣工程 設計院 (<i>Note ii</i>)	Construction fee	172	965	—	138
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Name of related party	Nature of balances	The Group and the Company		
		31 December	31 December	30 June
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Tianjin Gas (<i>Note i</i>)	Amount due from a shareholder	9,281	830	43,905
		<u> </u>	<u> </u>	<u> </u>
天津市煤氣工程 設計院 (<i>Note ii</i>)	Amount due to a related party	75	825	43
		<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) Tianjin Gas is the substantial shareholder of the Company.
- (ii) 天津市煤氣工程設計院 is a wholly owned subsidiary of Tianjin Gas.

37. RELATED PARTY TRANSACTIONS/BALANCES (continued)

(b) Asset acquisition agreement

On 16 September 2009, the Company entered into an asset acquisition agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas (both are branches of Tianjin Gas), including outdoor pipelines, in the consideration for issuing 689,707,800 shares of the Company. This transaction has not been completed up to the date the Financial Information is authorised for issue.

(c) Guarantee

At 31 December 2008, the bank loan of RMB30,000,000 was guaranteed by Tianjin Gas. This short term bank loan was repaid during the year ended 31 December 2009.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Period were as follows:

	The Group			
	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Short-term benefit	1,501	1,394	691	796
Post employment benefit	14	11	8	4
	<u>1,515</u>	<u>1,405</u>	<u>699</u>	<u>800</u>

C. DIRECTOR'S REMUNERATION

Saved as disclosed in this report, no remuneration has been paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Period.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any comprises comprising the Group in respect of any period subsequent to 30 June 2010.

Yours faithfully

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

FINANCIAL INFORMATION OF THE GROUP FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2010

Set out below is the unaudited financial information of the Group for the nine months ended 30 September 2010 as extracted from the third quarterly report 2010 of the Group.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2010

	NOTES	Three months ended		Nine months ended	
		30 September 2009 RMB'000 (unaudited)	30 September 2010 RMB'000 (unaudited)	30 September 2009 RMB'000 (unaudited)	30 September 2010 RMB'000 (unaudited)
Revenue	4	64,228	105,235	200,911	270,968
Cost of sales		(52,431)	(74,119)	(153,866)	(199,480)
Gross profit		11,797	31,116	47,045	71,488
Other income	5	1,805	1,223	5,960	4,502
Other gains and losses		(429)	503	847	208
Selling expenses		(7)	(7)	(20)	(20)
Administrative expenses		(2,947)	(4,124)	(10,598)	(11,404)
Finance costs	6	(544)	(545)	(1,551)	(1,607)
Share of result of associates		211	479	287	1,313
Profit before tax	7	9,886	28,645	41,970	64,480
Income tax expense	8	(2,956)	(7,728)	(11,433)	(16,840)
Profit for the period and total comprehensive income for the period		<u>6,930</u>	<u>20,917</u>	<u>30,537</u>	<u>47,640</u>
Profit and total comprehensive income for the period attributable to owners of the Company		<u>6,930</u>	<u>20,917</u>	<u>30,537</u>	<u>47,640</u>
Earnings per share — basic (RMB cent)	10	<u>0.60</u>	<u>1.82</u>	<u>2.66</u>	<u>4.14</u>

NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENTS*For the nine months ended 30 September 2010***1. GENERAL**

The Company was established at Weishan Road, Chang Qing Science, Industry and Trade Park, Jinnan District, Tianjin, the People's Republic of China (the "PRC") as a joint stock limited company. The Company's overseas listed foreign shares ("H Shares") were listed on the Growth Enterprises Market (the "GEM Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 January 2004. In June 2007, the Company transformed to a foreign invested joint stock limited Company.

The principal activities of the Company are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas. One of the subsidiaries of the Company is dormant and has commenced the procedure of deregistration. Up to the date of this report, the deregistration has not been finished. The principal activities of another subsidiary of the Company are investment in an associate and listed securities.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the GEM Rules).

The amounts included in this interim financial information have been computed in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") applicable to interim periods. However, it does not contain sufficient information to constitute an interim financial report as defined in HKAS 34 Interim Financial Reporting.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group applies HKFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting period.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 7 (Amendment)	Disclosures — Transfer of Financial Assets ⁶
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

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

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

⁶ Effective for annual periods beginning on or after 1 July 2011

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE

Revenue represents construction contract revenue from gas connection contracts, revenue from sales of piped gas and gas appliances, construction contract revenue from construction of gas pipeline infrastructure and gas transportation revenue, net of discount during the period.

5. OTHER INCOME

Included in other income, for the three months ended 30 September 2010 and nine months ended 30 September 2010, were value added tax refund of RMB1,028,000 and RMB4,039,000 respectively, (three months ended 30 September 2009 and nine months ended 30 September 2009: RMB1,710,000 and RMB5,570,000).

6. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings				
wholly repayable within five years	(545)	(544)	(1,607)	(1,551)

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of property, plant and equipment	1,357	745	4,048	2,167
Amortisation of intangible assets included in cost of sales	2,442	3,014	7,323	7,994
Amortisation of prepaid lease payments included in administrative expenses	27	33	100	100
Operating lease rentals in respect of rented premises	130	132	392	388
Net exchange loss (included in administrative expenses)	—	6	(9)	268
Bank interest income	(195)	(96)	(463)	(391)

8. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
Current PRC enterprise income tax	7,680	2,939	16,741	11,328
Deferred taxation	48	17	99	105
	<u>7,728</u>	<u>2,956</u>	<u>16,840</u>	<u>11,433</u>

The Company and a subsidiary are subject to the PRC Enterprise Income Tax rate of 25% for both periods of three and nine months ended 30 September 2010 (three and nine months ended 30 September 2009: 25%).

One of the subsidiaries did not have taxable profit for nine months ended 30 September 2010 and 2009.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

9. DIVIDEND

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Final dividend of 0.015 cent for the year ended 31 December 2008 recognised as distribution during the interim period	<u>—</u>	<u>17,244</u>	<u>—</u>	<u>17,244</u>

No dividends were paid, declared or proposed during the nine months ended 30 September 2010. The directors do not recommend the payment of an interim dividend.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 30 September 2010 and nine months ended 30 September 2010 are based on the profit attributable to owners of the Company for the period of RMB20,917,000 and RMB47,640,000 respectively, (profit attributable to owners of the Company for three months ended 30 September 2009 and nine months ended 30 September 2009: RMB6,930,000 and RMB30,537,000 respectively) and the number of 1,149,600,000 shares (three months ended 30 September 2009 and nine months ended 30 September 2009: number of 1,149,600,000 shares respectively) in issue during the periods.

No diluted earnings per share have been presented as the Company had no potential ordinary shares in issue during both periods or at the end of the reporting period.

11. SHARE PREMIUM AND RESERVES

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserves <i>RMB'000</i> <i>(note)</i>	Enterprise expansion fund <i>RMB'000</i> <i>(note)</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009 (audited)	114,960	267,672	16,980	3,071	186,756	589,439
Profit for the period and total comprehensive income for the period	—	—	—	—	30,537	30,537
Dividends recognised as distribution (<i>note 9</i>)	—	—	—	—	(17,244)	(17,244)
Appropriation	—	—	6,032	3,016	(9,048)	—
At 30 September 2009 (unaudited)	114,960	267,672	23,012	6,087	191,001	602,732
Profit for the period and total comprehensive income for the period	—	—	—	—	35,830	35,830
At 31 December 2009 (audited)	114,960	267,672	23,012	6,087	226,831	638,562
Profit for the period and total comprehensive income for the period	—	—	—	—	47,640	47,640
Appropriation	—	—	6,628	3,314	(9,942)	—
At 30 September 2010 (unaudited)	<u>114,960</u>	<u>267,672</u>	<u>29,640</u>	<u>9,401</u>	<u>264,529</u>	<u>686,202</u>

Note: Basis of appropriation of reserves

Prior to August 2007, each of the Company's and its subsidiaries' Articles of Association require the appropriation of 10% of its profit after tax determined under the People's Republic of China ("PRC") accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the share capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation. After transformation to a foreign invested joint stock company in June 2007, the transfers to statutory surplus reserve fund is based on the profit after tax stated in the financial statements prepared under the PRC accounting standards at the discretion of the board of directors.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to maintain an enterprise expansion fund. Enterprise expansion fund is non-distributable. Appropriations to such reserve are made out of net profit after tax annually of the PRC subsidiaries at the discretion of its board of directors. The enterprise expansion fund is used for expanding the capital base of the PRC companies by means of capitalisation issue.

12. RELATED PARTY TRANSACTIONS

(a) During the period, the following related party transactions took place:

Name of related party	Nature of transactions	Three months ended 30 September		Nine months ended 30 September	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
天津市燃氣集團有限公司 (Note i)	Purchase of gas	53,467	40,664	154,454	120,785
	Construction fee paid	18,203	—	30,203	130,777
	Gas transportation income	<u>616</u>	<u>—</u>	<u>3,166</u>	<u>—</u>
天津市煤氣工程設計院 (Note ii)	Construction design fee	<u>791</u>	<u>—</u>	<u>929</u>	<u>5</u>

Notes:

- (i) 天津市燃氣集團有限公司 (“Tianjin Gas”) is the substantial shareholder of the Company.
- (ii) 天津市煤氣工程設計院 is a wholly owned subsidiary of Tianjin Gas.

(b) Asset acquisition agreement

On 16 September 2009, the Company entered into an asset acquisition agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas (both are branches of Tianjin Gas), including outdoor pipelines, in the consideration for issuing 689,707,800 shares of the Company. This transaction has not been completed up to the date these consolidated financial statements are authorised for issue.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Short-term benefit	347	351	1,143	1,042
Post employment benefit	<u>53</u>	<u>3</u>	<u>57</u>	<u>11</u>
	<u>400</u>	<u>354</u>	<u>1,200</u>	<u>1,053</u>

APPENDIX III FINANCIAL INFORMATION OF THE TRANSFERRED ASSETS

1. UNAUDITED FINANCIAL INFORMATION OF THE TRANSFERRED ASSETS FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2009 AND THE SIX MONTHS ENDED 30 JUNE 2010

The following table shows the unaudited financial information of the Transferred Assets for the three financial years ended 31 December 2009 and the six months ended 30 June 2010

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
Gas sales	604,774	785,693	833,604	433,414	527,664
Gas connection income	19,457	25,001	22,236	12,531	7,590
Turnover	624,231	810,694	855,840	445,945	535,254
Cost of gas sales	455,352	553,797	620,780	306,608	380,462
Cost of gas connection	8,624	12,040	10,769	6,697	3,145
Depreciation	28,343	30,952	32,179	16,089	16,201
Total cost	492,319	596,789	663,728	329,395	399,808
Operating Profit	<u>131,912</u>	<u>213,905</u>	<u>192,112</u>	<u>116,550</u>	<u>135,446</u>

In accordance with Rule 19.69(4)(b)(i) of the GEM Listing Rules, the Directors of the Company engaged Deloitte Touche Tohmatsu, the auditor of the Company, to perform certain factual findings procedures in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), in respect of the unaudited financial information of the Transferred Assets which were prepared using accounting policies consistent with those of the financial statements of the Company for the year ended 31 December 2009. The auditor agreed amounts included in the unaudited financial information of the Transferred Assets including gas sales, gas connection income, cost of gas sales, cost of gas connection and depreciation prepared by the Company to the underlying books and records of Tianjin Gas or to amounts calculated based on the amounts recorded in the books and records of Tianjin Gas. The auditor reported the factual findings and found that such information has been properly compiled, derived or calculated from the underlying books and records of Tianjin Gas. The procedures performed by the auditor do not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA. Consequently, no assurance is provided by the auditor on the unaudited financial information of the Transferred Assets.

Since the operating expenses attributable to the Transferred Assets are indivisible due to the absence of separate books and records of these expenses kept for the Transferred Assets, no net profit figure is available for the Transferred Assets. An allocation ratio is applied to calculate the estimated operating expenses of the Transferred Assets. Please also refer to the note under point (d) of the subheading “cashflow from operating activities of the Enlarged Group” under the “Summary” section of this circular for further details. A waiver has been applied to the Stock Exchange and such waiver was granted by the Stock Exchange from the strict compliance

APPENDIX III FINANCIAL INFORMATION OF THE TRANSFERRED ASSETS

with Rule 19.69(1)(a) and 19.69(2) of the GEM Listing Rules in relation to the contents of the circular regarding Rule 19.58(8). Shareholders and the general investing public are reminded to consider the risks in relation to the financial information of the Transferred Assets. Please refer to the paragraph headed “The financial information of the Transferred Assets is limited and may not be indicative to the future profitability of the Enlarged Group”, in the “Risk Factors” section of this circular.

The Sponsor is of the view that given that the absence of the net profit information of the Transferred Assets, together with the risks related to the profitability of the Transferred Assets have been clearly communicated to the Shareholders and hence the investors’ ability to make informed assessment on the financial performance of the Enlarged Group will not be affected.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TRANSFERRED ASSETS

Revenue

The following table sets out the revenue by services categories of the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	(unaudited) RMB'000	%	(unaudited) RMB'000	%	(unaudited) RMB'000	%	(unaudited) RMB'000	%	(unaudited) RMB'000	%
Gas sales	604,774	96.9	785,693	96.9	833,604	97.4	433,414	97.2	527,664	98.6
Gas connection income	19,457	3.1	25,001	3.1	22,236	2.6	12,531	2.8	7,590	1.4
Total	624,231	100	810,694	100	855,840	100	445,945	10.0	535,254	100

For the three years ended 31 December 2009 and the six months ended 30 June 2010, gas sales contributed the majority of the revenue in relation to the Transferred Assets, accounted for 96.9%, 96.9%, 97.4% and 98.6%, respectively.

For each of the three years ended 31 December 2009 and the six months ended 30 June 2010, the largest customer in respect of the Transferred Assets accounted for approximately 47.9%, 51.8%, 47.7% and 38.8% of the unaudited turnover generated from the Transferred Assets.

During the Track Record Period, Tianjin Gas’ largest customer in respect of the Transferred Assets was a State-owned enterprise. It is principally engaged in manufacturing of steel pipes in the PRC. A gas supply contract has been entered into between Tianjin Gas and the largest customer in respect of the Transferred Assets on 31 December 2008 for a term of two years i.e. from 31 December 2008 to 30 December 2010. Pursuant to the said gas supply contract, the largest customer in respect of the Transferred Assets agreed to purchase piped gas from Tianjin Gas. After the completion of the Proposed Assets Transfer, the Company will enter into new gas supply contract with such customer. Although the Group cannot ensure that such customer will enter into a new gas supply contract with the Company, the Directors consider that if such customer opts to purchase gas from other gas suppliers, it will have to construct new pipelines connecting its premises to the branch pipelines of other gas suppliers, hence extra costs will be incurred by such customer. As such, the Directors consider that it will be unlikely for such customer not to utilize the same gas pipelines for the continuation of gas supplies.

Should the Enlarged Group not be able to enter the new gas supply contract with the largest customer of the Transferred Assets, the operation and the financial performance of the Enlarged Group may be materially adversely affected.

APPENDIX III FINANCIAL INFORMATION OF THE TRANSFERRED ASSETS

Gross Profit Margin

The following table sets out the gross profit margin by revenue stream in respect of the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007 %	2008 %	2009 %	2009 %	2010 %
Gas sales	20.0	25.6	21.7	25.5	24.8
Gas connection	55.7	51.8	51.6	46.6	58.6
Overall	21.1	26.4	22.4	26.1	25.3

Notes:

- (1) The gross profit margin for the Transferred Assets is calculated by dividing the difference of revenue and cost by the revenue as extracted from Appendix III to this circular. As there are no separate books and records kept for the Transferred Assets, certain expenses recorded in the books of Tianjin Gas which are directly attributable to the Transferred Assets cannot be reliably estimated. As such, the gross profit margin figures as shown above may not reflect the actual profitability of the Transferred Assets.
- (2) Depreciation is treated as the cost of sales of gas sales in calculating the gross profit margin.

For the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of the Transferred Assets was 21.1%, 26.4%, 22.4% and 25.3% respectively. For the Transferred Assets, the gas connection income enjoyed a higher gross profit margin than the gas sales, but the effect on the overall gross profit margin was small because it accounted for only a very small portion of the total revenue of the Transferred Assets.

Tianjin Gas purchases natural gas in bulk from gas producers while the Group purchases natural gas from Tianjin Gas. For the three years ended 31 December 2009 and the six months ended 30 June 2010, the unit price of gas purchased by the Group was higher than the unit price of gas purchased by Tianjin Gas. Thus, the costs of natural gas of the Group is higher and hence, the gross profit margin of the Group was lower than that of the Transferred Assets.

Upon completion of the Proposed Assets Transfer, the Group will purchase natural gas from Tianjin Gas to cater for the gas demand attributable to the Transferred Assets. Due to the reason as mentioned above, the gross profit margin of the Enlarged Group may be lower than the historical gross profit margin of the Transferred Assets in the future.

APPENDIX III FINANCIAL INFORMATION OF THE TRANSFERRED ASSETS

Assuming that the Transferred Assets had been purchasing gas at a unit cost that was the same as the unit cost of the existing Group for the three years ended 31 December 2009 and the six months ended 30 June 2010, the gross profit margin of the Transferred Assets would have become:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
Gas Sales	6.0%	8.6%	9.8%	9.4%	10.9%
Gas Connection	55.7%	51.8%	51.7%	53.4%	58.6%
Overall	7.6%	10.0%	11.0%	10.4%	11.6%

Notes:

- (1) The gross profit margin for the Transferred Assets is calculated by dividing the difference of revenue and cost by the turnover extricated from Appendix III to this circular, with the following assumptions and adjustments made to the cost of gas sales:
- the unit cost of gas is adjusted to be the same as the existing Group
 - gas leakage is assumed to be 3%
- (2) Depreciation is treated as the cost of gas sales in calculating the gross margin

Average Gas Sales Per User

The following table sets out the average gas sales for each type of users in relation to the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB	RMB	RMB	RMB	RMB
	unaudited	unaudited	unaudited	unaudited	unaudited
Domestic Users (per user)	166.6	164.6	163.8	87.4	92.7
Industrial and Commercial Users (per user)	179,123.7	231,640.1	246,207.5	128,566.1	153,967.7

The average gas sales per Domestic User in relation to the Transferred Assets remained relatively stable during each of the three years ended 31 December 2009. On the other hand, the average gas sales per Industrial and Commercial User in relation to the Transferred Assets for the three years ended 31 December 2009 and the six months ended 30 June 2010 had been in an increasing trend, which was mainly due to the increase in gas sales to Industrial and Commercial Users in each period. The average gas sales per Industrial and Commercial User increased by 29.3%, 6.3%, respectively, for the year ended 31 December 2008 and the year ended 31 December 2009, and by 19.8% for the six months ended 30 June 2010 as compared to the corresponding period in 2009. Overall, the Directors consider that the increase in average gas sales per Industrial and Commercial User of the Transferred Assets was due to the increase in gas usage by such users, however, every year, the gas usage of each Industrial and Commercial User of the Transferred Assets may vary depending on its nature of business and its respective business development and as such the average gas sales per Industrial and Commercial Users varied.

The Transferred Assets has a larger number of Industrial and Commercial Users than the Group and the average gas sales of these Industrial and Commercial Users had been lower than that of the existing Operational Locations of the Group. The Directors reviewed the gas sales data of the major customers of both the Group and the Transferred Assets, however, it would be difficult to generalize the reasons for the lower average gas sales of the Industrial and Commercial Users of the Transferred Assets as the gas usage of each customer varies depending on the nature of business and the business development of each customer.

As for Domestic Users, the Directors noted from the monthly gas usage data of 2009 that the Group's Domestic Users in the existing Operational Locations consumed more natural gas during the winter time compared with the Transferred Assets. Based on the Directors' knowledge and experience in natural gas industry in Tianjin City, the difference in average gas sales per Domestic User between the Group and the Transferred Assets may be due to the reason that some of the existing Operational Locations have not developed centralized heat supply facilities and the customers have to use natural gas to generate heat by themselves during winter.

The Directors currently estimate that the growth rates in Hedong District and Heping District, where the Transferred Assets are located, in each of the six months periods in 2011 and 2012 are expected to be lower than that in the existing Operational Locations as the existing Operational Locations are less urbanized districts with less developed pipeline networks than the urban districts in Tianjin (e.g. Hedong District and Heping District, where the Transferred Assets are located).

Set out below is the management discussion and analysis of the Transferred Assets for the three financial years ended 31 December 2009 and the six months ended 30 June 2010:

For the year ended 31 December 2007

For the year ended 31 December 2007, total revenue generated from the Transferred Assets was approximately RMB624.2 million, representing an increase of approximately 22.4% in total revenue from 2006. Sale of gas was the major source of income for the Transferred Assets during the year, accounted for approximately 96.9% of the total revenue. There had been more domestic users and industrial users in the Hedong District and the Heping District during the year, therefore, both of the revenue from gas connection contract and sale of gas increased during the year. Revenue from gas connection contract increased by approximately 39.6% in 2007 as compared to that in 2006 while revenue from sale of gas increased by approximately 21.9% in 2007. The increase in revenue from sale of gas in 2007 was mainly due to the increase in average selling price for both the domestic and industrial users and the increase in gas volume used by the industrial users.

Total cost was approximately RMB492.3 million for the year ended 31 December 2007, of which, the cost of sale of gas and depreciation were approximately RMB455.4 million and RMB28.3 million, and accounted for 92.5% and 5.7% of the total cost, respectively. The operating profit margin of the Transferred Assets was approximately 21.1% for the year. Since the growth in revenue from gas connection contract out-paced the growth in revenue from sale of gas, as the gross profit margin from gas connection contract was generally higher than that of revenue from sale of gas, the operating profit margin in 2007 increased accordingly.

For the year ended 31 December 2008

For the year ended 31 December 2008, total revenue generated from the Transferred Assets was approximately RMB810.7 million, representing an increase of 29.9% in total revenue. Sale of gas was still the major source of income for the Transferred Assets during the year, which accounted for approximately 96.9% of the total revenue. There had been more new domestic users and industrial users in the Hedong District and the Heping District. The increase in revenue from sale of gas in 2008 was mainly due to the increase in average selling price for industrial users and the increase in gas volume used by the industrial users.

Total cost was approximately RMB596.8 million for the year ended 31 December 2008, of which, the cost of sale of gas and depreciation were approximately RMB553.8 million and RMB31.0 million, and accounted for 92.8% and 5.2% of the total cost, respectively. Total cost increased by approximately 21.2% from that in 2007, which was in line with the growth in turnover. The operating profit margin of the Transferred Assets was approximately 26.4% for the year, compared to approximately 21.1% in 2007. The increase in operating profit margin is attributable to the increase in average selling price which outweighed the increase in average purchase price of gas in 2008.

For the year ended 31 December 2009

For the year ended 31 December 2009, total revenue generated from the Transferred Assets was approximately RMB855.8 million, representing an increase of 5.6% in total revenue. Sale of gas was still the major source of income for the Transferred Assets during the year, which accounted for approximately 97.4% of the total revenue. The increase in revenue from sale of gas in 2009 was mainly due to the increase in gas volume used by the industrial users.

Total cost was approximately RMB663.7 million for the year ended 31 December 2009, of which, the cost of sale of gas and depreciation were approximately RMB620.8 million and RMB32.2 million, and accounted for 93.5% and 4.9% of the total cost, respectively. Total cost increased by approximately 11.2% from that in 2008, mainly due to the increase in purchase price of gas. The operating profit margin of the Transferred Assets was approximately 22.4% for the year, which is lower than approximately 26.4% for 2008. The decline in operating profit margin is mainly due to the increase in average purchase price, which outweighed the increase in the average selling price of gas in 2009.

For the six months ended 30 June 2010

For the six months ended 30 June 2010, total revenue generated from the Transferred Assets was approximately RMB535.3 million. Sale of gas was still the major source of income for the Transferred Assets during the six months ended 30 June 2010, which accounted for approximately 98.6% of the total revenue. The increase in revenue from sale of gas for the six months ended 30 June 2010 compared with the corresponding period in 2009 was mainly due to the increase in gas volume used by the commercial and industrial users.

Total cost was approximately RMB399.8 million for the six months ended 30 June 2010, of which, the cost of sale of gas and depreciation were approximately RMB380.5 million and RMB16.2 million, and accounted for 95.2% and 4.1% of the total cost, respectively. Total cost was increased compared with the corresponding period in 2009, mainly due to the increase in purchase price of gas. The operating profit margin of the Transferred Assets was approximately 25.3% for the six months ended 30 June 2010, which was lower than that of the same period in 2009. The decline in operating profit margin was mainly due to the higher unit purchase cost relative to selling price of gas for the six months ended 30 June 2010, compared with the corresponding period in 2009.

The following is the text of the report prepared by Deloitte Touche Tohmatsu on the pro forma consolidated statement of financial position and pro forma consolidated statement of comprehensive income of the Enlarged Group for the inclusion in this circular:



**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF TIANJIN TIANLIAN PUBLIC UTILITIES COMPANY LIMITED**

We report on the unaudited pro forma financial information of Tianjin Tianlian Public Utilities Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the very substantial and connected transaction in respect of acquisition of certain assets from 天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited), a shareholder of the Company (the “Acquisition”) might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 31 December 2010 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out on page 292 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2010 or any future date; or
- the results of the Group for the year ended 31 December 2009 or any future period.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong,
31 December 2010

INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the unaudited pro forma financial information of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of certain assets from 天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited) (“Tianjin Gas”), a shareholder of the Company (the “Acquisition”) in consideration for issuing 689,707,800 shares of the Company as if the Acquisition has taken place on 30 June 2010 for the preparation of unaudited pro forma consolidated statement of financial position; and at the beginning of the year ended 31 December 2009 for the preparation of the unaudited pro forma consolidated statement of comprehensive income.

The unaudited pro forma consolidated statement of financial position of the Group is based on the audited consolidated statement of financial position of the Group as at 30 June 2010 as set out in Appendix I to this circular and adjusted to reflect the effect of the Acquisition. The unaudited pro forma consolidated statement of comprehensive income of the Group is prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 as set out in Appendix I to this circular, as if the Acquisition had been completed on 1 January 2009, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma financial information of the Group was prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position and results of operation of the Group had the Acquisition been completed as at the respective dates to which it is made up to or at any future date.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group as at 30 June 2010 RMB'000	Pro forma adjustments of transferred assets RMB'000	Other pro forma adjustments RMB'000	Notes	Pro forma total RMB'000
Non-current assets					
Property, plant and equipment	243,791	23,700	—	1	267,491
Prepaid lease payments	4,948	—	—		4,948
Intangible assets	202,971	572,000	—	1	774,971
Contract work in progress	6,623	—	—		6,623
Interest in associates	18,166	—	—		18,166
Prepayment	155	—	—		155
Deferred tax assets	2,889	—	—		2,889
Trade receivables	5,651	—	—		5,651
	<u>485,194</u>	<u>595,700</u>	<u>—</u>		<u>1,080,894</u>
Current assets					
Inventories	660	—	—		660
Trade receivables	41,279	—	—		41,279
Deposits, prepayment and other receivables	2,085	—	—		2,085
Amount due from a shareholder	43,905	—	—		43,905
Held for trading investments	1,814	—	—		1,814
Short-term bank deposits with original maturity more than three months	2,000	—	—		2,000
Bank balances and cash	184,831	—	(5,143)	4	179,688
	<u>276,574</u>	<u>—</u>	<u>(5,143)</u>		<u>271,431</u>
Current liabilities					
Trade and other payables	40,539	—	—		40,539
Dividend payable	9,743	—	—		9,743
Income tax payable	5,293	—	—		5,293
Borrowings	40,000	—	—		40,000
Amount due to a related party	43	—	—		43
	<u>95,618</u>	<u>—</u>	<u>—</u>		<u>95,618</u>
Net current assets	<u>180,956</u>	<u>—</u>	<u>(5,143)</u>		<u>175,813</u>
Total assets less current liabilities	<u>666,150</u>	<u>595,700</u>	<u>(5,143)</u>		<u>1,256,707</u>
Capital and reserves					
Share capital	114,960	68,971	—	1	183,931
Share premium and reserves	550,325	526,729	(5,143)	1&4	1,071,911
Equity contributable owners of the Company	<u>665,285</u>	<u>595,700</u>	<u>(5,143)</u>		<u>1,255,842</u>
Non-current liability					
Deferred tax liabilities	865	—	—		865
	<u>666,150</u>	<u>595,700</u>	<u>(5,143)</u>		<u>1,256,707</u>

(II) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2009 RMB'000	Pro forma adjustment of transferred assets RMB'000	Notes	Other pro forma adjustments RMB'000	Notes	Pro forma total RMB'000
Turnover	317,992	855,840	2	—		1,173,832
Cost of sales	(222,326)	(620,780)	3a	(98,685)	3d	(992,520)
	—	(10,769)	3b	(7,781)	3e	—
	—	(32,179)	3c	—		—
	95,666	192,112		(106,466)		181,312
Other income	6,816	—		—		6,816
Other gains and losses	1,711	—		—		1,711
Selling expenses	(27)	—		—		(27)
Administrative expenses	(14,045)	—		(5,143)	4	(19,188)
Finance costs	(2,094)	—		—		(2,094)
Share of results of associates	877	—		—		877
Profit before tax	88,904	192,112		(111,609)		169,407
Income tax expenses	(22,537)	—		(20,125)	6	(42,662)
Profit for the year and total comprehensive income for the year	<u>66,367</u>	<u>192,112</u>		<u>(131,734)</u>		<u>126,745</u>
Profit for the year and total comprehensive income for the year attributable to owner of the Company	<u>66,367</u>	<u>192,112</u>		<u>(131,734)</u>		<u>126,745</u>

Notes:

1. On 16 September 2009, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas certain assets including physical gas pipelines and related equipment (the “Transferred Assets”) in consideration for issuing 689,707,800 shares of the Company. The Group has applied HK(IFRIC)-Int12 “Service Concession Arrangement” to recognise the pipeline acquired as intangible assets. HK(IFRIC)-Int 12 provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services. In accordance with HK (IFRIC)-Int 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. This interpretation requires that the infrastructure that the Group acquired from a third party for the purpose of the public service arrangement is recognised as an intangible asset in accordance with HKAS 38 “Intangible Assets” if the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. Since the Group as a gas supply operator has access to operate the gas pipeline infrastructure to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement contract and also carry out gas connection work to the public, the gas pipeline infrastructure it operates will be classified as intangible assets as per HK (IFRIC)-Int 12. The intangible asset represents the right for distribution of gas in certain districts in the People’s Republic of China, and have finite useful lives. Such intangible assets are amortised on a straight-line basis over the remaining useful life of pipelines of approximately 15 years. There is no expiry date for the principal permits/licences held by the Group in relation to its piped natural gas supply operations.

Hence, this adjustment is to reflect the assumed fair values of pipeline acquired shown under intangible assets and equipment other than pipelines shown under property, plant and equipment of approximately RMB572,000,000 and RMB23,700,000, respectively, which is based on the valuation performed by Asset Appraisal Limited as at 30 September 2010 based on replacement cost approach, as a result of the Acquisition and the corresponding increase in share capital and share premium of approximately RMB68,971,000 and RMB526,729,000, respectively as a result of the issuing of 689,707,800 domestic shares of the Company at an assumed issue price of RMB0.86 per domestic share to Tianjin Gas (par value at RMB 0.1 each) to satisfy the above consideration. For the purpose of preparing the unaudited pro forma consolidated statement of financial position, it is assumed that there is no material difference between the fair value of the Transferred Assets as at the date of completion of the transaction and the values estimated in the aforesaid valuation as at 30 September 2010.

2. The adjustment represents the revenue from sales of gas and gas connection income generated from the Transferred Assets during the year ended 31 December 2009 which is extracted from the general ledger of Tianjin Gas.
3. The adjustments include:
 - 3a. Gas purchase cost of Tianjin Gas from its suppliers of approximately RMB620,780,000 during the year ended 31 December 2009 which is extracted from the general ledger of Tianjin Gas.
 - 3b. The cost of completion of gas connection services of approximately RMB10,769,000 during the year ended 31 December 2009 which is extracted from the general ledger of Tianjin Gas.
 - 3c. The depreciation and amortisation of the Transferred Asset of approximately RMB32,179,000 charged for the year ended 31 December 2009, which is extracted from the general ledger of Tianjin Gas and calculated based on the historical cost of the Transferred Assets.

- 3d. After completion of the Acquisition, the Company will purchase gas from Tianjin Gas pursuant to the gas supply contracts (the “Gas Supply Contracts”).

Pursuant to the Assets Acquisition Agreement, the Company and Tianjin Gas agreed that the value of the volume of gas to be purchased from Tianjin Gas by the Company will be calculated using the following formula:

The actual volume of gas sold by the Company to other third party customers divided by 97%, which is due to gas leakage from the pipelines during its normal course of operation; and

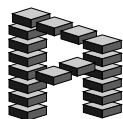
pursuant to the Gas Supply Contracts the Company shall purchase gas from Tianjin Gas at a price of RMB2 per cubic meters, which is higher than the original purchase price of Tianjin Gas.

Combining the effect of the above formula due to gas leakage from the pipelines and the higher gas purchase price from Tianjin Gas, the cost of purchase of gas will be increased by approximately RMB98,685,000 during the year ended 31 December 2009. The adjustment is made in accordance with the requirement set out in the GEM Rule 7.31(6).

- 3e. The additional depreciation and amortisation of the Transferred Assets of approximately RMB7,781,000 charged for the year ended 31 December 2009, which is calculated based on the assumed fair value of the Transferred Assets of RMB595,700,000. For the purpose of preparing the unaudited pro forma consolidated statement of comprehensive income, it is assumed that there is no material difference between the fair value of the Transferred assets as at the date of completion of the transaction and the values estimated in the aforesaid valuation as at 30 September 2010.
4. The adjustment represents the estimated direct legal and professional costs related to the Acquisition.
5. Overhead expenses including staff costs and maintenance costs recorded in the books of Tianjin Gas have not been reflected in the unaudited pro forma consolidated statement of comprehensive income above as there are no separate books and records kept for the overhead expenses of the Transferred Assets. The overhead expenses recorded in the books of Tianjin Gas which are attributable to the Transferred Assets cannot be reliably estimated. Hence, no adjustment has been made to take into consideration of the overhead expenses included in the cost of sales, administrative expenses and selling expenses of Tianjin Gas incurred the year ended 31 December 2009.
6. The adjustment represents the increase of income tax expenses of RMB20,125,000, which is calculated at the Company’s People Republic of China Enterprise Income tax rate of 25%, as a result of the Acquisition.
7. The above adjustments 2, 3 and 6 will have continuing effect on the Company in the future.

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 September 2010 of the Transferred Assets.

A. VALUATION REPORT FROM THE VALUER



Asset Appraisal Limited
資產評估顧問有限公司

Rm 802 8/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號安康商業大廈8樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

31 December 2010

The Board of Directors

Tianjin Tianlian Public Utilities Co., Ltd.

Floor 9, Gangao Tower
18 Zhengzhou Road
He Ping District
Tianjin City
The People's Republic of China

Dear Sirs,

In accordance with the instructions from **Tianjin Tianlian Public Utilities Co., Ltd.** (“the Company”) to provide value opinion on certain pipeline, machinery and equipment and motor vehicle (“the Equipment”) of the following branches of **Tianjin Gas Group Company Limited** (天津市燃氣集團有限公司, “Tianjin Gas”) situated in Heping District and Hedong District, Tianjin City, the People's Republic of China (referred to as the “PRC”):

- Heping Office of Transmission Branch of Tianjin Gas (天津市燃氣集團有限公司輸配分公司和平營業所, “Heping Transmission”);
- Hedong Office of Transmission Branch of Tianjin Gas (天津市燃氣集團有限公司輸配分公司河東營業所, “Hedong Transmission”);
- Heping Office of First Sales Branch of Tianjin Gas (天津市燃氣集團有限公司第一銷售分公司和平營業所, “Heping First Sales”); and
- Hedong Office of First Sales of Tianjin Gas (天津市燃氣集團有限公司第一銷售分公司河東營業所, “Hedong First Sales”)

We confirm that we have inspected the Equipment, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of valuation of the Equipment as at **30 September 2010** (referred to as the “valuation date”).

This letter which forms part of our valuation report explains the basis and methodology of valuation and the limiting conditions.

DESCRIPTION OF THE EQUIPMENT

The appraised Equipment comprises the following major items of equipment employed for natural gas distribution and installed over Heping District and Hedong District of Tianjin City, the PRC:

- Medium and low-pressure distribution pipelines
- Gas pressure regulating stations
- Pressure regulating chambers
- Gas pressure regulating units
- Pipeline installation equipment
- Gas leakage detecting devices
- Underground pipeline detecting devices
- Volume gauges
- Gas meters
- Power generators
- Boilers
- IC card readers
- Office and electronic equipment
- Motor vehicles

The gas pipeline network of Heping Transmission comprises gas pipelines penetrating over Heping District, Tianjin City with a total length of approximately 396 kilometres whilst the gas pipeline network of Hedong Transmission comprises gas pipelines penetrating over Hedong District District, Tianjin City with a total length of approximately 1,078 kilometres.

As confirmed by the Company, the gas pipeline network of Heping Transmission is currently connecting to 91,359 domestic users via the last mile pipelines of Heping First Sales whilst the gas pipeline network of Hedong Transmission is currently connecting to 266,099 domestic users via the last mile pipelines of Hedong First Sales.

BASIS OF VALUATION

The valuation is our opinion of the market value in continued use. Market value is defined in the International Valuation Standards (Eighth Edition 2007) as the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

When market value is established on the premise of continued use, it is assumed that the buyer and the seller would be contemplating retention of the assets in situ at their present locations as part of the current operations. An estimate of market value arrived at on the premise of continued use does not represent the amount that might be realized from piecemeal disposition of the assets in the marketplace or from an alternative use of the assets.

The scope of this valuation is restricted to the Equipment to be acquired by Company. Any land, buildings, land improvements, construction in progress, company records or any current or intangible assets in associate with the business operations underlying the Equipment are excluded.

VALUATION METHODOLOGY

There are three generally accepted approaches to value namely the Market Approach, the Cost Approach and the Income Approach. Any one or combination of the three approaches may be used in a particular valuation, depending upon the objectives and the nature of the assets involved.

We found no market rental of the industrial facilities similar to the Equipment evidenced that can be used as benchmark in the income approach and therefore we have considered and excluded the income approach to value the Equipment. In view of the nature of the Equipment and the absence of any market information regarding sales and purchases of used industrial facilities similar to the Equipment, it is considered that the Market Approach is not applicable and the most reliable approach in arriving at our opinion of value of the Equipment is by using the cost approach.

The depreciated replacement cost approach establishes value based on the costs of reproducing or replacing the Equipment, less depreciation from physical deterioration, and functional and economic/external obsolescence (if any).

Cost of Reproduction New is defined as the estimated current costs of reproducing a new replica of an asset with the same or closely similar materials.

Cost of Replacement New is defined as the estimated current costs of the new asset having the nearest equivalent utility as the asset being appraised.

Physical Deterioration is the loss in value of an asset from wear and tear of asset in operation and exposure to various elements.

Functional Obsolescence is the loss in value is due to factors inherent in the asset itself and changes in design, materials, or process that result in inadequacy, over capacity, excess construction, lack of functional utility or excess operating costs, etc.

Economic Obsolescence is an incurable loss in value caused by unfavorable external conditions.

LIMITING CONDITIONS AND MAJOR ASSUMPTIONS

We have conducted visual inspection of the Equipment as far as practicable save for those items that have buried, concealed or inaccessible. However, no full mechanical survey has been carried out. The Equipment was appeared to be in good working condition as evidenced by the continuous gas supply over the prescribed areas. We have therefore assumed that the Equipment can perform efficiently and safely according to the purposes for which it was designed and built and is in a physical condition commensurate with its post installation age.

It was assumed that the usage and repair and maintenance program of the Equipment will be same as the valuation date and there is no material change in the industry safety standards in operating the Equipment.

We accepted the records furnished by the Company as properly describing the Equipment, its quantity, original costs and acquisition dates. We have relied to a very considerable extent on such records in arriving at our opinion of value.

As confirmed by J.D. Hands Law Firm, the legal adviser to the Company on the PRC laws, Tianjin Gas has the legal rights to possess and use the Equipment and has undergone all necessary internal approval procedures for transferring the Equipment to the Company. Upon completion of the handover procedures for the asset transfer, the Company shall secure the ownership of the Equipment and has the legal rights to possess, use and disposal of the Equipment.

According to the information provided by the Company, the potential tax liabilities which would arise on the transfer of the Equipment at the amount of the valuation are PRC business tax and PRC corporate income tax. As confirmed by the Company, such tax liabilities, if any, shall be rested on the vendor. Also, the Company confirmed that upon completion of the asset transfer, it has no intention to dispose of the Equipment in the foreseeable future.

OPINION OF VALUE OF THE EQUIPMENT

After a thorough analysis of the Equipment and review of the information assembled by us, it is our opinion that as at **30 September 2010**, the market value in continued use of the Equipment free of any encumbrances is reasonably represented by the amount of **RENMINBI YUANS FIVE HUNDRED NINETY FIVE MILLION AND SEVEN HUNDRED THOUSAND ONLY (RMB595,700,000)**.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

Yours faithfully,
For and on behalf of
ASSET APPRAISAL LIMITED

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)

Samuel Wong PE CPD
Mechanical Engineer

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors (RICS), the Hong Kong Institute of Surveyors (RICS), and a Registered Professional Surveyor in General Practice. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 13 year's extensive experience in valuation of properties in Hong Kong, in Macau and in the PRC.

Samuel Wong is a mechanical engineer, a licensed engineer in the State of Texas US and a certified plumbing designer. He has over 15 year's experience in performing mechanical project design, project cost estimation and quality control.

B. LETTER FROM KINGSWAY ON THE VALUATION REPORT ON THE TRANSFERRED ASSETS AND THE QUALIFICATION OF THE VALUER

31 December 2010

The Directors

Tianjin Tianlian Public Utilities Company Limited

Dear Sirs,

We refer to the Proposed Assets Transfer of Tianjin Tianlian Public Utilities Company Limited (the “Company”). Unless the context requires otherwise, the capitalised terms used herein shall have the same meaning as defined in the circular of the Company dated 31 December 2010 (the “Circular”).

We refer to the valuation report dated 31 December 2010 (the “Valuation”) set out in appendix V to the Circular, issued by Asset Appraisal Limited, an independent valuer, in respect of the Transferred Assets. Asset Appraisal Limited is a firm of qualified valuers who are members of The Hong Kong Institute of Surveyors. We have reviewed the Valuation and discussed with Mr. Dong Hui Qiang, an executive director of the Company and Asset Appraisal Limited the basis and assumptions upon which the Valuation has been made. We have also discussed with Asset Appraisal Limited on their qualifications and experience. On the basis of the information comprising the Valuation, we are of the opinion that the Valuation prepared by Asset Appraisal Limited has been made after due care and consideration and is satisfied that Asset Appraisal Limited has the qualifications and experience to undertake the Valuation.

The valuation report issued by Asset Appraisal Limited abovementioned has been set out in appendix V to the Circular, for which Asset Appraisal Limited as the valuer is solely responsible.

Yours faithfully,

For and on behalf of

Kingsway Capital Limited**Alex Chu***Executive Director*

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 September 2010 of the property interests held by the Enlarged Group



Asset Appraisal Limited
資產評估顧問有限公司

Rm 802 8/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號安康商業大廈8樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

31 December 2010

The Board of Directors
Tianjin Tianlian Public Utilities Co., Ltd.

Floor 9, Gangao Tower
18 Zhengzhou Road
He Ping District
Tianjin City
The People's Republic of China

Dear Sirs,

Re: Valuation of Properties in the People's Republic of China (the "PRC")

In accordance with the instructions from **Tianjin Tianlian Public Utilities Co., Ltd.** (the "Company") to value the property interests (the "Properties") held by the Company or its subsidiaries (the Company and its subsidiaries are altogether referred to as the "Enlarged Group"), we confirm that we have inspected the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at **30 September 2010** (the "date of valuation").

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHP

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership.

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

We have also relied upon the legal opinion provided by the PRC legal advisers, namely J. D. Hands Law Firm (嘉德恒時律師事務所) (the “PRC Legal Opinion”), to the Company on the relevant laws and regulations in the PRC, on the nature of the owner’s land use rights in the Property. Its material content has been summarized in the valuation certificate attached herewith.

VALUATION METHODOLOGY

The Properties are valued by the comparison method where comparison based on price information of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Where, due to the nature of the buildings and structures of the property numbered 10, there is no market sale comparable readily available, it has been valued on the basis of depreciated replacement costs (DRC).

DRC is defined as “an estimate of the market value on existing use of the land plus the current gross replacement (reproduction) costs of the buildings, structures and land improvement works thereon, less allowance for physical deterioration and all relevant forms of obsolescence and optimization”. The underlying theory of this basis is the Market Value of the appraised property should, at least, be equivalent to the replacement cost of the remaining service potential of the appraised property i.e. the DRC of the appraised property. In the absence of known market for the property, the DRC generally furnishes the most reliable indication of value for property where it is not practicable to ascertain its value on market bases.

The valuation of the properties on the basis of DRC is on the assumption that the properties are subject to the test of adequate potential profitability of the business having due regard to the values of the total assets employed and the nature of the operation.

We have ascribed no commercial value to the property numbered 9 on the ground that land use rights therein have been granted by way of administration allocation with undefined term. As advised by the PRC legal adviser to the Company, these allocated land use rights are restricted for the use of the grantee and are barred from being transferred on the market.

We have attributed no commercial value to the property interests in Group II, which are rented by the Enlarged Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the Properties.

As the Properties are held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the Properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

According to the information prepared by the Enlarged Group, the potential tax liabilities which would arise on the disposal of the properties in the PRC are PRC business tax (approximately 5% on selling price), PRC land appreciation tax (approximately 30%-60% on capital gain) and PRC corporate income tax (25% on corporate's taxable profit). According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liabilities. As advised by the Enlarged Group, such tax liabilities are not likely to crystallize as it has no intention to dispose of the properties located in the PRC in the foreseeable future.

In valuing the properties, we have complied with all the requirements contained in Rule 11 of the Codes on Takeovers and Mergers and Share Repurchases of the Securities and Futures Commission; Chapter 8 of the Rules governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1st January 2005.

All monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

TSE Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors (RICS), the Hong Kong Institute of Surveyors (RICS), and a Registered Professional Surveyor in General Practice. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 13 year's extensive experience in valuation of properties in Hong Kong, in Macau and in the PRC.

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

SUMMARY OF VALUATION
Group I — Properties held and occupied by the Enlarged Group

Property	Market value in existing state as at 30 September 2010 <i>RMB</i>	Interest attributable to the Company as at 30 September 2010 <i>%</i>	Value of property interest attributable to the Company as at 30 September 2010 <i>RMB</i>
1. Unit Nos. 901-904 Level 9 Gangao Tower No. 18 Zhengzhou Road He Ping District Tianjin City The PRC	18,000,000	100	18,000,000
2. A gas distribution station / office located at Jinnan Economic Development Area (Shuang Gang) Tianjin City The PRC	2,800,000	100	2,800,000
3. Yangliuqing Service Station Nos. 302 and 306 Xin Yang Road Xiqing District Tianjin City The PRC	1,375,000	100	1,375,000
4. A parcel of land located at Huajiangli Dong Hai Street Hexi District Tianjin City The PRC	96,000	100	96,000
5. A parcel of land located at Guijiangli Dong Hai Street Hexi District Tianjin City The PRC	66,000	100	66,000

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Market value in existing state as at 30 September 2010 <i>RMB</i>	Interest attributable to the Company as at 30 September 2010 %	Value of property interest attributable to the Company as at 30 September 2010 <i>RMB</i>
6. A parcel of land located at Yuan Ding Apartment Hexi District Tianjin City The PRC	66,000	100	66,000
7. A parcel of land located at Shuang Lin Farm Jinnan District Tianjin City The PRC	46,000	100	46,000
8. House No. 34 Mei Gui Zhuang Yuan Shuang Lin Economic Technology Development Zone Jinnan District Tianjin City The PRC	4,000,000	100	4,000,000
9. Shop No. 1 Level 1 Block No. 1 House No. 34 Kuanfuli Da Gu Nan Road Hexi District Tianjin City The PRC	No commercial value	100	No commercial value
10. Gas Storage and Distribution Station Gong Long Da Street Jining City Inner Mongolia Autonomous Region The PRC	7,500,000	100	7,500,000
Sub-total:	33,949,000		33,949,000

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

Group II — Properties rented by the Enlarged Group

Property	Market value in existing state as at 30 September 2010	Interest Attributable to the Company as at 30 September 2010	Value of property interest attributable to the Company as at 30 September 2010
11. No. 4 Liujiang Road Hei Niu Cheng Road Hexi District Tianjin City, the PRC	No commercial value	100%	No commercial value
12. Unit 1004 Wing On Square 62 Mody Road Tsimshatsui East Kowloon Hong Kong	No commercial value	100%	No commercial value
Grand Total:	RMB33,949,000		RMB33,949,000

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Enlarged Group

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
1. Unit Nos. 901-904 Level 9 Gangao Tower No. 18 Zhengzhou Road He Ping District Tianjin City The PRC	<p>The Property comprises all office units on the level 9 of a 12-storey commercial building completed in about 2000.</p> <p>The total gross floor area of the Property is 1,654.05 square metres.</p> <p>The land use rights of Unit No. 901 of the Property have been granted for a term expiring on 3 July 2048 for commercial use. The land use rights of Unit Nos. 902 to 904 have been granted for a term expiring on 15 November 2042.</p>	The property is currently occupied by the Enlarged Group as offices.	18,000,000

Notes:

1. As revealed by the Building and Land Ownership Certificate (Ref: Fang Di Zheng Jin Zhi No. 101020804664) dated 11 September 2008, Unit No. 901 of the Property with a gross floor area of 599.66 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 3 July 2048.
2. As revealed by another Building and Land Ownership Certificate (Ref: Fang Di Zheng Jin Zhi No. 101030800523) dated 21 January 2008, Unit Nos. 902-904 of the Property with a total gross floor area of 1,054.39 square metres are held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 15 November 2042.
3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:
Building and Land Ownership Certificate : Yes
4. The PRC Legal Opinion is summarized as follows:
 - 4.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights and building ownership right of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 4.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 4.3 Tianjin Tianlian Public Utilities Co., Ltd. has the rights to possess, use, benefit from and dispose of the Property;
 - 4.4 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 4.5 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third parties' rights; and
 - 4.6 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
2. A gas distribution station/office located at Jinnan Economic Development Area (Shuang Gang) Tianjin City The PRC	The Property comprises a parcel of land with an area of 2,773.7 square metres on which an office structure, a control room and various structures such as guard room, electrical room are erected. The land use rights of the Property have been granted for a term of 50 years commencing from the date of the Land Grant Contract i.e. 27 August 2003 for industrial uses.	The property is occupied by the Enlarged Group as a gas distribution station and business office.	2,800,000

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

Notes:

1. Pursuant to a Land Grant Contract entered into between the Land Resources Administration Bureau of Jinnan District Tianjin City and Tianjin Tianlian Public Utilities Co., Ltd. on 27 August 2003, the land use rights of the subject land parcel namely Lot No. 03-SK012 with an area of 2,773.7 square metres were granted to Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term of 50 years commencing from the date of the Land Grant Contract for industrial uses.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Right Certificate : under application

3. The PRC Legal Opinion is summarized as follows:
 - 3.1 Tianjin Tianlian Public Utilities Co., Ltd. have been granted the land use rights of the subject land parcel by the Land Resources Administration Bureau of Jinnan District Tianjin City via a Land Grant Contract dated 27 August 2003;
 - 3.2 Tianjin Tianlian Public Utilities Co., Ltd. has settled all land premium in connection with the land grant of the subject land parcel;
 - 3.3 Land Use Right Certificate for the property has not yet been issued. As at the date of the PRC legal opinion, the PRC Lawyer did not discover any situation in which the Land Administration Bureau recalls the land from the Company or requests the Company to stop using the land; and
 - 3.4 The fact that the Company has not yet obtained the Land Use Right Certificate for the property does not have any adverse impact on the Company's business operations.
 - 3.5 Tianjin Tianlian Public Utilities Co., Ltd. has not obtained all the ownership title and relevant documents for the construction of the buildings standing on the land. Tianjin Tianlian Public Utilities Co., Ltd. is currently applying for the Land Use Right Certificate of the subject land parcel. Tianjin Tianlian Public Utilities Co., Ltd. shall have no legal impediment in obtaining the Land Use Right Certificate of the property. There was no third-party claim on the property rights in respect of the property as of the date of the PRC legal opinion.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
3. Yangliuqing Service Station Nos. 302 and 306 Xin Yang Road Xiqing District Tianjin City The PRC	<p>The Property comprises a parcel of land with an area of 131 square metres on which a 2-storey non-domestic structure is built. The building was completed in about 2005.</p> <p>The gross floor area of the Property is 183.48 square metres.</p> <p>The land use rights of the Property have been granted for a term expiring on 13 June 2074 for domestic use.</p>	The property is currently occupied by the Enlarged Group as a gas service station.	1,375,000

Notes:

1. As revealed by the Building and Land Ownership Certificate (Ref: Fang Di Zheng Jin Zhi No. 111020905712) dated 8 June 2009, a portion of the Property with a land area of 65.5 square metres and a gross floor area of 91.74 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 13 June 2074.
2. As revealed by another Building and Land Ownership Certificate (Ref: Fang Di Zheng Jin Zhi No. 111020905713) dated 8 June 2009, the remaining portion of the Property with a land area of 65.5 square metres and a gross floor area of 91.74 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 13 June 2074.
3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:
Building and Land Ownership Certificate : Yes
4. The PRC Legal Opinion is summarized as follows:
 - 4.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights and building ownership right of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 4.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 4.3 Tianjin Tianlian Public Utilities Co., Ltd. has the rights to possess, use, benefit from and dispose of the Property;
 - 4.4 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 4.5 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third partys' rights; and
 - 4.6 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
4. A parcel of land located at Huajiangli Dong Hai Street Hexi District Tianjin City The PRC	<p>The Property comprises a parcel of land with an area of 44.8 square metres on which a single-storey structure for pressure regulating use is built.</p> <p>The land use rights of the Property have been granted for a term expiring on 20 January 2043 for pressure regulating station use.</p>	The property is currently occupied by the Enlarged Group as a pressure regulating station.	96,000

Notes:

1. As revealed by the Land Use Right Certificate (Ref: Xi Dan Guo Yong(2003) Zi No. 014) dated 21 January 2003, the subject land parcel namely Lot No. 0620-(15)-001-41 with an area of 44.8 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 20 January 2043 for pressure regulating station use.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Right Certificate : Yes
3. The PRC Legal Opinion is summarized as follows:
 - 3.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 3.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 3.3 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 3.4 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third parties' rights; and
 - 3.5 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
5. A parcel of land located at Guijiangli Dong Hai Street Hexi District Tianjin City The PRC	The Property comprises a parcel of land with an area of 30.8 square metres on which a single-storey structure for pressure regulating use is built. The land use rights of the Property have been granted for a term expiring on 20 January 2043 for pressure regulating station use.	The property is currently occupied by the Enlarged Group as a pressure regulating station.	66,000

Notes:

1. As revealed by the Land Use Right Certificate (Ref: Xi Dan Guo Yong(2003) Zi No. 013) dated 21 January 2003, the subject land parcel namely Lot No. 0620-(20)-046 with an area of 30.8 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 20 January 2043 for pressure regulating station use.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Right Certificate : Yes
3. The PRC Legal Opinion is summarized as follows:
 - 3.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 3.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 3.3 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 3.4 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third parties' rights; and
 - 3.5 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
6. A parcel of land located at Yuan Ding Apartment Hexi District Tianjin City The PRC	<p>The Property comprises a parcel of land with an area of 30.5 square metres on which a single-storey structure for pressure regulating use is built.</p> <p>The land use rights of the Property have been granted for a term expiring on 20 January 2043 for pressure regulating station use.</p>	The property is currently occupied by the Enlarged Group as a pressure regulating station.	66,000

Notes:

1. As revealed by the Land Use Right Certificate (Ref: Xi Dan Guo Yong(2003) Zi No. 015) dated 21 January 2003, the subject land parcel namely Lot No. 0618-(09)-042 with an area of 30.5 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 20 January 2043 for pressure regulating station use.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Right Certificate : Yes
3. The PRC Legal Opinion is summarized as follows:
 - 3.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 3.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 3.3 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 3.4 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third parties' rights; and
 - 3.5 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
7. A parcel of land located at Shuang Lin Farm Jinnan District Tianjin City The PRC	<p>The Property comprises a parcel of land with an area of 60.6 square metres on which a pressure regulating chamber is installed.</p> <p>The land use rights of the Property have been granted for a term expiring on 9 December 2042 for pressure regulating station use.</p>	The property is currently occupied by the Enlarged Group as a pressure regulating station.	46,000

Notes:

1. As revealed by the Land Use Right Certificate (Ref: Jin Nan Dan Guo Yong (2003) No. 064) dated 6 June 2008, the subject land parcel namely Lot No. 11-22 with an area of 60.6 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 9 December 2042 for pressure regulating station use.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Ownership Certificate : Yes
3. The PRC Legal Opinion is summarized as follows:
 - 3.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 3.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 3.3 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 3.4 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third parties' rights; and
 - 3.5 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
8. House No. 34 Mei Gui Zhuang Yuan Shuang Lin Economic Technology Development Zone Jinnan District Tianjin City The PRC	The Property comprises a 3-storey garden villa completed in 2007. It has a gross floor area of 342.49 square metres. The land use rights of the Property have been granted for a term of 70 expiring on 2 September 2068 years for residential use.	The property is currently vacant.	4,000,000

Notes:

1. Pursuant to the Property Purchase Agreement dated 28 August 2009, the Property was purchased by Tianjin Tianlian Public Utilities Co., Ltd. at a consideration of RMB2,410,000 which was fully settled.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Building and Land Ownership Certificate : No
3. The PRC Legal Opinion is summarized as follows:
 - 3.1 The property was acquired by Tianjin Tianlian Public Utilities Co., Ltd. from Tianjin Jiafeng Real Estate Company Limited (天津佳豐置業有限公司) via a Commodity Property Sale and Purchase Agreement;
 - 3.2 Sale consideration of the transaction has been fully settled by Tianjin Tianlian Public Utilities Co., Ltd.;
 - 3.3 The issue of the Building and Land Ownership Certificate for the property is in progress;
 - 3.4 The Company has the rights to occupy and use the property; and
 - 3.5 There is no legal impediment for Tianjin Tianlian Public Utilities Co., Ltd. to obtaining the Building and Land Ownership Certificate.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
9. Shop No. 1 Level 1 Block No. 1 House No. 34 Kuanfuli Da Gu Nan Road Hexi District Tianjin City The PRC	The Property comprises a shop unit on ground floor level of a 6-storey residential building. It has a gross floor area of 245.07 square metres. The land use rights of the Property have been granted via administrative allocation for unspecified term for residential use.	The property is currently vacant.	No commercial value

Notes:

1. As revealed by the Building and Land Ownership Certificate (Ref: Fang Di Zheng He Xi Zhi No. Jin 0212622), the Property with a gross floor area of 245.07 square metres (together with allocated land portion of 63.28 square metres attributable to the subject unit) are held by Tianjin Tianlian Public Utilities Co., Ltd.. As mentioned in the said certificate, the land use rights of the Property are in the nature of administrative allocation.
2. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Building and Land Ownership Certificate : Yes
3. The PRC Legal Opinion is summarized as follows:
 - 3.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights and the building ownership rights of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 3.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 3.3 The existing use of the Property is consistent with the permitted use as specified in the title certificate; and
 - 3.4 Tianjin Tianlian Public Utilities Co., Ltd.'s land use rights of the property are in the nature of administrative allocation, it is required to complete land grant procedures before the Property can be transferred on the market.
4. As the land use rights of the Property are in the nature of administrative allocation and the Company is subject to completion of land grant procedures before it can transfer the property on the market, we have ascribed no commercial value to the Property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
10. Gas Storage and Distribution Station Gong Long Da Street Jining City Inner Mongolia Autonomous Region The PRC	The Property comprises a parcel of land with an area of 46,652.7 square metres on which a 3-storey office building, a single-storey transformer room, a single- storey boiler room / garage, a single-storey machine room, a gas filling station and a underground gas storage tank are erected.	The property is currently occupied by the Enlarged Group as a gas storage, distribution and filling station.	7,500,000
	According to the Building Ownership Certificates of the Property, the total gross floor area of the subject buildings is 2,044.43 square metres.		
	The land use rights of the Property have been granted for a term expiring on 11 August 2059 for natural gas storage station use.		

APPENDIX VI PROPERTY VALUATION OF THE ENLARGED GROUP

Notes:

1. As revealed by the Land Use Right Certificate (Ref: Ji Tu Guo Yong (2009) No. D-06-10-0092) dated 11 August 2009, the subject land parcel namely Lot No. 06-10 with an area of 46,652.7 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for a land use right term expiring on 11 August 2059 for natural gas storage station use.
2. As revealed by the Building Ownership Certificate (Ref Wu Fang Quan Zheng Ji Ning Qu Zhi No. 200938064), the 3 single-storey buildings of the property with a total gross floor area of 790.18 square metres are held by Tianjin Tianlian Public Utilities Co., Ltd. for office, industrial and other uses.
3. As revealed by another Building Ownership Certificate (Ref Wu Fang Quan Zheng Ji Ning Qu Zhi No. 200938066), the 3-storey building of the property with a gross floor area of 1,254.25 square metres is held by Tianjin Tianlian Public Utilities Co., Ltd. for office uses.
4. The status of the title and grant of major approvals and licences in accordance with the information provided by the Enlarged Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Right Certificate : Yes
Building Ownership Certificate : Yes

5. The PRC Legal Opinion is summarized as follows:
 - 5.1 Tianjin Tianlian Public Utilities Co., Ltd. is the sole legal owner of the land use rights and building ownership rights of the Property and its interest in the Property is confirmed and protected by PRC law;
 - 5.2 Tianjin Tianlian Public Utilities Co., Ltd.'s legal title to the Property is clean and undisputed;
 - 5.3 Tianjin Tianlian Public Utilities Co., Ltd. has the rights to possess, use, benefit from and dispose of the Property;
 - 5.4 The existing use of the Property is consistent with the permitted use as specified in the title certificate;
 - 5.5 The land use rights of the Property are free from any transfer agreement, mortgage, tenancy, liabilities and other third partys' rights; and
 - 5.6 No mandatory resumption, detainment, seizure, litigation, arbitration or other situation adverse to the owner's possession of the land use rights of the property exists.

VALUATION CERTIFICATE

Group II — Properties rented by the Enlarged Group

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
11. No. 4 Liujiang Road Hei Niu Cheng Road Hexi District Tianjin City, the PRC	The property comprises a 2-storey non-domestic building with a gross floor area of 249.84 square metres. The property is held by the Enlarged Group under a tenancy for a term commencing on 1 May 2010 and expiring on 1 May 2011 a monthly rental of RMB8,000.00 exclusive of all outgoings.	The property is occupied by the Enlarged Group as a customer service centre.	No commercial value

Notes:

1. Pursuant to a tenancy agreement dated 30 April 2010 between Tianjin City Yumin Gas Meter Co., Ltd. (天津市裕民燃气表具有限公司) as lessor and Tianjin Tianlian Public Utilities Co., Ltd. as lessee, the property is leased by the lessor to the lessee for a term commencing on 1 May 2010 and expiring on 1 May 2011 a monthly rental of RMB8,000.00 exclusive of all outgoings.
2. The PRC Legal Opinion is summarized as follows:
 - 2.1 The tenancy agreement between Tianjin City Yumin Gas Meter Co., Ltd. and Tianjin Tianlian Public Utilities Co., Ltd. is legal and valid;
 - 2.2 Tianjin Tianlian Public Utilities Co., Ltd. has the rights to occupy and use the property during the unexpired term of the tenancy agreement; and
 - 2.3 The existing use of the property is consistent with its permitted use.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 30 September 2010 RMB
12. Unit 1004 Wing On Square 62 Mody Road Tsimshatsui East Kowloon Hong Kong	<p>The property an office unit on the 10th floor of an 11-storey commercial building completed in 1981.</p> <p>The gross floor area of the property is 125.51 square metres (1,351 square feet).</p> <p>The property is held by the Enlarged Group under a tenancy for a term commencing on 26 November 2010 and expiring on 25 November 2012 a monthly rental of HK\$40,800 exclusive of rates, management fee and air conditioning charge.</p>	The property is occupied by the Enlarged Group as offices.	No commercial value

Notes:

1. The registered owner of the property is High Faith Trading Limited.
2. The property is rented by Tianjin Tianlian Public Utilities Co., Ltd. from the registered owner of the property for a term of 2 years expiring on 25 November 2012 at a monthly rental of HK\$40,800 exclusive of rates, management fee and air conditioning charge.
3. The property is falling within an area currently zoned "Commercial" use under Outline Zoning Plan (No. S/K1/23)

Tam Tak Kei, Raymond

Tam Tak Kei, Raymond, aged 47, holds a Bachelor of Arts Degree in Accounting with Computing from University of Kent at Canterbury, England and is an associate member of the Institute of Chartered Accountants in England and Wales. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Currently, Mr. Tam is the financial controller of an international law firm and has over 20 years of professional accounting experience. He is also an independent non-executive director of Sun Innovation Holdings Limited, whose shares are listed on the Main Board (Stock Code: 547).

It is proposed that Mr. Tam will be appointed as an independent non-executive Director at the EGM with effect from the date of the EGM. Subject to the approval for his appointment as an independent non-executive Director by the Shareholders at the EGM, it is proposed that Mr. Tam will enter into a service contract with the Company for a fixed term from the date of the EGM and ending on the conclusion of the annual general meeting of the Company to be held in 2012, unless otherwise terminated prematurely in accordance with the terms of his appointment. It is proposed that Mr. Tam will be entitled to a fee of RMB100,000 per annum which was determined by the Board with reference to the prevailing market conditions, his roles and responsibilities.

Save as aforesaid, (i) Mr. Tam does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders; (ii) he did not have any interests in the Shares within the meaning of Part XV of the SFO as at the Latest Practicable Date; (iii) he did not hold any directorships or been a supervisor in other listed public companies in the last three years; and (iv) there are no other matters relating to his appointment that need to be brought to the attention of the Shareholders and there is no other information that need to be disclosed pursuant to paragraph 17.50(2) of the GEM Listing Rules.

This Appendix sets out summaries of certain aspects of the principal legal and regulatory provisions in the PRC and in Hong Kong, which are relevant to the operations and business of the Company, including, summaries of PRC laws and regulations, of certain legal and regulatory provision, of certain material differences between the company law in the PRC and Hong Kong and of certain requirements of the GEM Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of all PRC issuer. This Appendix also contains a summary of the Articles of Association of the Company.

PRC JUDICIAL SYSTEM

The people's courts are the judicial organs of the PRC. Under the PRC Constitutional Law (《中華人民共和國憲法》) and the Law of Organization of the People's Courts (《中華人民共和國人民法院組織法》), the judicial system in the PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are organized into civil, criminal, and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts employ a two-tier final appeal system. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or orders given at the same level and at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgment or order which has been given in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgment or order which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》), which was adopted on 9 April 1991 and was amended on 28 October 2007, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the PRC Company Law which came into effect on 1 July 1994 and was amended for the first time on 25 December 1999, the second time on 28 August 2004 and the third time on 27 October 2005. The newly amended Company Law of the PRC (《中華人民共和國公司法》) (hereinafter referred to as "the PRC Company Law") has been promulgated and became effective from 1 January 2006.

On 4 July 1994, the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (hereinafter referred to as "the Special Regulations") were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (hereinafter referred to as "the Mandatory Provisions") were issued jointly by the Securities Commission of the State Council and the State Economic System Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in this Appendix below). References to a "company" are to a joint stock limited company incorporated under the PRC Company Law with overseas listed foreign invested shares.

General

A “joint stock limited company” (hereinafter referred to as “company”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company’s assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with law and professional ethics.

A company can invest in other enterprises without restriction on the accumulated investment amounts. However, unless otherwise required by laws, a company cannot be the contributor who has the obligations associated with the debt of the invested enterprise.

Incorporation

A company may be incorporated by promotion or subscription.

A company may be incorporated by 2 to 200 promoters, but at least half of the promoters must have residence in the PRC. According to the Special Regulations, state-owned enterprises or enterprises with the majority of their assets owned by the PRC government can be restructured in accordance with the relevant regulation to become joint stock limited companies which may issue shares to overseas investors. These companies if incorporated by promotion, may have fewer than 5 promoters and can issue new shares once incorporated.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company, and the remaining shares can be offered to the public or specific persons.

The PRC Company Law has provided that the registered capital of a joint stock limited company is a minimum of RMB5 million. For companies incorporated by way of promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the relevant administration bureau for industry and commerce; for companies established by way of public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administration bureau for industry and commerce.

Pursuant to the Securities Law, the total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB30 million.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share Capital

The promoters of a company can make capital contributions in cash, or in kind, or intellectual property rights or land use rights that can be valued in currency and transferable according to law based on their appraised value provided that the amount of capital contribution in cash by all shareholders must not be less than 30% of a company's registered capital.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau Special Administrative Region and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than par value, but may not be less than par value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by laws or by administrative regulations. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company may not be transferred within 1 year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares may not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares held by each of them in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 30 days before the date of a shareholders' meeting or within 5 days before the record date set for the purpose of distribution of dividends.

Increase In Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the abovementioned condition of obtaining approval at the general meetings required by the PRC Company Law, for the public offering of new shares, the Securities Law provides that the company in consideration shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant state bureau for the administration for industry and commerce and issue a public notice accordingly.

Reduction of Share Capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by canceling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or
- (iii) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.

The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may transfer his/her shares on the stock exchange established in accordance with laws or by other means as stipulated by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares held by a promoter of a company may not be transferred within 1 year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares may not be transferred within one year from the date of listing of its shares on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the Company held by each of them within one year after the listing date.

There is no restriction under the PRC Company Law as to the percentage shareholding of a single shareholder in a company.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped;

- (v) to receive dividends in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee or the supervisors;
- (v) to consider and approve the company's proposed annual financial budget and final accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;

- (x) to amend the articles of association of the company; and
- (xi) other powers specified in the articles of association of the company.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within 2 months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the supervisory committee proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting must be adopted by more than half of the votes cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which must be adopted by shareholders with two-thirds or more of the voting rights held by shareholders present (including those represented by proxies) at the meeting.

Shareholders may commission a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets out the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of the Company. Under the PRC Company Law, each term of office of a director shall not exceed 3 years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;

- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; or
- (v) persons who have a relatively large amount of debt due and outstanding.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in our Articles of Association, a summary of which is set out in this Appendix below this circular).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the company's articles of association, may be the chairman, any executive director or the manager.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into our Articles of Association, a summary of which is set out in this Appendix below) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is 3 years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows:

- (i) to examine the company's financial affairs;

- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution;
- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Managers and Senior Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) attend board meetings as a non-voting attendant; and

(viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in our Articles of Association, a summary of which is set out in this Appendix below.

Duties of Directors, Supervisors, Managers and Senior Officers

A director, supervisor, manager and other senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and other senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and other senior officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve fund (except where the fund has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve fund from its after-tax profit, subject to a resolution of the shareholders' meeting or the shareholders' general meeting, the company may make an allocation to a discretionary common reserve fund.

When the company's statutory surplus reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory surplus reserve fund.

After the company has made good its losses and make allocations to its statutory surplus reserve fund the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital on the company.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve funds have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Dissolution and Liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the people's court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;

- (iv) the company is subject to the revocation of business license, a closure order or dismissal in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out a liquidation. Members of the liquidation committee shall be composed of the directors or any other people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment. The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification the liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in our Articles of Association, a summary of which is set out in this Appendix below).

Suspension and Termination of Listing

The PRC Company Law has deleted provisions governing suspension and termination of listing. The new Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the Securities Exchange under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three (3) consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of our Shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for co-coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the Sate Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorizations.

The Securities Law of the PRC (《中華人民共和國證券法》) took effect on 1 July 1999 and was revised for the first time on 28 August 2004 and the second time on 27 October 2005. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the Securities Law provides that specific measures in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994 and became effective on 1 September 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in our Articles of Association and, in the case of the GEM Listing Rules, also in contracts with each of our Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of our H Shares and us; holders of our H Shares and our Directors, Supervisors, manager or other senior officers; or holders of our H Shares and holders of Domestic Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under our Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall comply with the arbitration. Disputes in respect of the definition of shareholders and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its Rules or the Hong Kong International Arbitration Center (“HKIAC”) in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen, the PRC, in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the People’s Court for enforcement. A People’s Court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認和執行外國仲裁裁決公約》) (the “New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations. On 21 June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards made by PRC arbitral authorities pursuant to the Arbitration Law of the PRC can be enforced in Hong Kong. Hong Kong arbitration awards made under the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

FOREIGN EXCHANGE CONTROL

The foreign exchange control system is regulated by three sets of provisions. On 28 December 1993, the PBOC, with the authorization of the State Council, issued the Notice to Further Reform of the Foreign Exchange Control System, which became effective on 1 January 1994. Other main regulations and implementation measures include the PRC Foreign Exchange Control Regulations (《中華人民共和國外匯管理條例》) which was promulgated by the state council on 29 January 1996 and became effective on 1 April 1996 and amended on 14 January 1997 and 7 August 2008, and the Regulation on the Foreign Exchange Settlement, Sale and Payments, which were promulgated by the PBOC on 20 June 1996 and became effective on 1 July 1996 and which contain detailed provisions regulating the settlement, sale and payment of foreign exchange by domestic enterprises, individuals, economic organizations and social organizations in the PRC.

The PBOC publishes, on each business day, the Renminbi exchange rate against other major foreign currencies. Such rate is set by reference to the previous days' trading price of Renminbi/major foreign currencies on the inter-bank foreign exchange market. The foreign exchange income under the current items may be reserved or sold to financial institutions operating the foreign exchange sale or settlement business. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating the foreign exchange sale or settlement business, the approval of the competent foreign exchange administrative authority shall be obtained, unless it is otherwise provided by the state.

At present, the PRC government is relaxing its control over foreign exchange. Enterprises that require foreign exchange for recurring activities such as trading and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents.

In addition, where an enterprise requires foreign exchange for the payment of dividends, such as the distribution of profits by a foreign-invested enterprise to its foreign investor, then, subject to the due payment of taxes on such dividends, the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

Despite the relaxation of foreign exchange control over current account transactions, the approval or filing of the State Administration of Foreign Exchange is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.

When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

ESTABLISHMENT OF OVERSEAS OPERATIONS RULES AND REGULATIONS

According to the Measures on Management of Overseas Investment (《境外投資管理辦法》), promulgated by the MOFCOM on 16 March 2009 and effective on 1 May 2009, the approval from the MOFCOM is required for central-level enterprises to make overseas investment as prescribed. In case any matter in the original application changes after an overseas investment application is approved, the enterprise shall apply to the MOFCOM to obtain further approval.

According to the Foreign Exchange Control Regulations for Overseas Investments (《境外投資外匯管理辦法》), which was formulated by the SAFE and approved by the State Council, upon obtaining approval from the MOFCOM to establish enterprises overseas, the PRC enterprises shall apply for foreign exchange registration for overseas investments.

According to the Verification and Approval of Overseas Investment Projects Tentative Administrative (《境外投資項目核准暫行管理辦法》), promulgated by the NDRC, the direct and indirect overseas investment projects in mineral resources development or involving the use of a large amount of foreign exchange would require the verification and approval by the NDRC or the State Council. If there is any change with respect to the investor or equity holding of a project that has been verified and approved, an application for amendment shall be made to the NDRC. Enterprises administered by the central government shall have discretionary power with respect to certain overseas investment projects which investment amount does not exceed a specified level, and the enterprises shall only be required to making filings to the NDRC.

HONG KONG LAWS AND REGULATIONS**(a) Company Law**

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. The Company, which is a joint stock limited company incorporated in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company incorporated in the PRC issuing overseas listed foreign shares to be listed on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) Corporate existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited company may be incorporated by either the promotion method or the subscription method. A joint stock limited company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) *Share capital*

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting and by the relevant PRC governmental and regulatory authorities.

Under the PRC law, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) *Restrictions on shareholding and transfer of shares*

Under the PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, legal person and natural persons of the PRC. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, Macau Special Administrative Region and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within 1 year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

(iv) *Financial assistance for acquisition of shares*

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) *Variation of class rights*

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variation of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix below. Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the GEM Listing Rules and the Mandatory Provisions) have adopted in the articles of association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign shares and domestic shares are defined in the articles of association as different classes, the special procedures

for voting by separate class shall not apply in the following circumstance (i) where the Company issues, upon the approval by special resolution of its shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued domestic shares or overseas listed foreign-invested shares; and (ii) where the Company completes, with 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, its plan (made at the time of its establishment) to issue domestic shares and overseas listed foreign invested shares.

(vi) *Directors*

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) *Supervisory committee*

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) *Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have been guilty of a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 days consecutively may request in writing the

supervisory committee to initiate proceedings in the People's Court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may request in writing the board of directors to initiate proceedings in the People's Court. Upon receipt of such request in writing from the shareholders, if the supervisory committee or the board of directors refuse to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in its own name. The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(ix) *Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind-up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) *Notice of shareholders' meetings*

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days in general and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

(xi) *Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is 2 members unless the articles of association of the company otherwise provide. For companies having only one member, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) *Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one-half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) *Financial disclosure*

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements

must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the status of a joint stock limited company has to be approved by shareholders in general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

(xviii) Mandatory transfers

Under the PRC Company Law, a joint stock limited company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association of the Company set out remedies to the Company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

(xx) Dividends

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is 2 years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(b) GEM Listing Rules

The GEM Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

(i) Compliance Adviser

The company is required to appoint a compliance adviser for the period from its date of initial listing up to the date of the publication of its second full year's financial results to provide the Company with professional advice on continuous compliance with the GEM Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the two authorised representatives of the Company, as the principal channel of communication with the Stock Exchange. In case of resignation by, or termination of, the compliance adviser, a replacement compliance adviser must be appointed by the Company within 3 months of the effective date of resignation or termination.

(ii) Authorized Representative

The Company is required to appoint 2 authorized representatives to assist the Compliance Adviser as the principal channel of communication with the Stock Exchange. If the authorized representations are expected to be frequently outside Hong Kong, they must ensure that they can be readily contactable by the Stock Exchange. The appointment of authorized representative should only be terminated until a replacement is appointed.

If the Exchange is not satisfied that any person appointed as an authorized representative is fulfilling his responsibilities adequately, it may require the Company to terminate his appointment and appoint or designate a replacement.

(iii) Process agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Accountant's report

An accountant's report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international accounting standards.

(v) *Public shareholdings*

If at any time the Company has other class(es) or securities other than the foreign shares which listing on GEM is sought (“H shares”), the GEM Listing Rules require that the aggregate number of H shares and other securities held by the public must be at least 25% of the Company’s issued share capital, and that the H shares must not be less than 15% of the Company’s issued share capital, having an expected market capitalization at the time of listing not less than HK\$30,000,000.

The Stock Exchange may, at its discretion, accept a lower percentage of public shareholding between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10,000,000,000.

(vi) *Independent non-executive directors and supervisors*

Every independent non-executive director of the Company are required to demonstrate an acceptable standard of competence and adequate commercial or professional experience to ensure that the interests of the general body of shareholders will be adequately represented.

Every supervisor of the Company must have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with his position as supervisors.

(vii) *Restrictions on purchase and subscription of its own securities*

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on GEM in accordance with the GEM Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the GEM. The Company must also state the consequences of any purchases which will arise under either or both of the Takeovers Code and any similar PRC law and other applicable law of which the Directors are aware, if any. Any general mandate given to the directors to repurchase H shares must not exceed 10% of the total amount of existing issued H shares of the Company.

(viii) Mandatory Provisions

The Stock Exchange requires the incorporation in the Articles of Association of the Company, as a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this Appendix below.

(ix) Redeemable Shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H shares are adequately protected.

(x) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and H shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares, securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the GEM Listing Rules, but only to the extent that, (i) the existing shareholders of the Company have by special resolution in general meeting given a mandate, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing issued Domestic Shares and H Shares as at the date of the passing of the relevant special resolution, or (ii) such shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC or such other competent state council securities regulatory authority.

(xi) Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules relating to such Articles of Association.

(xii) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its shareholders free of charge, and for copying by its shareholders at reasonable charges the following:

- a complete duplicate of the register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of its Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the Administration for Industry and Commerce or other relevant PRC authority; and
- for shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in share certificates

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that:

- the acquirer of shares agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

- the acquirer of shares agrees with the Company, each shareholder of the Company, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
 - the acquirer of shares agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
 - the acquirer of shares authorises the Company to enter into a contract on his behalf with each Director and officer of the Company whereby each of such Directors and officers of the Company undertakes to observe and comply with his obligation to shareholders of the Company as stipulated in the Articles of Association.
- (xv) *Compliance with the PRC Company Law, the Special Regulations and the Articles of Association*

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

- (xvi) *Contract between the Company and its Directors, Supervisors and officers*

The Company is required to enter into a contract in writing with every Director, Supervisor and officer containing at least the following provisions:

- an undertaking by the Director, Supervisor or officer to the Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director, Supervisor or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any dispute or claim arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors, Supervisor or officers and between a holder of H Shares and a Director, Supervisor or officer of the Company, such differences or claims will be referred to arbitration at either the China International Economic and Trade Arbitration Centre (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its Securities Arbitration Rules, at the election of the claimant, and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, the PRC, according to the Securities Arbitration Rules of HKIAC;
- the PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director, Supervisor or officer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

(xviii) Language

All notices or other documents required under the GEM Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language with a Chinese translation or in Chinese with an English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of this listing.

(c) Other Legal and Regulatory Provisions

As the H Shares are listed on GEM, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on GEM apply to the Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen, the PRC, conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen, the PRC, for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau Special Administrative Region and Taiwan.

PRC LEGAL MATTERS

J.D. Hands Law Firm, the Company's legal adviser on the PRC law, has sent to us a legal opinion dated 31 December 2010 which includes a statement to the effect that the description of the PRC laws and regulations as contained in this circular is true and correct in all material respects, and has set out the material differences between Hong Kong law and applicable PRC law. This legal opinion, together with a copy of the PRC Company Law, is available for inspection as referred to in the section headed "Documents Available for Inspection" in Appendix X of this circular.

Any person wishing to have detailed advice on the PRC law and the laws of any jurisdiction is recommended to seek independent legal advice.

This Appendix contains a summary of the Articles of Association. The principal objective is to provide potential investors with an overview of the Articles of Association. As the information contained below is in summary form, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for inspection as referred to in the section headed “Documents available for inspection” in Appendix VIII of this circular.

The Articles of Association was first adopted on 28 August 2002, and was approved by the company approval authorities authorized by the State Council and the CSRC.

(A) Directors, the Board and Other Officers

1. Power to allot and issue shares

There are no provisions in the Articles of Association empowering the Board to allot or issue shares.

To allot or issue shares, a proposal shall be prepared by the Board for shareholders’ approval at general meeting by way of a special resolution. Any allotment or issue so approved must be conducted in accordance with the procedures stipulated under the relevant PRC laws and administrative regulations.

2. Power to dispose of the assets of the Company or of any of its subsidiaries

Unless with the prior approval of shareholders at general meeting, the Board shall not dispose of, or agree to dispose of, any fixed assets of the Company if the aggregate of (i) the expected value of the fixed assets proposed to be disposed of; and (ii) the amount received by the Company for all disposals of fixed assets within the period of 4 months immediately preceding the proposed disposal, exceeds 33% of the value of the Company’s fixed assets as shown in the latest balance sheet placed before the shareholders at general meeting. The validity of a disposal of fixed assets by the Company shall not be affected by a breach of this provision. For the purposes of this provision, a disposal includes an act involving the transfer of any interest in fixed assets but excludes the provision of fixed assets by way of security.

3. *Remuneration*

The Company shall, with prior approval of shareholders at general meeting, enter into contract in writing with each of the Directors and Supervisors for emoluments for their services. Such emoluments include:

- (i) emoluments for his service as a Director, Supervisor or officer of the Company;
- (ii) emoluments for his service as a director, supervisor or officer of the Company's subsidiary;
- (iii) emoluments for other services provided by him in connection with the management of the Company and its subsidiaries; and
- (iv) monies payable as compensation as a result of the loss of office or retirement of that Director or Supervisor.

No Directors or Supervisors shall institute proceeding against the Company for any benefit due to him except pursuant to the aforesaid contract between him and the Company.

4. *Compensation or payments for loss of office*

The contract for emoluments between the Company and a Director or Supervisor shall contain provisions on the right of the Director or Supervisor to receive compensation or other payment for loss of office or for his retirement in connection with the takeover of the Company, subject to prior approval of shareholders at general meeting. A "takeover of the Company" means any one of the following circumstances:

- (i) an offer made by any person to all Shareholders; or
- (ii) an offer made by any person with a view to become a controlling Shareholder (as defined in the Articles of Association).

If the relevant Director or Supervisor does not comply with the above provision, any sum received by that Director or Supervisor shall belong to those persons who have sold their shares by accepting the aforesaid offer. The expenses incurred in making a pro rata distribution among such persons shall be borne by that Director or Supervisor, and shall not be deducted from the sum distributed.

5. *Loans to Directors, Supervisors and Other Officers*

The Company shall not directly or indirectly make any loan or provide any guarantee in connection with any loan to (i) a director, supervisor, manager or other officer of the Company or its holding company, or (ii) a person connected with the aforementioned officers. However, this prohibition shall not apply in the following circumstances:

- (i) provision of a loan or a guarantee of a loan by the Company to its subsidiary;
- (ii) provision of a loan, a guarantee of a loan or other funds by the Company to a Director, Supervisor, manager or other officer of the Company pursuant to an employment contract approved by shareholders at general meeting, in order to meet any expenditure incurred by such officer for the purpose of the Company or to enable him to perform its duties; and
- (iii) where the ordinary course of business of the Company includes making of loan or providing guarantee of loan, the Company may make a loan or provide a guarantee of a loan to a Director, Supervisor, manager or other officer, or persons connected with them, provided that the terms of such loan or guarantee of loan shall be on normal commercial terms.

A loan made by the Company in breach of the aforesaid prohibition shall be repaid forthwith by the recipient of such loan regardless of the terms of such loan.

A guarantee provided by the Company in breach of the aforesaid prohibition shall not be enforceable against the Company except in the following circumstances:

- (i) the lender was not aware of the relevant circumstances at the time the loan was made to the person connected with a director, supervisor, manager or other officer of the Company or its holding company; or
- (ii) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of the foregoing provisions, a “guarantee” includes undertaking by the guarantor or provision of property by the guarantor to secure the performance of obligations by the obligor.

6. *Financial assistance to purchase of shares in the Company or its subsidiaries*

Subject to the exceptions set out in the Articles of Association, the Company and its subsidiaries shall not at any time and in any manner provide any financial assistance to a person who is acquiring or proposing to acquire shares in the Company. The said acquirer of shares includes a person who directly or indirectly assumes obligation by such acquisition of shares. The Company and its subsidiaries shall not at any time and in any manner provide any financial assistance for the purposes of reducing or discharging such obligations.

The following acts shall not be deemed to be prohibited:

- (i) the provision of financial assistance by the Company in good faith in the interest of the Company, and such financial assistance is not provided for acquisition of shares in the Company or such financial assistance is an incidental part of an overall plan of the Company;
- (ii) the lawful distribution of the Company's assets by way of dividend;
- (iii) the distribution of dividend by way of an allotment of bonus shares;
- (iv) the reduction of the Company's registered capital, repurchase of shares or reorganisation of the share capital structure in accordance with the Articles of Association;
- (v) the lending of money by the Company in the ordinary course of business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the financial assistance is provided out of distributable profits of the Company; and
- (vi) the Company's contribution to employees' share scheme, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the financial assistance is provided out of distributable profits of the Company.

For the purpose of the Articles of Association,

- (i) "financial assistance" includes (but is not limited to) financial assistance provided:
 - a. by way of gift;
 - b. by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), indemnity (other than an indemnity given in respect of the Company's own negligence or default), release or waiver;

- c. by way of a loan or entering into a contract under which the obligations of the Company have to be fulfilled before the obligations of the other party to the contract, or by way of the change of the party to that loan or contract, or the assignment of any rights arising thereunder; and
 - d. in any other form when the Company is unable to pay its debts or has no net assets or when its net assets may be reduced to a material extent; and
- (ii) the meaning of “assumes obligations” includes assuming obligations by changing one’s financial position by way of entering into a contract or making any arrangement (whether or not such contract or arrangement is enforceable, and whether or not assumed one its own account or with any other person) or by any other means.

7. *Disclosure of interests in contracts with the Company or any of its subsidiaries*

Where a Director, Supervisor, manager or other officer of the Company has, directly or indirectly, a material interest in a contract, transaction or arrangement entered into or proposed to be entered into by the Company (other than his contract of service), he shall declare the nature and extent of his interest to the Board as soon as possible, whether or not the matters in question are otherwise subject to the approval of the Board under normal circumstances.

Unless the interested Director, Supervisor, manager or other officer has disclosed his interests in accordance with the Articles of Association and that matter has been approved by the Directors at a meeting at which the interested Director has not been counted in the quorum and has refrained from voting, the Company may cancel that contract, transaction or arrangement except as against a bona fide party thereto acting in good faith and without notice of the breach of duty by that Director, Supervisor, manager or other officer.

Unless otherwise stipulated in the Articles of Association as special circumstance, an interested Director shall not vote on any board resolution approving any contract or benefits or other proposal in which he has a material interest nor shall he be counted in the quorum present at the meeting.

For the purposes of this provision, a Director, Supervisor, manager or other officer is deemed to have an interest in a contract, transaction or arrangement in which a person connected with him is interested.

If, before the question of entering into the relevant contract, transaction or arrangement is first considered, a Director, Supervisor, manager or other officer gives to the Board a notice in writing stating that by reason of the matters specified in the notice, he is interested in contracts, transactions or arrangements subsequently be made by the Company, then the relevant Director, Supervisor, manager or other officer shall be deemed to have made a disclosure for the purpose of the above provision within the scope of that specified notice.

A person is connected with a Director, Supervisor, manager or other officer if he is:

- (i) the spouse or minor child of that Director, Supervisor, manager or other officer;
- (ii) a person acting in the capacity of trustee of that Director, Supervisor, manager or other officer of any person referred to in (i) above;
- (iii) a person who is a partner of that Director, Supervisor, manager or other officer or any person referred to in (i) and (ii) above;
- (iv) a company over which that Director, Supervisor, manager or other senior officer, alone or together with any persons referred to in (i), (ii) and (iii) above, or together with other Director, Supervisor, manager or officer have de facto control; or
- (v) a director, supervisor, manager or other officer of a company referred to in (iv) above.

8. *Retirement, appointment and removal*

The Directors shall be elected by the shareholders at general meeting. The term of office of a Director is three years. Upon expiry of his term of office, a Director may be re-elected to serve consecutive terms. Prior to expiry of his term of office, a Director should not be discharged of his duties by the shareholders at shareholders' general meeting without causes.

Commencing on the day after the dispatch of the notice of a meeting to elect Director(s), shareholder is entitled to give a notice in writing to the Company to nominate person(s) as Director(s) (other than a retiring Director and a person recommended by the Board for election to the office of Director), which period shall be at least 7 days and during which the person proposed to be elected shall give notice to the Company of his willingness to be elected. In any event, such period for lodgment of notice shall end 7 days before the date of such meeting.

Subject to compliance with the relevant laws and administrative regulations, shareholders at general meeting may remove any Director before the expiration of his term of office by ordinary resolution, but without prejudice to any claims for damages under any contract.

The Board shall consist of 9 Directors, out of which there shall be 1 chairman. The chairman and any vice-chairman shall be elected or removed by a majority of the Board. The terms of office of the chairman and vice-chairman shall be 3 years, and chairman and vice-chairman may be re-elected to serve consecutive terms.

A Director is not required to hold any shares of the Company. There is no provision which imposes any age limit for Directors beyond which retirement is mandatory. The following person may not serve as a Director, Supervisor, manager or other officer of the Company:

- (i) a person without or with restricted capacity from undertaking civil obligations;
- (ii) a person who has been convicted of an offence relating to corruption, bribery, trespass of property, misappropriation of property, or causing social economic disorder, or a person who have committed a crime and have been deprived of his political rights, and in each case where less than 5 years have elapsed since the date of completion of implementation of such punishment or deprivation;
- (iii) a person who was a former director, factory manager or manager of a company or enterprise which has become bankrupt or has been liquidated because of mismanagement and to which such person was personally liable for, and where less than 3 years have elapsed since the date of completion of implementation of such bankruptcy or liquidation;
- (iv) a person who was a legal representative of a company or enterprise which business licence was revoked on the ground of violation of law, and to which such person was personally liable for, and where less than 3 years have elapsed since the date of revocation of such business licence;
- (v) a person who has failed to repay his relatively large amount of debt when due;
- (vi) a person who is under investigation by judicial authorities for violation of criminal law which investigation has not yet been concluded;
- (vii) a person who is not eligible for enterprise leadership according to the law and administrative regulations;
- (viii) a person who is not a natural person; or
- (ix) a person who has been adjudicated by the relevant supervisory authorities of contravening the relevant securities laws and regulations which involves fraudulent or dishonest acts on his part, and where less than 5 years have elapsed since the date of adjudication.

The validity of any act of a Director, Supervisor, manager or other officer on behalf of the Company with respect to a bona fide third party shall not be affected by any irregularity in his appointment, election or any defect in his qualification.

9. *Borrowing Power*

Subject to compliance with applicable laws and administrative regulations of the PRC and the GEM Listing Rules, the Company is entitled to raise capital and borrow money, including (without limitation) the issue of debentures, the charging and mortgaging of part or whole of the Company's properties.

The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Director nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than (a) provisions which give the Directors power to formulate proposals for the issue of debentures by the Company; and (b) provisions which provide that the issue of debentures must be approved by the shareholders at shareholders' general meeting by way of special resolution.

(B) Alterations to constitutional documents

The Company may amend its Articles of Association pursuant to the law, administrative regulations and the Articles of Association.

Amendments to the Articles of Association involving the provisions in respect of the Mandatory Provisions shall become effective upon approval by the company approval authorities authorized by the State Council and the CSRC. Any amendment involving companies registration matters shall be registered in accordance with the law.

(C) Variation of rights of existing shares or classes of shares

Holders of domestic shares and overseas listed foreign shares shall be deemed to be different classes of shares.

The Company may not vary or abrogate rights attaching to any class of shares ("Class Rights") unless approved by a special resolution of shareholders at general meeting and by holders of shares of that class at a separate meeting conducted in accordance with provisions of the Articles of Association.

The following circumstances are deemed to be a variation or abrogation of the Class Rights of a class:

- (i) change in the number of shares of such class, or a change in the number of shares of a class which carries the same or more voting right or distribution rights or other privilege;
- (ii) conversion of all or part of the shares of such class for shares of another class, or an exchange of all or part of shares of another class for shares of such class, or a grant of right for such conversion;

- (iii) removal or reduction of rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- (iv) reduction or removal of preferential rights to dividends or to a distribution of assets upon liquidation of the Company attached to shares of such class;
- (v) addition, removal or reduction of conversion privileges, option, voting right, transfer rights, pre-emptive rights or rights to acquire securities of the Company attached to shares of such class;
- (vi) removal or reduction of rights to receive monies payable by the Company in particular currencies attached to shares of such class;
- (vii) creation of a new class of shares which carries the same or more voting rights, distribution rights or other privileges;
- (viii) imposition or addition of restrictions on the transfer or ownership of shares of such class;
- (ix) issue of rights to subscribe for, or convert into, shares in the Company of shares of such class or of another class;
- (x) increase of rights or privileges of shares of another class;
- (xi) restructuring of the Company which proposal will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (xii) variation or abrogation of provisions in the Articles of Association.

Written notice of a class meeting shall be given by the Company 45 days prior to the date of the meeting to notify all the registered shareholders holding shares of that class of the matters to be considered at the meeting and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver a written reply confirming his attendance at the class meeting to the Company 20 days prior to the date of the meeting.

The Company can convene a class shareholders' meeting, if the number of shares of the class carrying voting rights represented by shareholders intending to attend represents more than one-half of the total number of such shares of the Company. If not, the Company shall make an announcement within 5 days, notifying the shareholders again of the matters proposed to be considered and the date and place of the meeting. Once an announcement has been so made, the Company may convene the class shareholders' meeting.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Class meetings shall be conducted in a manner as nearly as possible as shareholders' general meetings. The provisions of the Articles of Association relating to the proceedings of general meetings shall apply to class meetings.

Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless be entitled to vote at class meetings in respect of matters concerning subparagraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class meeting shall be passed by two-third of the votes of the shareholders of that class (including proxies) present at and who are entitled to vote at the class meeting.

Special procedures for voting by holders of different classes of shares shall not apply to the following circumstances:

- (i) where the Company issue, upon approval by a special resolution of its shareholders at a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of the Domestic Shares and H Shares;
- (ii) when the Company's plan to issue Domestic Shares and H Shares on establishment is implemented within 15 months from the date of approval by the CSRC.

For the purposes of the class rights provisions of the Articles of Association, an "Interested Shareholder" is:

- (i) in the case of a repurchase of shares by the Company by offer to all Shareholders in equal proportion or on a stock exchange by public transaction method, a controlling Shareholder within the meaning of the Articles of Association;
- (ii) in the case of a repurchase of shares by the Company by an off-market agreement in accordance with a the Articles of Association, a shareholder to which the proposed agreement relates; and
- (iii) in the case of a restructuring proposal of the Company, a shareholder who bears less than a proportionate burden than other shareholders of the same class or a shareholder who has an interest different from the interests of the other shareholders of that class.

(D) Special resolutions -majority required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution is passed where more than one half of the votes represented by shareholders (including proxies) present at the meeting voting in favour of the resolution.

A special resolution is passed where more than two-third of the votes represented by the shareholders (including proxies) present at the meeting voting in favour of the resolution.

(E) Voting rights

A shareholder has the right to attend in person or by proxy(ies) to attend Shareholders' general meetings and to vote thereat. Subject to any special rights or restrictions as to voting rights then being attached to any class of shares, a Shareholder (including proxy) when voting at Shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each Share shall have one vote. A proxy need not be a Shareholder.

At any general meeting of shareholders, voting shall be decided on a show of hands unless a poll is, before or after any vote by show of hands, is demanded by:

- (i) the chairman of the meeting;
- (ii) at least two shareholders having the right to vote present in person or by proxy; or
- (iii) one or more shareholders present in person or by proxy who, alone or together, represent 10% or more of the shares carrying the right to vote at that meeting.

Unless a poll is demanded, a declaration by the chairman of the meeting upon the show of hands as to whether a resolution has been passed and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the result of that vote without further proof of the number of votes recorded or the percentage of votes in favour of and against such resolution at the meeting. The demand for a poll may be withdrawn by the person(s) who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on the question of adjournment, shall be taken immediately. A poll demanded on any other matters shall be taken at such time as the chairman of the meeting decides, and the meeting may proceed to discuss other matters. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder (including his proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have a second vote.

Where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(F) Requirements for annual general meetings

General meetings are divided into annual general meetings and extraordinary general meetings. General meetings shall be convened by the Board. Annual general meetings shall be held once every year within six months after the end of the financial year.

(G) Accounts and audit*1. Financial and accounting system*

The Company shall establish its financial and accounting system in accordance with the relevant requirements of PRC laws, administrative regulations and the principles relating to PRC accounting standards formulated by the financial regulatory authority of the State Council.

The Company shall prepare a financial report at the end of every financial year and shall have it audited in accordance with law.

The Board shall place before the shareholders at every annual general meeting such financial reports as required by the relevant laws, administrative regulations or prescribed documents required by regional governments and supervisory authorities to be prepared by the Company.

The financial reports of the Company shall be placed at the Company 20 days prior to the holding of the annual general meeting of the Company for inspection by Shareholders.

The Company shall deliver or sent by post to every H Shareholder (at his address as shown on the register of shareholder) a copy of the directors' report, accompanied by the balance sheet (including every document required by law to be annexed thereto) and profit and loss account or income and expenditure account (including the aforesaid financial report) at least 21 days before the date of general meeting.

The financial statements of the Company shall, in addition to complying with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or the accounting standards of the place at which foreign shares of the Company are listed. If there are material differences between the financial statements prepared in accordance with the aforesaid accounting standards, then those financial statements shall specify such differences. For the purposes of distributing the Company's profits after tax in a given financial year, the Company's profits after tax shall be deemed to be the lesser of the amounts stated in the two sets of financial statements.

Any interim results or financial information announced or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations as well as in accordance with either international accounting standards or the accounting standards of the place where the foreign shares of the Company are listed.

The Company shall publish its financial reports twice each financial year. The interim report shall be announced within 60 days after the end of the first 6 months of the financial year and the annual report shall be published within 120 days after the end of the financial year.

2. *Account and Audit*

(i) Appointment of accountant

The Company shall appoint an independent firm of accountants qualified under the relevant PRC regulations to audit the Company's annual financial report and review other financial reports of the Company.

The first accounting firm of the Company may be appointed at the inaugural meeting before the first annual general meeting, and the accounting firm so appointed shall hold office until the conclusion of the first annual general meeting.

The term of appointment of accounting firm shall commence from the conclusion of the annual general meeting at which it is appointed, and end upon the conclusion of the next annual general meeting.

Before convening of general meeting, the Board may appoint an accounting firm to fill any casual vacancy, but while any such vacancy continues, the surviving or continuing accounting firm(s), if any, may continue to act.

Notwithstanding the terms and conditions of contract between the Company and the accounting firm, an accounting firm may be removed before its term of office expire by an ordinary resolutions passed by Shareholders at general meeting, without prejudice to the account firm's rights against the Company as a result of the removal, if any.

The remuneration of the accounting firm or the mechanism of determining the same shall be determined by the shareholders at general meeting. The remuneration of the accounting firm appointed by the Board shall be determined by the Board.

(ii) Change and removal of auditors

The Company shall notify the accounting firm in advance if the Company removal or discontinue the engagement of an accounting firm, the accounting firm is entitled to represent to the Shareholders at general meeting,

Where a resolution is proposed at a general meeting to appoint an accounting firm (other than an incumbent account firm of the Company) to fill a casual vacancy in the office of accounting firm, or to reappoint the accounting firm appointed by the Board to fill a causal vacancy, or to remove an accounting firm before the expiration of its term, the following provisions shall apply:

- (i) the proposed resolution shall be sent, before notice of a general meeting is given to shareholders, to the accounting firm proposed to be appointed or the accounting firm proposing to leave its office or the accounting firm who has left its office in the relevant financial year (leaving includes leaving by removal, resignation or retirement);
- (ii) if the accounting firm leaving its office makes representations in writing and requests the Company to notify the shareholders of such representations, the Company shall (unless the representations are received too late):
 - (aa) state in the notice of the resolution the fact of the representations having been made; and
 - (bb) send a copy of the representations to every shareholder (as an attachment to the notice) in accordance with the Articles of Association;
- (iii) if the accounting firm's representations are not sent in accordance with subparagraph (ii) above, such accounting firm may (in addition to its right to be heard) request such representations be read at the general meeting and may make further representations;
- (iv) an accounting firm who is leaving its office shall be entitled to attend:
 - (aa) the general meeting at which its term of office would otherwise have expired;
 - (bb) any general meeting at which it is proposed to fill the vacancy caused by its removal; and
 - (cc) any general meeting convened on his resignation;

and to receive all notices of, and other communications relating to, the meetings referred to above, and to be heard at any such meeting on any matter which concerns it as former accounting firm of the Company.

(iii) Resignation of accounting firm

An accounting firm may resign from office by depositing a notice in writing at the Company's registered address, and such notice shall contain:

- (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (ii) a statement of any such circumstances which should be accounted for.

Such notice shall be effective on the date on which it is deposited at the registered address of the Company or on such later date as may be specified therein.

The Company shall send the written notice referred to in the preceding paragraph to the relevant supervisory authority within 14 days of receipt. If the notice contains a statement referred to above, a copy of that notice shall be placed at the Company for inspection by shareholders. The Company shall also send a copy of the notice to every H Shareholder by prepaid post to his address as recorded in the register of shareholders.

Where the notice of resignation of the accounting firm contains a statement referred to in sub-paragraph (ii) above, it may require the Board to convene an extraordinary general meeting for the purposes of receiving an explanation of the circumstances connected with its resignation.

(iv) Rights of accounting firm

Every accounting firm engaged by the Company shall be entitled:

- (i) to inspect at all times all Company's books, records and vouchers, and to require the Directors, managers or other officers to provide relevant information and explanations;
- (ii) to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanations as are necessary for the accounting firm to performing its duties; and

- (iii) to attend any general meeting and to receive all notices of, and other communications relating to, any general meeting which a Shareholder is entitled to receive, and to speak at any general meeting on any matter which concerns it as the accounting firm of the Company.

(H) Notice of meetings and business to be conducted thereat

The general meeting is the organ of authority of the Company and shall execute its functions and powers in accordance with law.

The Company shall not, without the prior approval of Shareholders in general meeting, enter into any contract with any person other than a Director, Supervisor, manager or other officer of the Company whereby the management of the whole or part of substantial business of the Company is to be handed over to such person.

General meeting are divided into annual general meetings and extraordinary general meeting, and shall be convened by the Board.

An extraordinary general meeting shall be convened within 2 months under any of the following circumstances:

- (i) when the number of Director is fewer than the requirements under the PRC Company law or than two-third of the number prescribed by the Articles of Association;
- (ii) when the Company's uncovered losses amount to one-third of the total amount of its share capital;
- (iii) when Shareholder(s) holding 10% or more of Shares with voting rights requests in writing for convening an extraordinary general meeting;
- (iv) when deemed necessary by the Board or the supervisory committee; and
- (v) when requested by two or more independent Directors.

Written notice of general meeting shall be given 45 days before the date of the meeting (excluding the date of meeting and of dispatch), to notify all shareholders registered in the share register of matters to be considered and the date and place of the meeting. Shareholders who intends to attend the meeting shall deliver his written reply of attendance to the Company 20 days before the date of meeting

A notice of general meeting shall comply with the following requirements:

- (i) be given in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the matters to be considered at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to make an informed decision on the matters proposed to be considered. Without limiting the generality of the foregoing, where a proposal of merger, repurchase of shares, reorganization of share capital or other restructuring is made by the Company, the specific terms and contracts, if any, of the proposed transactions shall be provided, and that the effect of such proposal must be properly explained;
- (v) disclose the nature of extent of the material interest of any Director, Supervisor, manager or other officer of the Company, if any, in the matter to be considered at the meeting; and explain the difference of the effect on such Director, Supervisor, manager or other officer of the Company from that on other Shareholders of the same class, if any;
- (vi) contain the full text of any special resolution proposed to be resolved at the meeting;
- (vii) contain conspicuously a statement that a Shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy so appointed need not be a shareholder; and
- (viii) specify the time and place for lodging the proxy forms for the relevant meeting.

Matters not set out in the notice of an extraordinary general meeting shall not be decided at that meeting.

Where the Company convenes an annual general meeting, Shareholder(s) holding 5% or more of Shares with voting rights has the right to propose, in writing, new motion to be considered. Motion within the scope of duties of general meeting shall be included in the agenda of that meeting, if such motion is delivered to the Company 30 days before notice of that meeting is issued.

Notice of general meetings shall be served on all Shareholders (whether or not they are entitled to vote thereat) by personal delivery, fax or prepaid mail to the addresses as shown in the register of Shareholders. Notice of general meeting may be served to holders of Domestic Shares by publishing it in one or more newspapers designated by the securities supervisory authority of the State Council, within the interval between 45 and 50 days before the date of the meeting. Once published, all holders of Domestic Shares shall be deemed to have received the relevant notice.

The accidental omission to give notice of a meeting to, and the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolution passed at that meeting.

Shareholders may convene an extraordinary general meeting or class meeting in accordance with the following procedures: 2 or more Shareholders holding, on the date when such request is made, 10% or more of Shares with voting rights at the proposed meeting may sign one or more counterpart of requisitions to require the Board to convene an extraordinary general meeting or class meeting and to explain the theme of such meeting. The Board shall convene an extraordinary general meeting or class meeting as soon as possible thereafter. Where the Board fail to issue a notice to convene the general meeting 30 days after receiving the requisition, the requisitioning Shareholders may convene such a meeting within 4 months since the Board receive the said requisitions, and in a manner as similar as possible to that of a general meeting convened by the Board.

The following matters shall be resolved by a special resolution at a general meeting:

- (i) increase or reduction of the share capital and the issue of shares of any class, warrants or other similar securities of the Company;
- (ii) issue of debentures of the Company;
- (iii) division, merger, dissolution and liquidation of the Company;
- (iv) amendment to the Articles of Association;
- (v) acquisition or disposal material assets, or guarantee of the Company within a year which exceeds 25% of the Company's latest audited total assets;
- (vi) share incentive scheme; and
- (vii) any other matters which the general meeting has resolved (by way of ordinary resolution) as having a potentially material effect on the Company and should be approved by special resolution.

Subject to such matters as may be specified in the Articles of Association as requiring approvals at class meetings, the following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (i) work reports of the Board and the supervisory committee;
- (ii) proposals formulated by the Board for the distribution of profits and for making up losses;

- (iii) appointment and removal of member(s) of the Board and member(s) of the supervisory committee, their remuneration including the method of payment of such remuneration;
- (iv) annual financial budgets, statement of final accounts, balance sheets, profit and loss statements and other financial statements of the Company; and
- (v) matters other than those required by the PRC laws and administrative regulations or by the Articles of Association to be adopted by special resolution

(I) Transfer of H Shares

Except otherwise required by laws or administrative regulations, all fully-paid H Shares are freely transferable in accordance with the Articles of Association and free from all liens; provided that the Board may refuse to recognize any instrument of transfer without giving its reasons unless:

- (i) the instrument of transfer relates to H Shares only;
- (ii) all stamp duty chargeable on the instrument of transfer have been duly paid;
- (iii) the instrument of transfer is accompanied by the relevant share certificate and all evidence showing the transferor's right to transfer the Shares as the Board may reasonably require;
- (iv) where the Shares are proposed to be transferred to joint holders, the number of joint holders is not more than 4; and
- (v) the Company do not have any lien over the relevant Shares.

Transfers and other documents relating to or affecting the title of shares shall be registered and where any fee(s) is charged, such fee(s) shall not exceed the maximum fees prescribed by the Stock Exchange from time to time in the GEM Listing Rules.

Shares shall not be transferred to any minor, or any person who is mentally or legally incapacitated.

Transfer of H Shares shall be effected by an instrument of transfer in writing in the usual or common form, or in such other form as the Board may accepted; all such instruments may be executed under hand or by machine imprinted signature and not under the Company's seal.

(J) Power of the Company to purchase its own Shares

Subject to the approval of the relevant PRC governing authority and in accordance with the Articles of Association, the Company may repurchase its issued shares in the following circumstances:

- (i) cancellation of Shares for reduction of its share capital;
- (ii) merger with other companies which holds the Shares;
- (iii) awarding Shares to the employees of the Company;
- (iv) being demanded to repurchase the Shares by its Shareholders who object to the resolutions adopted at the Shareholders' general meeting in connection with merger and division of the Company; and
- (v) other circumstances permitted by law and administrative regulations.

Where the Company repurchases its own shares on the ground of (i) to (iii) set out above, it shall obtain the approval of Shareholders at general meeting.

After the Company repurchases its shares pursuant to the Articles of Association, the shares in respect of the circumstance described in (i) above shall be cancelled within 10 days from the day of purchase, and those in respect of the circumstance described in (ii) and (iv) above shall be transferred or cancelled within 6 months.

The Company may, with the approval of the relevant PRC governing authority, repurchase its Shares by one of the following methods:

- (i) making a pro rata general offer to all Shareholders;
- (ii) through public dealing on a stock exchange;
- (iii) by an off-market agreement.

Where the Company repurchases its Shares by an off-market agreement, the Company shall obtain prior approval at general meeting according to the Articles of Association. The Company may release or vary any executed agreement, or waive any rights therein upon prior approval at a general meeting obtained in the same manner.

A contract to repurchase Shares includes (without limitation) an agreement to assume any obligation to repurchase or to acquire right to repurchase Shares of the Company. The Company shall not assign any contract to repurchase its shares, or any right thereunder.

Unless the Company is in the course of liquidation, the Company shall comply with the following provision when repurchasing Shares:

- (i) where the Company repurchases Shares at par value, payment shall be made out of the Company's distributable profits or out of the proceeds of a fresh issue made for that purpose;
- (ii) where the Company redeems or repurchases its Shares at a premium, payment up to the par value shall be made out of the Company's distributable profits or out of the proceeds of a fresh issue made for that purpose. Payment of the portion in excess of the par value shall be made as follows:
 - (aa) if the Shares being repurchased were issued at par value, payment shall be made out of the Company's distributable profits; or
 - (bb) if the Shares being repurchased were issued at a premium, payment shall be made out of the Company's distributable profits or out of the proceeds of a fresh issue made for that purpose, provided that the amount paid out of the said proceeds shall not exceed the aggregate amount of premium received by the Company on the issue of the repurchased Shares nor shall it exceed the current amount of the Company's share premium account or capital reserve fund account (including the premium on the fresh issue);
- (iii) payment by the Company for the following purposes shall be made out of the Company's distributable profits: (aa) acquisition of rights to repurchase Shares; (bb) variation of any contract to repurchase Shares; or (cc) release of any of the Company's obligations under any contract to repurchase its Shares.

After the Company's registered share capital have been reduced by the total par value of the cancelled Shares in accordance with the relevant regulations, the amount deducted from the Company's distributable profit for payment of the par value of the repurchased Shares shall be transferred to the Company's share premium account or capital reserve fund account.

(K) Power of any subsidiary of the Company to own shares in its parent company

There are no restrictions in the Articles of Association preventing any subsidiary of the Company from holding shares in its parent company.

(L) Dividends and other methods of distribution

The Company may distribute dividends in form of cash and/or bonus shares.

The profit of the Company, after paying all relevant taxes and levies shall be applied in the following order:

- (i) making of accrued losses;
- (ii) allocation to statutory common reserve;
- (iii) allocation to statutory public welfare fund;
- (iv) allocation to discretionary common reserve; and
- (v) payment of dividends in respect of ordinary shares.

The detailed proportion of distributions in respect of items (iv) to (v) above for any year shall be formulated by the Directors in accordance with the operating conditions and development requirements of the Company, and shall be submitted to the general meeting for approval.

No dividends shall be paid before the Company has made up its accrued losses and has made allocation to its statutory common reserve and its statutory public welfare fund.

- (vi) The Company shall allocate 10% of its profits after tax to the statutory common reserve provided that no allocation is required if the accumulated statutory common reserve exceeds 50% of the registered capital. The Company shall allocate 5% to 10% of its profit after tax to be the statutory public welfare fund;

The Company shall allocate its profits to the discretionary common reserve in accordance with the resolutions passed at general meetings.

The following sums shall be appropriated to the capital common reserve:

- (i) the amount of share premium arising from the issue of shares at a premium; and
- (ii) other income required by the financial supervisory authority of the State Council to be appropriated to the capital common reserve.

Dividends or other distributions payable to Shareholders shall be declared and denominated in Renminbi. Such dividends and distributions shall be payable to Domestic Shareholders within 3 months after the declaration in Renminbi, and shall be payable to H Shareholders in foreign currency in accordance with relevant PRC regulations on foreign exchange 3 months after its declaration. The foreign exchange rate shall be the average of the PBOC closing Renminbi-Hong Kong dollar conversion rates on each of the five business days immediately preceding the date of declaration of the dividend or distribution, or at such other exchange rate as may be prescribed by or allowed under any relevant law or regulation.

The Company shall appoint a receiving agent on behalf of holders of H Shares to receive dividends and all other monies payable in respect of the Shares. Such receiving agent shall be registered as a trust company under the Trustee Ordinance of Hong Kong, and shall comply with all requirements under the law of the place where the Shares are listed or of regulations of the relevant stock exchange.

Where the Company exercise its power to forfeit unclaimed dividends, that power shall be exercised 6 years or more after the date of declaration of the dividends.

The Directors may, subject to the approval of the shareholders in general meeting, resolve to distribute interim dividends or bonuses.

The Company may exercise its power to cease sending dividend warrants by post when such warrants have not be cashed on 2 consecutive occasions. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

(M) Proxies

Any Shareholder entitled to attend and vote at general meetings shall be entitled to appoint one or more person (who need not be a Shareholder) to attend and vote at general meeting. The proxy so appointed shall:

- (i) have the same rights as the shareholder to speak at the meeting;
- (ii) have the right to demand or join with others to demand a poll; and
- (iii) have the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointer or its attorney duly authorised in writing. If the appointer is a legal person, the instrument shall be signed under a legal person's seal or under the hand of its director or an attorney duly authorised in writing.

The instrument appointing a proxy shall be deposited at the legal address of the Company, or such other place as prescribed in the notice convening the meeting, 24 hours before the holding of the relevant meeting or 24 hours before the time at which the poll is to be conducted. If such instrument is signed by a person under a power of attorney or other document of authority on behalf of the appointer, a notarially certified copy of that power of attorney or other document of authority shall also be deposited together with the said instrument at the Company's legal address or such other place prescribed in the notice convening the meeting.

If the appointer is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of Shareholders as a representative of the appointer.

Any form issued to shareholders by the Board for appointing a proxy shall enable the shareholder, according to his intention, to instruct his proxy to vote in favour of or against each resolution proposed at the meeting. Such a form shall contain a statement that in the absence of instructions from the appointer, the proxy may vote as he thinks fit.

A vote given in accordance with the terms of the instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of those matters shall have been received by the Company before the commencement of the relevant meeting.

(N) Calls on shares and forfeiture of shares

The Articles of Association do not contain any provisions regarding calls on shares and forfeiture of shares.

(O) Inspection of register of members

The Company shall keep a register of shareholders, recording:

- (a) the name, address, and the occupation or nature of each Shareholder;
- (b) the class of shares held by each Shareholder, and the respective number of shares in each class which is held by each Shareholder;
- (c) the amount paid or payable by each Shareholder for its Shares;
- (d) the serial number of shares held by each Shareholder;
- (e) the date of which each shareholder is registered as a Shareholder; and
- (f) the date of which each shareholder cease to be a Shareholder.

The register of shareholders shall be sufficient evidence of the holding of Shares by the shareholders unless there is evidence to the contrary.

The Company shall keep a complete register of shareholders, comprising:

- (a) a register of shareholders other than those registered pursuant to sub-paragraphs (ii) and (iii) below, kept at the Company's legal address;
- (b) a register of holders of foreign shares listed on the foreign stock exchange, kept at please where such stock exchange exist;

- (c) a register of shareholders, kept at such place as the Board deem fit for the purpose of listing of the Shares.

The original register of holders of foreign shares listed in Hong Kong shall be kept in Hong Kong. A duplicate of the register of holders of overseas listed foreign shares shall be made and maintained at the Company's legal address. The Company may appoint an overseas agent to keep the register of holders of such shares. The appointed overseas agent shall ensure at all times that the original and duplicate registers of holders of overseas listed foreign shares are the same. In the event of inconsistencies between any information recorded in the original register and that in the duplicate, the original shall prevail. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in one part of the register shall, during the continuance of the registration of those shares, be registered in any other parts of the register of shareholders.

The alteration and rectification of each part of the register of shareholders shall be made in accordance with the law of its situs.

(P) Quorum for general meetings and class meetings

The Company may convene a general meeting where the number of Shares with voting rights, represented by Shareholders from whom the Company has received notices of intention to attend the meeting 20 days before the meeting, reaches half or more of the total number of Shares with voting rights; if that percentage is not reached, the Company shall further notice the Shareholders, by way of a public announcement, of the matters to be considered at the meeting, the date and venue of the meeting. After such public announcement, the Company may proceed to hold the general meeting.

The above procedure applies, mutatis mutandis, to shareholders of each class of Shares in respect of class meetings.

(Q) Rights of the minorities in relation to fraud or oppression

Apart from the obligations imposed by law, administrative regulations or listing rules of the stock exchange(s) on which shares of the Company are listed, when exercising his rights as a Shareholder, a controlling Shareholder shall not make a decision in a manner prejudicial to interests of Shareholders generally or any part thereof by virtue of exercising his voting rights in connection with the following matters:

- (i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation in any form by a Director or Supervisor (for his own benefit or for the benefit of another person), in any manner, of the Company's assets including, without limitation, opportunities beneficial to the Company; or

- (iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the personal rights of other shareholders, including without limitation, rights to distributions and voting rights, but excluding a restructuring of the Company submitted to Shareholders for approval in general meeting in accordance with the Articles of Association.

For these purposes, a controlling Shareholder means a person who satisfies any of the following conditions:

- (i) he, when act alone or with others, has the power to elect more than half of the Directors;
- (ii) he, when act alone or with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he, when act alone or with others, holds 30% or more of the issued shares of the Company;
or
- (iv) he, when act alone or with others, in any other manner has de facto control of the Company.

(R) Procedures on liquidation

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (i) a resolution for dissolution is passed at Shareholders' general meeting;
- (ii) dissolution is necessary due to a merger or division of the Company;
- (iii) a declaration to the effect that the Company is insolvent was made in accordance with law due to its failure to repay its debts as they fall due; and
- (iv) the Company was ordered to be closed down due to violation of law or administrative regulations.

Where the Board proposed to liquidate the Company due to causes other than a declaration of insolvency, the Board shall include in the notice convening a shareholders' general meeting for such purpose to the effect that, after making full enquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within twelve months from the date of commencement of the liquidation.

Upon the passing of a resolution at the Shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board shall cease immediately.

A liquidation committee of the Company shall be established if the Company is dissolved and liquidated on ground (i), (ii), (iii) or (iv) mentioned above in this paragraph. The membership of the liquidation committee and the manner by which it is established varies depending on the ground of liquidation.

After the liquidation committee has administered the assets of the Company and prepared a balance sheet and an inventory of the Company's assets, it shall draw up a proposal for the liquidation and submit the same to the general meeting or the People's court for approval.

The assets of the Company shall be distributed in the following order:

- (1) liquidation fees and expenses;
- (2) wages and labour insurance premiums of employees;
- (3) outstanding taxes due; and
- (4) debts of the Company.

Any surplus assets remaining after the above payments have been made in full shall be distributed to the shareholders according to the class(es) and proportion of shares they hold.

Upon completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report and accounts of its income and expenditure and financial reports for the period of the liquidation. Once these accounts and reports are verified by a registered accountant of the PRC, they shall be submitted to the general meeting or the relevant supervisory authorities for approval.

The liquidation committee shall, within 30 days of the date of approval by the general meeting or the relevant supervisory authorities, submit the accounts and reports mentioned above to the companies registration authority, apply for cancellation of the Company's registration and announce the cessation of the Company.

If the liquidation committee discovers that, in case of a liquidation of the Company due to its dissolution and subsequent to the disposal of the Company's assets and preparation of the balance sheet and inventory of assets, the assets of the Company are insufficient to settle its debts, it shall make an application to the People's Court for a declaration of insolvency according to law.

After the declaration of insolvency by the People's Court, the liquidation committee shall pass all matters relating to the liquidation to the People's Court.

(S) Other provisions material to the Company or its shareholders*1. General provisions*

The Company is a joint stock limited company in perpetual existence.

The Company may invest in other limited liability companies and joint stock limited companies and accept liability in respect of such companies up to the amount of its investment in such companies. Subject to the approval of the companies supervisory authority authorised by the State Council, the Company may, in accordance with its business and operational requirements, operate as a holding company as provided under Article 12 of the PRC Company Law.

The Articles of Association constitute a legal document regulating the constitution and activities of the Company, the rights and obligations between the Company and its shareholders and the shareholders inter se. The Articles of Association are binding upon the Company and its shareholders, Directors, Supervisors, managers and other officers. Such persons may bring claims on matters related to the Company in accordance with the Articles of Association.

Shareholders may bring actions against the Company and vice versa, and shareholders may bring actions against other shareholders, Directors, Supervisors, managers and other officers of the Company in accordance with the Articles of Association. For these purposes, actions include proceedings commenced in court and arbitration proceedings commenced in arbitration tribunals.

The Company shall published its advertisement on newspaper issued in Hong Kong or newspaper designated by the CSRC.

2. Shares and registered capital

The Company shall at all times have ordinary shares. The Company may, in accordance with its needs and upon obtaining approval of the companies supervisory authority authorized by the State Council, establish other types of shares.

The Company may issue shares to either or both of domestic investors and foreign investors upon obtaining approval from the securities regulatory authority of the State Council.

For the purpose of the preceding paragraph, “foreign investors” means investors from outside the PRC and the territories of Hong Kong, Macau and Taiwan who subscribe for shares issued by the Company; “domestic investors” means investors who subscribe for shares issued by the Company from within the PRC other than from the aforesaid territories.

The shares issued by the Company to domestic investors which are subscribed for in RMB are called “domestic shares”. The shares issued by the Company to foreign investors which are subscribed for in foreign currencies are called “foreign shares”. Foreign shares which are listed outside the PRC are called “overseas listed foreign shares” (and for the purpose of this circular, such overseas listed foreign shares are defined as “H Shares” in the “Definition” section of this circular).

The Company may increase its share capital:

- (1) by offering new shares to general investors;
- (2) by placing new shares with existing shareholders;
- (3) by issuing bonus shares to existing shareholders; or
- (4) by any other methods permitted under PRC laws and administrative regulations.

The Company may reduce its registered capital in accordance with the provisions of the Articles of Association.

The registered capital of the Company after a capital reduction shall not be lower than the minimum requirements prescribed by law. Where the Company reduces its registered capital, it shall prepare a balance sheet and inventory of assets. The Company shall notify its creditors within 10 days from the date of the resolution to reduce its registered capital, and make a public announcement in newspapers within 30 days thereof. Creditors are entitled to, within 30 days of receipt of the notice or (where notice has not been received) within 90 days of the date of the public announcement, require the Company to pay its debts or provide corresponding guarantee for its debts,

3. *Untraceable member*

The Company shall not exercise its power to sell the shares of a shareholder who is untraceable unless:

- (i) during a period of 12 years at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and
- (ii) on expiry of the 12 years the Company give notice of its intention to sell the shares by way of an advertisement published in the newspaper and notifies the Stock Exchange of such intention.

4. The Board

The Directors are accountable to the shareholders in general meeting and shall have the following functions and powers:

- (i) to convene general meetings and to report on their work at general meetings;
- (ii) to implement resolutions passed at general meetings;
- (iii) to decide the Company's business plans and investment proposals;
- (iv) to prepare the Company's annual financial budget and final accounts;
- (v) to formulate proposals for profit distribution and for making up accrued losses of the Company;
- (vi) to formulate proposals for an increase or reduction of registered capital and the issue of debt securities of the Company;
- (vii) to formulate proposals for the merger, division or dissolution of the Company;
- (viii) to formulate the internal management structure of the Company;
- (ix) to appoint or dismiss the general manager of the Company and, at the recommendation of the general manager, to appoint and dismiss deputy general manager(s), financial controller and other officers of the Company and to determine their remuneration;
- (x) to formulate the basic management system of the Company;
- (xi) to prepare proposals for amendments to the Articles of Association;
- (xii) to decide a special committee structure and appoint or dismiss a relevant leader;
- (xiii) to formulate proposals for major acquisitions or disposals of the Company; and
- (xiv) other powers conferred by general meetings and the Articles of Association.

A majority of at least two-thirds or more of the Directors shall be required for the passing of any resolution in respect of items (vi), (vii) and (xi) above. Resolutions for other matters specified above shall be passed by a simple majority.

A meeting of the Board shall only be held where more than half of the Directors are present. Each Director shall have one vote but the chairman shall have an additional vote in the event of equality of votes.

Board meetings shall be held at least twice every year and shall be convened by the chairman, provided that when an urgent matter arises, extraordinary Board meetings should be convened by the chairman within 14 days upon occurrence of the following event:

- (i) where the chairman consider necessary;
- (ii) where requisition is made by shareholders with 10% or more of the voting rights;
- (iii) where requisition is made by more than one-third of the Directors jointly;
- (iv) where requisition is made by the supervisory committee;
- (v) where requisition is made two or more Supervisors; or
- (vi) where requisition is made by the general manager.

5. *Board secretary*

The Company shall have a board secretary who shall be appointed by the Board. The Board secretary shall be a natural person who has the requisite professional knowledge and experience. One or two natural person may act as the company secretary.

The primary responsibilities of the Board secretary are:

- (i) To assist the Board for daily operation of the Board, provide to, remind of the Board any requirements of supervisory authorities (whether such authorities are in the PRC under the law, regulation and policy and ensure the Board understanding of the same and to assist the Board and the general manger of the Company complies with all such law, regulations (whether within the PRC or not) and articles of association
- (ii) To organize the meeting of the board, of the Shareholders, prepare the documentation for the meeting, arrange for the affairs of the meeting, be responsible for the minutes of the meeting and ensure its accuracy, ensure that the resolutions complies with the procedures, and to ascertain the implementation of the board resolutions

- (iii) to ensure that the documentation and records of the Company are complete;
- (iv) to ensure that the Company prepares and submits all reports and documents to the relevant authorities as required under the law; and
- (v) to ensure that the Company's register of shareholders and directors, and the register of shareholdings of substantial shareholders and directors is properly established and that persons entitled to the relevant records and documents of the Company are promptly furnished with the same.

Other than the general manager and the financial controller, Directors or other officers of the Company may concurrently act as board secretary. An accountant of a firm of accountants retained as auditor by the Company shall not concurrently act as board secretary.

6. *Manager*

The Company shall have a manager and three vice manager, who shall be appointed and dismissed by the Board. The manager shall be accountable to the Board and shall have the following functions and powers:

- (i) to be in charge of the production, operation and management of the Company and to organise the implementation of any resolution of the Board;
- (ii) to organise the implementation of the Company's annual operational plans and investment proposals;
- (iii) to formulate plans for the internal management system of the Company;
- (iv) to formulate the basic management structure of the Company;
- (v) to establish the basic administrative rules and regulations of the Company;
- (vi) to recommend the appointment or dismissal of deputy manager(s), financial controller(s), to appoint or dismiss other officers of the Company (other than those required to be appointed or dismissed by the Board);
- (vii) to perform and exercise any other functions and powers conferred by the Articles of Association and the Directors.

7. *Supervisory committee*

The Company shall have a supervisory committee which is responsible for the supervision of the Directors, the manager and other officers of the Company to prevent them from abusing their positions and powers and infringing the interests of the shareholders, the Company and the employees.

The supervisory committee shall comprise 5 supervisors, out of which there shall be one representative of the Shareholders, two representatives of the employees, and two independent supervisors. The representative of employees shall be elected and removed by the employees of the Company democratically and the independent representatives of the supervisors shall be elected and removed by the shareholders at general meeting. The term of a Supervisor shall be three years and may be re-elected to serve consecutive terms.

The chairman of the supervisory committee shall be appointed or removed by two-thirds or more of the Supervisors.

The Supervisors shall not undertake concurrently the duties of the Directors, managers or other officers, including financial controller, of the company.

The supervisory committee shall be accountable to the general meeting and shall exercise the following functions and powers in accordance with law:

- (i) to examine the Company's financial affairs;
- (ii) to monitor whether the Directors, managers and other officers have, in the performance of their duties, acted in contravention of any laws, administrative regulations or the Articles of Association;
- (iii) if the conduct of a Director, manager or other officer is detrimental to the interests of the Company, to require him to rectify such conduct;
- (iv) to review the Company's financial information (such as the financial reports, business reports and profit distribution plans) proposed to be submitted to the general meeting by the Board, and in case of doubt, to appoint registered accountants or practising auditors to assist in the review on behalf of the Company;
- (v) to investigate specific matters commissioned by relevant department of the PRC government;
- (vi) to propose the convening of extraordinary general meetings;

(vii) to represent the Company in negotiations with Directors or to institute proceedings against Director; and

(viii) other functions and powers stipulated the Articles of Association.

Supervisors shall attend board meetings.

Any resolution of the supervisory committee shall be approved by at least two-third of the Supervisors.

8. *Obligations of Directors, Supervisors, managers and officers of the Company*

Each Director, Supervisor, manager or other office of the Company has a duty to exercise his power and discharge his obligation with care, diligence and skill of a reasonable and prudent person in similar circumstances.

In addition to the obligations imposed by laws, administrative regulations or the rules of the stock exchange(s) on which shares of the Company are listed, each Director, Supervisor, manager and other officer of the Company, when exercising his powers conferred upon him by the Company, owes to each of the shareholders the following obligations:

- (i) not to cause the Company to exceed the scope of operations stipulated in its business licence;
- (ii) to act in what he honestly considers to be in the best interests of the Company;
- (iii) not to expropriate the Company's assets, including (but not limited to) opportunities beneficial to the Company, in any manner; and
- (iv) not to expropriate personal rights of Shareholders, including (but not limited to) rights to distribution and voting rights, but excluding proposed restructuring of the Company submitted to and approved by the general meeting in accordance with the Articles of Association.

Each Director, Supervisor, manager and other officer has, in the performance of his duties, the duty to observe the principles of good faith and the duty not to place himself in a position where his duties and his interests may conflict. This includes (but is not limited to) the duty:

- (i) to act honestly in the best interests of the Company;
- (ii) to exercise his powers within the scope of his authority and not act in excess of his powers;

- (iii) to exercise the discretion vested in him personally but not under director of any other person, and except where permitted by law or administrative regulations, or with the informed consent of Shareholders at general meeting, not to delegate the exercise of such discretion to another person;
- (iv) to treat Shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) not to enter into any contract, transaction or arrangement with the Company except with the informed consent of Shareholders at general meeting or otherwise in accordance with the Articles of Association;
- (vi) not to use the Company's assets for his own benefit in any manner except with the informed consent of Shareholders at general meeting;
- (vii) not to abuse his position by accepting bribes or other unlawful income, and not to expropriate in any manner the Company's assets including (without limitation) opportunities beneficial to the Company;
- (viii) not to accept any commission in connection with any transaction in which the Company is involved except with the informed consent of Shareholders in general meeting;
- (ix) to abide by the Articles of Association, execute their official duties faithfully and protect the Company's interests; not to exploit their position and power in the Company to advance their own private interests;
- (x) not to compete with the Company in any manner without the informed consent of Shareholders at general meeting;
- (xi) not to misappropriate Company funds or loan such funds to others; not to open accounts in their own names or in the names of other individuals with the Company's assets, and not to provide a guarantee for debts of a Shareholder or other individuals with the Company's assets; and
- (xii) not to disclose the confidential information of the Company obtained during his employment with the Company without the informed consent of shareholders in general meeting, and not to use such information unless for the benefit of the Company; but such information can be disclosed to court or government under the following circumstances: (a) due to the provision of the law; (b) due to the requirement of the public interests; (c) due to the requirement of interests of the Directors, Supervisors, managers and other officers of the Company.

A Director, Supervisor, manager or other officer shall not direct persons connected with them (as described in section 1(f) above), to do what the Director, Supervisor, manager or other officer himself is prohibited from doing.

9. *Shareholders' obligations*

A Shareholder is a person who lawfully hold share(s) of the Company, and whose name is entered in the register of Shareholders.

A shareholder shall enjoy the rights and bear the obligations attached to the class to which his shares belong and the percentage of shares held; shareholders shall enjoy the same rights and bear the same obligation with other holder of the shares of the same class.

Unless specified otherwise in the Articles of Association, the holders of ordinary shareholders of the Company shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of Shares held;
- (ii) the right to attend or appoint a proxy to attend general meetings and to vote thereat;
- (iii) the right to supervise the Company's business operations, and the right to present proposals and raise inquiries;
- (iv) the right to transfer Shares in accordance with the laws, administrative regulations and the Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including (aa) a copy of the Articles of Association, subject to payment of the cost of such copy; (bb) the right to inspect and copy, subject to payment of a reasonable charge: (1) all parts of the register of shareholders, (2) personal particulars of Director, Supervisors, manager and other officer of the Company, including present name and alias, former name and alias, principal address or residence, nationality, primary and all other part-time occupation, identification documents and its number, (3) report on the state of the Company's share capital, (4) reports showing the aggregate par value, quantity, maximum and minimum price paid in relation to each class of shares repurchased by the Company, and all report of all amount incurred by the Company for such purpose, since the end of the preceding financial year, (5) minutes of general meeting.
- (vi) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company according to the number of Shares held by him or her; and

- (vii) (a) to petition to the People's court to invalidate any resolutions of the Shareholders' general meeting or board meeting in violation of the laws, administrative regulations and the Articles of Association; to petition to the People's court to cancel any resolutions where its content violate the Articles of Association, or where the convention, voting procedures at general meeting or board meeting in which such resolution is approved violate any law, administrative regulations or the Articles of association;
- (b) by any holder of 1% of shares with voting rights for a continuing period of 180 days alone or with others, to request in writing to the supervisory committee to commence proceeding at the People's court for damages resulting from breach of law, administrative regulations or the Articles of Association by the Directors and officer of the Company in performance of its duties; to request in writing to the Board for damages resulting from breach of law, administrative regulations or the Articles of Association by the Supervisors in performance of its duties

To petition to the People's court personally where the Supervisory committee or the board refuse to commence litigation upon receiving the written request, or if they fail to commence litigation within 30 days from the date of receipt, or where the situation is so urgent that the Company's interests will be irreparably hampered unless litigation is commenced forthwith

This paragraph applies for Shareholder to commence litigation in the People's court where certain third parties infringe the law rights and interest of the Company and damages is resulted.

- (c) to commence litigation where the Shareholders' interests are hampered as a result of any violation of laws, administrative regulations
- (viii) other rights conferred by relevant laws and administrative regulations, and the Articles of Association.

The Company shall not freeze or otherwise impair any of the rights attaching to any shares by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A holder of ordinary shares in the Company shall have the following obligations:

- (i) to abide by the Articles of Association;
- (ii) to pay subscription monies according to the number of shares subscribed and the method of subscription; and

- (iii) other obligations imposed by law, administrative regulations and the Articles of Association.

Save in respect of terms agreed by the subscriber at the time of subscription, a shareholder shall not be liable to subscribe for any further share capital.

Share certificate shall bear the name of the Shareholder. It shall be signed by the chairman of the Board. Where the stock exchange on which Shares are listed require the share certificate be signed by other officer of the Company, the Share certificate shall also be signed by such officer. The share certificate shall take effect after being affixed with the Company's seal or a machine-imprinted seal of the Company, provided that such seal shall only be affixed with the authority of the Board.

The register of Shareholders shall be sufficient evidence of one's shareholding in the Company unless there is evidence to the contrary. Any alteration or rectification to the register of Shareholders shall be made in accordance with the law of the jurisdiction where that part of register is kept. Any objection or dispute in relation to the register of shareholders by requesting the registration or deletion of names in the register of shareholders shall be made by application to a court of competent jurisdiction for rectification of the register of Shareholders.

Where 2 or more persons are registered as the holders of any shares, the shares shall be deemed to be held by such persons as joint holders, provided that:

- (i) the Company shall not be bound to register more than 4 persons as the joint holders of any Shares;
- (ii) upon the death of any of such joint holders of shares, only the survivor(s) of the other joint holders shall be recognized by the Company as having the relevant title to such shares, but the Board is entitled to request for all such certificate or proof of death of such shareholder for the purpose of amendments to the register of shares as the Board consider appropriate;
- (iii) in relation to joint holders of any shares, only the person whose name stands first in the register of shareholders shall be entitled to receive the certificate of such shares and the notice from the Company, to attend and exercise all voting rights attached to such shares, and any notice delivered to such person shall be deemed to have delivered to all joint holders to such shares.

Any person whose name is registered, or who requests its name be registered, in the register of shareholders of the Company may, where its share certificate (the “original certificate”) is lost, apply to the Company for new certificate be issued in respect of the shares (the “relevant shares”). Procedures for the applying replacement certificate by holder of Domestic Shares and/or H Shares are prescribed in the Articles of Association. In respect of H Shareholder, an applicant is required to submit an application in the prescribed form accompanied by a notarial certificate or a statutory declaration. Where the Company is satisfied that no objection to the issue of the replacement share certificate is received, having regard to the requirements set out in the Articles of Association, the Company will issue a new share certificate and cancel the original certificate. All expenses of the Company relating to the cancellation of an original certificate and the issue of a new share certificate shall be borne by the applicant. The Company is entitled to refuse to take any action before reasonable security is provided by the applicant in respect of those expenses.

After the Company has issued a new replacement share certificate in accordance with the above provisions, the name of any bona fide purchaser who obtains the new share certificate or of any person whose name is subsequently entered into the register of shareholders in respect of the relevant shares (if a bona fide purchaser) shall not be removed from the register of shareholders. The Company shall not be liable for any damages suffered by any person by reason of the cancellation of the original certificate or the issue of the new share certificate unless the fraudulent acts on the part of the Company is established.

10. Resolution of disputes

Whenever any dispute or claim arise in relation to any rights or obligations provided under the Articles of Association, the PRC Company law or other relevant laws and administrative regulation between (i) holder of H Shares and the Company, (ii) holder of H Shares and the Directors, Supervisors, managers or other offices of the Company, or (iii) holder of H Shares and holder of Domestic Shares, such disputes shall be referred to arbitration.

Any dispute in relation to the definition of “shareholder” or to the register of member may not be referred to arbitration.

A claimant may elect to refer the arbitration to either the China International Economic and Trade Arbitration Commission (CIETAC) in accordance with its rules, or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once the disputes or claims are referred to arbitration, the other party should submitted to the arbitration body elected by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the disputes or claims may apply for the hearing to take place in Shenzhen, PRC, in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

Where a dispute or claim is referred to arbitration, the entire dispute or claim should be referred to arbitration; and all persons (being the Company, a Shareholder, a Director, a Supervisor, a manager or other officer of the Company) with a cause of action upon the same facts giving rise to the disputes or claims or whose participation is necessary for the resolution of that dispute or claim shall abide by the arbitration.

The applicable law for any disputes or claims referred to arbitration shall be the PRC law, save as otherwise prescribed by law and administrative regulations.

The award of arbitration shall be final and conclusive, and shall be binding on all parties to the disputes.

1. RESPONSIBILITY STATEMENT

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

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that in respect of Tianjin Gas) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the directors of Tianjin Gas) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to Tianjin Gas contained in this circular has been supplied by the directors of Tianjin Gas, namely, Sun Bo Quan (孫伯全), Huang Hong Xiang (黃紅祥), Cao Hui Quan (曹慧泉), Jin Jian Ping (金建平), Liu Tian Xiang (劉天祥), Feng Li (馮力) and Zhang Bao Xin (張寶新), who jointly and severally accept full responsibility for the accuracy of the information (other than that in respect of the Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Directors) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. FURTHER INFORMATION ABOUT THE ENLARGED GROUP

(I) Incorporation

The Company was established in the PRC under the PRC Company Law under the name of Tianjin Tianlian Gas Company Limited* (天津市天聯天然氣有限公司) as a limited liability company on 16 December 1998 and was converted into a joint stock limited company on 29 December 2001. The Company has established a place of business at 1004, Wing On Plaza, Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 9 January 2004. In connection with such registration, Mr. Kwok Shun Tim (郭純恬) of 1004, Wing On Plaza, Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong has been appointed as the agent for the acceptance of service of process and any notices served on the Company in Hong Kong.

As the Company was established in the PRC under the PRC Company Law, it operates subject to the PRC Company Law and the Articles of Association. A summary of certain relevant aspects of the PRC Company Law and the relevant parts of the Articles of Association are set out in Appendix VIII of this circular.

* For identification purpose only

(II) Changes in the share capital of the Group**(a) The Company**

As at the Latest Practicable Date, the issued share capital of the Company comprises:

	Number of Shares	RMB	Approximate percentage
Domestic Shares	649,540,000	64,954,000	56.5%
H Shares	<u>500,060,000</u>	<u>50,006,000</u>	<u>43.5%</u>
Total	<u><u>1,149,600,000</u></u>	<u><u>114,960,000</u></u>	<u><u>100%</u></u>

All existing issued H Shares and Domestic Shares rank pari passu with each other in all respects including all rights as to dividend, voting and interests in capital.

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

No new Shares were issued since 31 December 2009, being end of the last financial year of the Company and up to the Latest Practicable Date.

On 13 March 2008, pursuant to a placing agreement dated 27 February 2008 entered into between the Company and Kingsway Financial Services Group Limited, an aggregate of 154,600,000 H Shares were allotted and issued by the Company and 15,460,000 Domestic Shares were converted into H Shares by way of placing. Details of the Placing are set out in the paragraph headed “Corporate History” under the section headed “Business of the Group” of this circular. As a result, the share capital of the Company was increased from 995,000,000 Shares, comprising 665,000,000 Domestic Shares and 330,000,000 H Shares to 1,149,600,000 Shares, comprising 649,540,000 Domestic Shares and 500,060,000 H Shares.

Kingsway Financial Services Group Limited received a placing commission of 4% on the aggregate placing price of the placing shares under the Placing. The placing commission was arrived at after arm’s length negotiations between the Company and Kingsway Financial Services Group Limited.

Save as disclosed in the above paragraphs, no alteration in the share capital of the Company has taken place within two years immediately preceding the date of this circular.

Other than a total of 689,707,800 Domestic Shares agreed to be issued under the Assets Acquisition Agreement upon completion of the Proposed Assets Transfer, the Company has no present intention to issue any Shares and without prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

(b) The Subsidiaries

The share capital structure of the subsidiaries of the Company as at the Latest Practicable Date are as follows:

(i) Kin Sang Tianlian Public Utilities Company Limited (烏盟乾生天聯公用事業有限責任公司)

Jining Company is a limited liability company established in the PRC on 2 January 2003 with a registered capital of RMB1,000,000. It was held as to 60% by the Company and 40% by Kin Sang Company Limited (烏盟乾生實業有限責任公司). Jining Company is dormant and has commenced the procedure of deregistration in the PRC. As at the Latest Practicable Date, the above deregistration has not been completed.


(ii) Tianlian Investment

Tianlian Investment whose legal address is at Room 327, No. 3 Wei Shui Road, Nan Kai District, Tianjin, the PRC, is a limited liability company established in the PRC on 25 January 2008 with a registered capital of RMB20,000,000. Tianlian Investment is wholly-owned by the Company.

No alterations in the share capital of any member of the Group has taken place within two years immediately preceding the date of this circular.

(III) Intellectual property rights of the Group*(a) Trademark*

As at the Latest Practicable Date, the Group had registered the following trademark in the PRC:

Name of registered owner	Trademark	Class (Note 1)	Registered Number	Valid Period
The Company		39	3685780	7 September 2005 — 6 September 2015

Note:

- The registration in Class 39 covers the following goods/services: (1) transportation; (2) marine transportation; (3) vehicle transportation; (4) railway transportation; (5) storage; (6) coal gas station; (7) liquefied gas station; (8) pipe transportation; (9) energy distribution; (10) electronic data or document carrier storage.

(b) Domain name

As at the Latest Practicable Date, the Group has registered the following domain name:

Domain Name	Date of Registration
tianliangas.com	6 February 2004

Save as aforesaid, there are no other trademarks, patents, domain names or other intellectual or industrial property rights which are material in relation to the Group's business.

3. FURTHER INFORMATION RELATING TO THE COMPANY AND THE WHITEWASH WAIVER**(I) The Company**

As at the Latest Practicable Date:

- (a) the Company did not have any interest in any securities, shares, options, warrants, derivatives or convertible securities in Tianjin Gas and had not dealt for value in any such securities during the period commencing six months prior to 5 October 2009 (being the date of the Announcement) and ending on the Latest Practicable Date;
- (b) save as disclosed in this Appendix, none of the Directors or Supervisors had any interests in the securities, shares, options, warrants, derivatives or convertible securities in the Company or Tianjin Gas;
- (c) none of the subsidiaries of the Company, or pension funds of the Company or of a subsidiary of the Company or advisers to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code, save for the Shares held by Kingsway Lion Spur Technology Limited as disclosed under the paragraph “(II) Sponsor” in this section, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities in the Company or Tianjin Gas;
- (d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with the Company, or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code;
- (e) no share, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company;
- (f) each of Ms. Tang and Mr. Bai Shao Liang (白少良), Directors, has indicated their intention to vote in favour of the resolutions to be proposed in the EGM and the Domestic Shares Class Meeting (where applicable) to approve, among others, the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver in respect of their respective Shares (which are held in their own names or by controlled corporations), and save as disclosed in this Appendix, none of the Directors or Supervisors hold any Shares;

- (g) none of the Directors, Supervisors or the Company had borrowed or lent any shares of the Company or any of its subsidiaries; and
- (h) none of the Directors or Supervisors had dealt in any Shares or other securities, options, warrants, derivatives or convertible securities of the Company or Tianjin Gas during the period commencing six months prior to 5 October 2009 (being the date of the Announcement) and ending on the Latest Practicable Date.

(II) Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Division of the Stock Exchange for the listing of and permission to deal in, the H Shares in issue.

For the purpose of the deemed new listing application of the Company, Kingsway is considered as an independent sponsor pursuant to Rule 6A.07 of the GEM Listing Rules.

Save as the 1,480,000 H Shares held by Kingsway Lion Spur Technology Limited, a fellow subsidiary of the Sponsor, as at the Latest Practicable Date:

- (a) Neither the Sponsor, nor any persons controlling, controlled by or under the same control as the Sponsor owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;
- (b) Neither the Sponsor, nor any persons controlling, controlled by or under the same control as the Sponsor had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any persons; and
- (c) There was no agreement, arrangement or understanding between the Sponsor or any persons controlling, controlled by or under the same control as the Sponsor on the one part and any of the Directors, Supervisors or Shareholders on the other part, which was conditional on the outcome of or otherwise connected with or dependent upon the Proposed Assets Transfer, the Gas Supply Transaction or the Whitewash Waiver.

(III) Others

Save as the 1,480,000 H Shares held by Kingsway Lion Spur Technology Limited, a fellow subsidiary of the Sponsor, as at the Latest Practicable Date, none of the Independent Financial Adviser, or any person controlling, controlled by or under the same control as the Independent Financial Adviser, any bank, financial and professional advisers to the Company in relation to the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver or any person controlling, controlled by or under the same control as such banks, financial, and professional advisers, owned or controlled any securities, Shares, options, warrants, derivatives or convertible securities of the Company.

4. FURTHER INFORMATION RELATING TO TIANJIN GAS AND THE WHITEWASH WAIVER

Set out below are details of Tianjin Gas and its directors:

Address	Directors
No.44, 2nd Road Wu Jia Yao He Ping District Tianjin, PRC	Sun Bo Quan (孫伯全) Huang Hong Xiang (黃紅祥) Cao Hui Quan (曹慧泉) Jin Jian Ping (金建平) Liu Tian Xiang (劉天祥) Feng Li (馮力) Zhang Bao Xin (張寶新)

As at the Latest Practicable Date:

- (a) save as disclosed in the section headed “Relationship with Tianjin Gas” in this circular and this Appendix, none of Tianjin Gas or any person acting in concert with it (including their respective directors and supervisors) has any interests in any securities, shares, options, warrants, derivatives or convertible securities in the Company;
- (b) none of Tianjin Gas or any person acting in concert with it has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any person;
- (c) no person has made an irrevocable commitment to vote for or against the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver;
- (d) none of Tianjin Gas or any person acting in concert with it has borrowed or lent any shares of the Company or any of its subsidiaries;
- (e) none of Tianjin Gas or any person acting in concert with them (including their respective directors and supervisors) had dealt in any Share or other securities, options, warrants, derivatives or convertible securities of the Company during the period commencing six months prior to 5 October 2009 (being the date of the Announcement) and ending on the Latest Practicable Date; and
- (f) Tianjin Gas has not entered into any arrangement, agreement, understanding and has no current intention to transfer, charge or pledge the securities to be acquired pursuant to the Proposed Assets Transfer.

5. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND SUPERVISORS

(I) Disclosure of interests

(a) *Directors' and Supervisors' interests and short positions in shares, underlying shares and debentures*

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors, and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standard of dealings by Directors and Supervisors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long position

Domestic Shares of RMB0.1 each in the capital of the Company

Name of Directors/ Supervisors	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/ Domestic Shares of the Company
Ms. Tang	Beneficial owner	41,700,000	3.63%/6.42%
Mr. Bai Shao Liang	Held by controlled corporation (please see Note 3 under the section “Substantial Shareholders”)	235,925,000	20.52%/36.32%

(b) Substantial Shareholders and other Shareholders

So far as is known to the Directors, the following persons, not being a Director, Supervisor or chief executive of the Company, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Substantial Shareholders**Long position****Domestic Shares of RMB0.1 each in the capital of the Company**

Name of Shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/Domestic Shares of the Company
Tianjin Beacon <i>(Note 1)</i>	Beneficial owner	118,105,313	10.27%/18.18%
Tianjin Gas	Beneficial owner	253,809,687 <i>(Note 2)</i>	22.08%/39.08%
Wanshun Real Estate	Beneficial owner	235,925,000	20.52%/36.32%
Ms. Li Sha	Interests of spouse <i>(Note 3)</i>	235,925,000	20.52%/36.32%

Notes:

1. Tianjin Beacon is wholly owned by Tianjin Taida Investment Holdings Company Limited (天津泰達投資控股有限公司), which is State-owned company wholly owned by Tianjin Municipal People's Government (天津市人民政府).
2. Pursuant to the Assets Acquisition Agreement, the Company will allot and issue 689,707,800 Domestic Shares to Tianjin Gas to satisfy the consideration if and when the Proposed Assets Transfer is completed. Taking into account the 689,707,800 Domestic Shares which may be issued to Tianjin Gas upon completion of the Proposed Assets Transfer, Tianjin Gas may be deemed, or taken to be interested in an aggregate of 943,517,487 Domestic Shares, representing approximately 82.07% of the total issued share capital or 145.26% of the total issued Domestic Shares of the Company as at the Latest Practicable Date.

3. As at the Latest Practicable Date, Mr. Bai Shao Liang held 76% interests in Wanshun Real Estate and is a director of Wanshun Real Estate. Ms. Li Sha is the wife of Mr. Bai Shao Liang. Under the SFO, Mr. Bai Shao Liang and Ms. Li Sha are taken to be interested in all the shares held by Wanshun Real Estate.

Other Shareholders

Long position

H Shares of RMB0.1 each in the capital of the Company

Name of Shareholders	Capacity	Number of H Shares held	Approximate percentage of interests in the Company/H Shares of the Company
Martin Currie (Holdings) Limited	Held by controlled corporation (<i>note 1</i>)	46,110,000	4.01%/9.22%
Liu Hei Wan	Interests held jointly with another person (<i>note 2</i>)	14,500,000	1.26%/2.90%
	Held by controlled corporation (<i>note 3</i>)	30,000,000	2.61%/6.00%
Law Suet Yi	Interests held jointly with another person (<i>note 2</i>)	14,500,000	1.26%/2.90%
	Interests of spouse (<i>note 4</i>)	30,000,000	2.61%/6.00%
China Development Capital Partnership L.P.	Investment manager	20,000,000	1.74%/4.00%
Martin Currie Investment Management Limited	Investment manager	20,000,000	1.74%/4.00%
The Waterfront Development Group Limited	Beneficial owner (<i>note 3</i>)	30,000,000	2.61%/6.00%
Liu Cheng Jie	Beneficial owner	16,910,000	1.47%/3.38%

Notes:

1. Martin Currie Investment Management Limited and Martin Currie Inc are indirectly wholly-owned by Martin Currie (Holdings) Limited and thus both of them are controlled corporations of Martin Currie (Holdings) Limited. Martin Currie (Holdings) Limited is deemed, or taken to be, interested in the 25,950,000 H Shares and the 20,160,000 H Shares beneficially owned by Martin Currie Inc and Martin Currie Investment Management Limited respectively for the purpose of the SFO.
2. As at the Latest Practicable Date, Mr. Liu Hei Wan and Ms. Law Suet Yi jointly held the 14,500,000 H Shares.
3. The Waterfront Development Group Limited is wholly owned by Mr. Liu Hei Wan and thus a controlled corporation by Mr. Liu Hei Wan. Mr. Liu Hei Wan is deemed, or taken to be, interested in the 30,000,000 H Shares which are beneficially owned by The Waterfront Development Group Limited for the purpose of the SFO.
4. Ms. Law Suet Yi is the spouse of Mr. Liu Hei Wan and therefore, Ms. Law Suet Yi is deemed, or taken to be, interested in all the Shares in which Mr. Liu Hei Wan is interested for the purpose of SFO.

Substantial shareholder of a subsidiary

Jining Company, a subsidiary of the Company, is a limited liability company established in the PRC on 2 January 2003 with a registered capital of RMB1,000,000. It was held as to 60% by the Company and 40% by Kin Sang Company Limited (烏盟乾生實業有限責任公司). Jining Company is dormant and has commenced the procedure of deregistration in the PRC. As at the Latest Practicable Date, the above deregistration has not been completed.

(c) Arrangements affecting the Directors

As at the Latest Practicable Date:

- (a) no benefit has been given or will be given to any Director, Supervisor or chief executive of the Company as compensation for loss of office or otherwise in connection with the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver;
- (b) there is no agreement or arrangement between any Director, Supervisor or chief executive of the Company and any other person which is conditional on or dependent upon the outcome of the Proposed Assets Transfer, the Gas Supply Transaction or the Whitewash Waiver, or otherwise connected with the Proposed Assets Transfer, the Gas Supply Transaction or the Whitewash Waiver;

- (c) there is no agreement, arrangement or understanding (including any compensation arrangement) between Tianjin Gas or any person acting in concert with it on the one part, and any Directors, recent Directors, Supervisor, recent Supervisor, Shareholders or recent Shareholders on the other part which has any connection with or dependence upon the Proposed Assets Transfer, the Gas Supply Transaction or the Whitewash Waiver; and
- (d) there was no material contract entered into by Tianjin Gas or any of its subsidiaries, in which any Director, Supervisor or chief executive of the Company has a material personal interest.

(II) COMPETING INTERESTS

Save as disclosed in the section headed “Relationship with Tianjin Gas” of this circular, as at the Latest Practicable Date, the Directors and Supervisors are not aware of any business or interests of the Directors, the substantial Shareholders and their respective associates, that competes or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

(III) SERVICE CONTRACTS

The previous service contracts between the Company and the Directors and Supervisors expired on 22 June 2009. Subsequent to the expiry of the previous service contracts, each of the Directors and Supervisors entered in to a new service contract with the Company for a fixed term of 3 years commencing on 22 June 2009 and ending on the conclusion of the annual general meeting of the Company to be held in 2012. The terms of the new service contracts are substantially identical with those in the previous service contracts.

Fixed remuneration of the Directors and Supervisors as set out in their respective service contract with the Company are identical with those in the previous service contracts, details of which are set out in note 16 to the consolidated financial statement of the Company for the year ended 31 December 2009, as reproduced in Appendix I to this circular. Save as disclosed above, there was no service contract for Directors or Supervisors with the Company or any of its subsidiaries or associated companies which (i) have been entered into or amended within six months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

The remuneration payable under the previous service contracts and existing service contracts of each of the Directors and Supervisors (excluding arrangements for pension payments) are set out below:

Directors	Fixed annual remuneration payable under existing service contracts (RMB)	Fixed annual remuneration payable under previous service contracts (RMB)
Jin Jianping	50,000	50,000
Dong Huiqiang	50,000	50,000
Bai Shaoliang	50,000	50,000
Tang Jie	50,000	50,000
Sun Boquan	50,000	50,000
Gong Jing	50,000	50,000
Zhang Yuli	50,000	50,000
Luo Weikun	50,000	50,000
Chan Shun Kuen Eric	100,000	100,000
 Supervisors		
Qi Yinfeng	50,000	50,000
Sha Jincheng	50,000	50,000
Cao Shujing	50,000	50,000
Sun Xuegang	50,000	50,000
Hao Li	50,000	50,000

Sun Xuegang and Hao Li, two of the Supervisors, are also entitled to salaries and other benefits (excluding arrangements for pension payments) arising from their employment of the Group, which amounted to RMB 88,000 for Sun Xuegang and RMB34,000 for Hao Li for the year 2009. There is no variable remuneration under the existing service contracts.

Save as disclosed in this section, none of the Directors or Supervisors has a service contract with the Company or any of its subsidiaries (i) which is not determinable within 12 months without payment of compensation, other than statutory compensation; or (ii) are of a fixed term with more than 12 months to run.

Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind receivable by the Directors (including the three independent non-executive Directors) and Supervisors, in respect of the year ending 31 December 2010 are estimated to be approximately RMB500,000 and RMB383,000, respectively.

6. OTHER INFORMATION**(I) MARKET PRICE OF SHARES**

The table below shows the closing prices of the H Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) 16 September 2009, being the Last Trading Day; and (iii) 28 December 2010, being the Latest Practicable Date:

Date	Closing price of H Share (HK\$)
31 March 2009	0.62
30 April 2009	0.79
29 May 2009	0.87
30 June 2009	0.86
31 July 2009	0.86
31 August 2009	1.18
16 September 2009	1.20
30 October 2009	1.76
30 November 2009	1.72
31 December 2009	1.51
29 January 2010	1.40
26 February 2010	1.44
31 March 2010	1.68
30 April 2010	1.73
31 May 2010	1.47
30 June 2010	1.71
30 July 2010	1.63
31 August 2010	1.48
30 September 2010	1.55
29 October 2010	1.64
30 November 2010	1.61
28 December 2010	1.66

The highest and lowest closing prices of the H Shares as quoted on the Stock Exchange during period commencing on 16 March 2009, being the date which is six months preceding the date of the Announcement, and up to the Latest Practicable Date, were HK\$1.82 on 11 November 2009 and 17 March 2009 on HK\$0.55, respectively.

(II) DISCLAIMERS

Save as disclosed in this circular,

- (a) none of the Directors, Supervisors or chief executive of the Company is aware of any other Directors, Supervisors or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which would be required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors and Supervisors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules;
- (b) none of the Directors, Supervisors or any of the persons whose names are listed in the paragraph headed “Qualifications of experts” in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this circular been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors, Supervisors or any of the persons whose names are listed in the paragraph headed “Qualifications of experts” in this Appendix is materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group;
- (d) so far as is known to the Directors, none of the Directors, Supervisors or their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

(III) MATERIAL CHANGE OF THE GROUP SINCE 30 JUNE 2010

As at the Latest Practicable Date, the Directors confirm that there were no material change in the financial or trading position or outlook of the Group since 30 June 2010, being the date to which the latest published audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date.

(IV) LITIGATION

None of the members of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors or the Company to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

(V) MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) had been entered into by the Company within the two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

- (a) the Supplemental Non-Competition Agreement;
- (b) the Assets Acquisition Agreement and the Supplemental Agreement;
- (c) the Gas Transportation Contract;
- (d) the Entrusted Construction Agreement dated 6 October 2008 entered into between the Company and Tianjin Gas pursuant to which the Company entrusted Tianjin Gas to undertake the construction of two high pressure gas pipelines in the PRC at a total consideration (including the construction fees and entrustment fees) not exceeding RMB224,500,700;
- (e) the Hangu, Ninghe and Xiqing Assets Transfer Agreement dated 6 June 2008 and entered into between the Company being the purchaser and Tianjin Gas being the vendor in respect of the disposal of the Hangu Assets, Ninghe Assets and Xiqing Assets II by Tianjin Gas to the Company at a total consideration of RMB89,516,500; and
- (f) the placing agreement dated 27 February 2008 and entered into between the Company and Kingsway Financial Services Group Limited in relation to the placing of 170,060,000 H Shares by the Company to certain Independent Third Parties at a placing price of HK\$1.9 per placing H Shares. Kingsway Financial Services Group Limited received a placing commission of 4% on the aggregate placing price of the placing H Shares under the placing agreement.

(VI) PROMOTER

The Promoters are Leason Investment, Tianjin Beacon, Tianjin Gas, Ms. Tang and Ms. Liang.

Save as disclosed in this circular, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the Promoters within the two years immediately preceding the date of this circular nor is, any such cash, securities or benefit intended to be paid, allotted or given on the basis of the introduction or related transaction as mentioned in this circular.

(VII) TOTAL COMMISSIONS AND EXPENSES

The aggregate commissions and expenses, including the Stock Exchange listing fee, legal and other professional fees, printing and other expenses relating to the Proposed Assets Transfer, the Gas Supply Transaction and the Whitewash Waiver, are estimated to be approximately HK\$6.0 million in total. The preliminary commissions and expenses are payable by the Company.

(VIII) ESTATE DUTY

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of the PRC or Hong Kong.

(IX) QUALIFICATIONS OF EXPERTS

The following is the qualification of each of the experts who has given its opinions or advice which is contained in this circular

Name	Qualifications
Kingsway Capital Limited	Licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
TC Capital Asia Limited	Licensed corporation to carry on type 1 (dealing in securities), and type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
Deloitte Touche Tohmatsu	Certified Public Accountant
J.D. Hands Law Firm	Registered law firm in the PRC
Asset Appraisal Limited	An independent firm of qualified valuers who are members of The Hong Kong Institute of Surveyors

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report, valuation certificate, opinion or the references to its name included herein in the form and context in which it is included.

Kingsway Lion Spur Technology Limited, a fellow subsidiary of Kingsway Capital Limited, purchased 5,000,000 H Shares on 10 October 2007. Subsequently, it disposed of 3,660,000 H Shares in October 2007 and purchased another 140,000 H Shares in March 2008. Kingsway Lion Spur Technology Limited held 1,480,000 H Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either direct or indirect, in any asset which has been, since the date to which the latest published audited consolidated financial statements of the Company were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

(X) MISCELLANEOUS

(A) Save as disclosed in this circular:

- (a) within the two years immediately preceding the date of this circular:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries and no commission has been paid or is payable in connection the issue or sale of any capital of the Company or any of its subsidiaries; and
 - (iii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) neither the Company nor any of its subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.
- (c) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 24 months immediately preceding the date of this circular.
- (d) the Directors were not aware of any person who is directly or indirectly interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.
- (e) none of the Company's equity or debt securities is presently listed or dealt in any other stock exchange or is any listing or permission to deal being or proposed to be sought.

- (B) The Company is a sino-foreign investment joint stock limited company, but the Company is not subject to the PRC Sino-Foreign Joint Venture Law.
- (C) All necessary arrangements have been made to ensure the H Shares to continue to be accepted as eligible securities of CCASS for clearing and settlement. Investor should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.
- (D) The Directors are of the view that the Company will have sufficient Hong Kong dollars to pay any cash dividends payments and meet its foreign exchange liability, if any, as they become due.
- (E) According to 中華人民共和國企業所得稅法 (“Enterprise Income Tax of the People’s Republic of China”) and 中華人民共和國企業所得稅法實施條例 (“Implementation Rules of Enterprise Income Tax Law of the People’s Republic of China”), from 1 January 2008 onwards, any PRC domestic enterprise shall withhold and pay enterprise income tax upon distribution of dividends for the accounting period since 1 January 2008 to non-resident enterprise shareholders and the payer is treated as the withholding agent. Accordingly, the Company shall be obligated to withhold and pay a 10% enterprise income tax when distributing dividends to non-resident enterprise shareholders whose names appear in the register of holders of H Shares; but the Company has no obligation to withhold and pay such enterprise income tax when distributing dividends to the resident enterprise shareholders whose names appear in the register of holders of H Shares.
- (F) The English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the Company's website at <http://www.hklistco.com/8290>, (ii) on the SFC's website at <http://www.sfc.com>, and (iii) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at 1004, Wing On Plaza, Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong, from the date of this circular up to and including the date of the EGM:

- (a) the Articles of Association;
- (b) the articles of association of Tianjin Gas;
- (c) the letter from the Board, the text of which is set out on pages 58 to 89 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 90 to 91 of this circular;
- (e) the letter from the Whitewash Independent Board Committee, the text of which is set out on pages 92 to 93 of this circular;
- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 94 to 119 of this circular;
- (g) the letter on unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (h) the valuation report on the Transferred Assets prepared by Asset Appraisal Limited, the text of which is set out in Part A of Appendix V of this circular;
- (i) the letter from Kingsway on the Valuation Report on the Transferred Assets and the qualification of the Valuer, the text of which is set out in Part B of Appendix V to this circular;
- (j) the letter, summary of valuation and valuation certificate prepared by Asset Appraisal Limited, the text of which is set out in Appendix VI to this circular;
- (k) the PRC legal opinion dated 31 December 2010 prepared by J.D. Hands Law Firm;
- (l) the annual reports of the Company for each of the three years ended 31 December 2007, 2008 and 2009;
- (m) the interim report of the Company for the six months ended 30 June 2010;
- (n) the 3rd quarterly report of the Company for the nine months ended 30 September 2010;
- (o) the accountant's report of the Company for each of two years ended 31 December 2009 and for the six months ended 30 June 2010, the text of which is set out in paragraph 2 headed "Accountants' Report" of Appendix I to this circular;

- (p) the audited consolidated financial statements of the Group as extracted from the annual reports of the Company for the years ended 31 December 2007, 2008 and 2009, the text of which is set out in Appendix I of this circular;
- (q) the material contracts referred to in the section headed “Material Contracts” in Appendix IX of this circular;
- (r) an agreement entered into between Jining Branch and the Jining City Government dated 14 January 2003;
- (s) a sale and purchase agreement entered into between Leason Investment and Tianjin Gas on 18 April 2005;
- (t) an equity transfer agreement entered into between the Company and Tianjin Deyili Thermal Insulation Materials Company Limited* (天津市德意利保溫材料有限公司) dated 11 November 2005;
- (u) an assets transfer agreement entered into between the Company and Tianjin Deyili Thermal Insulation Materials Company Limited* (天津市德意利保溫材料有限公司) dated 11 November 2005;
- (v) a share transfer agreement entered into between Leason Investment and Wanshun Real Estate on 28 December 2005;
- (w) a share transfer agreement entered into between Ms. Liang and Wanshun Real Estate on 28 December 2005;
- (x) the 2007 Pipeline Design Agreement;
- (y) the Xiqing Asset I Transfer Agreement;
- (z) a capital increase agreement dated 8 May 2009 entered into by the Company, Tianjin Gas and Tianjin Infrastructure;
- (aa) the Gas Supply Contracts;
- (bb) the Gas Purchase Agreements;
- (cc) the 2010 Pipeline Design Agreement;
- (dd) the Directors’ service contracts referred to in the section headed “Service Contracts” in Appendix IX of this circular;
- (ee) the written consents referred to in the section headed “Qualifications of Experts” in Appendix IX of this circular; and
- (ff) the PRC Company Law, the Special Regulations and the Mandatory Provisions of the PRC.

* For identification purpose only

NOTICE OF EGM



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Tianjin Tianlian Public Utilities Company Limited (the “Company”) will be held at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC on 15 February 2011 (Tuesday) at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (i) the assets acquisition agreement (the “Assets Acquisition Agreement”) (a copy of which is produced before the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) dated 16 September 2009 and entered into between 天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited*) (“Tianjin Gas”) being the vendor and the Company being the purchaser, pursuant to which the Company agreed to acquire part of the tangible assets and gas ancillary facilities (“Transferred Assets”) held by the Hedong District Sales Offices and the Heping District Sales Offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas, at a consideration of RMB620,736,991.84 (“Consideration”) to be satisfied by the issue of 689,707,800 domestic shares of nominal value of RMB 0.10 each of the Company (“Domestic Shares”) to Tianjin Gas (as amended and supplemented by a supplemental agreement (the “Supplemental Agreement”) (a copy of which is produced before the meeting marked “B” and initialed by the chairman of the meeting for the purpose of identification) dated 28 December 2010 and entered into between Tianjin Gas and the Company) be and is hereby approved, confirmed and ratified, and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one director of the Company (“Director”) be and is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents and to take such steps as he or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) and all transactions contemplated under the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith.”

* For identification purpose only

NOTICE OF EGM

2. **“THAT:**

- (i) the waiver granted or to be granted by the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any of his delegates) in accordance with Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation of Tianjin Gas to make an unconditional mandatory general offer for all the issued ordinary shares of the Company of nominal value of RMB0.10 each not already owned or agreed to be acquired by Tianjin Gas as a result of the issue of the new Domestic Shares to Tianjin Gas pursuant to the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) be and is hereby approved; and
- (ii) any one Director be and is hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with item (i) of this Ordinary Resolution.”

3. **“THAT** conditional upon the passing of Ordinary Resolutions No. 1 and 2 and Special Resolution No. 1 set out in the notice convening the EGM:

- (i) the 2011 gas supply contract (the “2011 Gas Supply Contract”) (a copy of which is produced before the meeting marked “C” and initialed by the chairman of the meeting for the purpose of identification) dated 16 September 2009 and entered into between Tianjin Gas and the Company in respect of the supply of natural gas by Tianjin Gas to the Company for the Transferred Assets for the 12 months ending 31 December 2011 be and is hereby approved, confirmed and ratified, and the transactions contemplated thereunder be and are hereby approved;
- (ii) any one Director be and is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents and to take such steps as he or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the 2011 Gas Supply Contract and all transactions contemplated under the 2011 Gas Supply Contract and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith.”

NOTICE OF EGM

4. “**THAT** conditional upon passing of Special Resolution No 3 set out in the notice convening the EGM, Mr. Tam Tak Kei, Raymond be appointed as an independent non-executive Director and the board of Directors be authorized to fix his remuneration, approve the service contract of Mr. Tam and other relevant documents; and any executive Director be authorised to sign on behalf of the Company the service contract of Mr. Tam and other relevant documents and to deal with all other necessary relevant matters in connection therewith.”

SPECIAL RESOLUTIONS

1. “**THAT** conditional upon the passing of Ordinary Resolutions No. 1 and No. 2 set out in the notice convening the EGM, the grant of a specific mandate to the board of Directors (“Specific Mandate”) for the allotment and issue of 689,707,800 Domestic Shares to Tianjin Gas pursuant to the Assets Acquisition Agreement be and is hereby approved, and the board of Directors be and is hereby authorised to take any action and execute any document as it thinks necessary or fit to effect and implement the Specific Mandate, and to make such necessary amendments to the articles of association of the Company to increase the registered share capital of the Company and to reflect changes in the share capital of the Company arising out of the issue of Domestic Shares pursuant to the Specific Mandate.”
2. “**THAT** conditional upon the passing of Ordinary Resolutions No. 1 and No. 2 and Special Resolution No. 1 set out in the notice convening the EGM and the issue of the Domestic Shares pursuant to the Specific Mandate, the existing articles of association of the Company be and is hereby amended in the following manner and the board of Directors be and is hereby authorised to do all such things as necessary in respect of the amendments pursuant to the requirements (if any) under domestic or overseas laws or under the rules of any stock exchange on which any securities of the Company are listed:

(i) Article 16

By deleting the clause in its entirety and replacing it with the following:

“The registered share capital of the Company is RMB183,930,780, comprising 1,839,307,800 ordinary shares of a nominal value of RMB0.10 each.”

(ii) Article 19

By deleting the clause in its entirety and replacing it with the following:

“The registered share capital of the Company is RMB183,930,780.”

NOTICE OF EGM

3. “**THAT** the existing articles of association of the Company be and is hereby amended in the following manner and the board of Directors be and is hereby authorised to do all such things as necessary in respect of the amendments pursuant to the requirements (if any) under domestic or overseas laws or under the rules of any stock exchange on which any securities of the Company are listed:

Article 88

By deleting the clause in its entirety and replacing it with the following:

“The Company shall have a board of directors which shall consist of 10 directors. The board of directors shall appoint a chairman.”

By Order of the Board
Tianjin Tianlian Public Utilities Company Limited*
Sun Bo Quan
Chairman

Tianjin, PRC, 31 December 2010

Notes:

- (a) Concerning agenda item 4 of the Ordinary Resolutions above, Mr. Tam Tak Kei, Raymond is proposed to be appointed as independent non-executive Director. His biographical details and interests in the securities of the Company (if any) are set out in Appendix VII to this circular.
- (b) Shareholders of the Company are reminded that, pursuant to Article 39 of the articles of association of the Company, the register of members of the Company will be closed from 17 January 2011 (Monday) to 15 February 2011 (Tuesday), both days inclusive, during which period no change to the register of members will be allowed and no transfer of shares will be registered. The shareholders of the Company, whose names appear on the register of members of the Company on 14 January 2011 (Friday) (after closing of trading), are entitled to attend the EGM and to vote thereat.
- (c) Shareholders of the Company entitled to attend and vote at the EGM are entitled to appoint a proxy to attend and vote on their behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company. A shareholder holding two or more shares may appoint more than one proxy.
- (d) Voting at the EGM shall be taken on a poll.
- (e) To be valid, the proxy forms for the use of shareholders and, if such proxy form is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority must be delivered to the Company in accordance with Note (h) not less than 24 hours before the time scheduled for holding the EGM or any adjourned meeting.

NOTICE OF EGM

- (f) Shareholders of the Company who intend to attend the EGM are required to complete and return to the Company the enclosed reply slip by 27 January 2011 (Thursday). Further details are set out in the reply slip and explanation thereto.
- (g) Completion and return of the proxy forms and reply slip will not affect the right of the shareholders of the Company to attend and vote at the EGM, if the shareholders of the Company so desire and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (h) Shareholders of the Company shall deliver the proxy forms (and a notarially certified copy of the power of attorney or other authority if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority) to the registered office of the Company at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC (for holders of Domestic Shares), or to the office of the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as practicable and in any event not later than 24 hours before the time appointed for holding of the EGM.
- (i) Shareholders of the Company and proxies attending the EGM shall be responsible for their own transportation and accommodation expenses.

NOTICE OF H SHARES CLASS MEETING



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that a class meeting (“H Shares Class Meeting”) of the holders of H Shares (“H Shares”) of Tianjin Tianlian Public Utilities Company Limited (the “Company”) will be held at Floor 9, Gangao Tower, 18 Zhangzhou Road, He Ping District, Tianjin, PRC on 15 February 2011 at 3:30 p.m. (or immediately after the conclusion or adjournment of the extraordinary general meeting (“EGM”) of the holders of domestic shares of the Company and holders of H Shares which will be held at the same place and date) for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTIONS

1. **“THAT:**

- (i) the assets acquisition agreement (the “Assets Acquisition Agreement”) (a copy of which is produced before the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) dated 16 September 2009 and entered into between 天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited*) (“Tianjin Gas”) being the vendor and the Company being the purchaser, pursuant to which the Company agreed to acquire part of the tangible assets and gas ancillary facilities (“Transferred Assets”) held by the Hedong District Sales Offices and the Heping District Sales Offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas, at a consideration of RMB620,736,991.84 (“Consideration”) to be satisfied by the issue of 689,707,800 domestic shares of nominal value of RMB 0.10 each of the Company (“Domestic Shares”) to Tianjin Gas (as amended and supplemented by a supplemental agreement (the “Supplemental Agreement”) (a copy of which is produced before the meeting marked “B” and initialed by the chairman of the meeting for the purpose of identification) dated 28 December 2010 and entered into between Tianjin Gas and the Company) be and is hereby approved, confirmed and ratified, and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one director of the Company (“Director”) be and is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents and to take such steps as he or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) and all transactions contemplated under the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith.”

* For identification purpose only

NOTICE OF H SHARES CLASS MEETING

2. **“THAT:**
- (i) the waiver granted or to be granted by the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any of his delegates) in accordance with Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation of Tianjin Gas to make an unconditional mandatory general offer for all the issued ordinary shares of the Company of nominal value of RMB0.10 each not already owned or agreed to be acquired by Tianjin Gas as a result of the issue of the new Domestic Shares to Tianjin Gas pursuant to the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) be and is hereby approved; and
 - (ii) any one Director be and is hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with item (i) of this Special Resolution.”
3. **“THAT** conditional upon the passing of Ordinary Resolutions No. 1 and 2 and Special Resolutions No. 1 and 2 set out in the notice convening the EGM, and the passing of Special Resolutions No. 1 and 2 set out in this notice, the grant of a specific mandate to the board of Directors (“Specific Mandate”) for the allotment and issue of 689,707,800 Domestic Shares to Tianjin Gas pursuant to the Assets Acquisition Agreement be and is hereby approved, and the board of Directors be and is hereby authorised to take any action and execute any document as it thinks necessary or fit to effect and implement the Specific Mandate, and to make such necessary amendments to the articles of association of the Company to increase the registered share capital of the Company and to reflect changes in the share capital of the Company arising out of the issue of Domestic Shares pursuant to the Specific Mandate.”
4. **“THAT** conditional upon the passing of Ordinary Resolutions No. 1 and 2 and Special Resolutions No. 1 and 2 set out in the notice convening the EGM, the passing of Special Resolutions No. 1, 2 and 3 set out in this notice, and the issue of the Domestic Shares pursuant to the Specific Mandate, the existing articles of association of the Company be and is hereby amended in the following manner:
- (i) Article 16

By deleting the clause in its entirety and replacing it with the following:

“The registered share capital of the Company is RMB183,930,780, comprising 1,839,307,800 ordinary shares of a nominal value of RMB0.10 each.”

NOTICE OF H SHARES CLASS MEETING

(ii) Article 19

By deleting the clause in its entirety and replacing it with the following:

“The registered share capital of the Company is RMB183,930,780.”

By Order of the Board
Tianjin Tianlian Public Utilities Company Limited*
Sun Bo Quan
Chairman

Tianjin, PRC, 31 December 2010

Notes:

- (a) Holders of H Shares are reminded that, pursuant to Article 39 of the articles of association of the Company, the register of members of the Company will be closed from 17 January 2011 (Monday) to 15 February 2011 (Tuesday), both days inclusive, during which period no change to the register of members will be allowed and no transfer of shares will be registered. Holders of H Shares of the Company, whose names appear on the register of members of the Company on 14 January 2011 (Friday) (after closing of trading), are entitled to attend the H Shares Class Meeting and to vote thereat.
- (b) Holders of H Shares entitled to attend and vote at the H Shares Class Meeting are entitled to appoint a proxy to attend and vote on their behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company. A shareholder holding two or more shares may appoint more than one proxy.
- (c) Where a shareholder of the Company appoints more than one proxy, his proxies may only vote in a poll.
- (d) To be valid, the proxy forms for the use of shareholders and, if such proxy form is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority must be delivered to the Company or the Company's H share registrar in accordance with Note (g)) not less than 24 hours before the time scheduled for holding the H Shares Class Meeting or adjourned meeting.
- (e) Shareholders of the Company who intend to attend the H Shares Class Meeting are required to complete and return to the Company the enclosed reply slip by 27 January 2011 (Thursday). Further details are set out in the reply slip and explanation thereto.
- (f) Completion and return of the proxy forms and reply slip will not affect the right of shareholders of the Company to attend and vote at the H Shares Class Meeting if the shareholders of the Company so desire and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (g) Holders of H Shares shall deliver the proxy forms (and a notarially certified copy of the power of attorney or other authority if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority) to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (h) Shareholders of the Company and proxies attending the H Shares Class Meeting shall be responsible for their own transportation and accommodation expenses.

NOTICE OF DOMESTIC SHARES CLASS MEETING



天津天聯公用事業股份有限公司

Tianjin Tianlian Public Utilities Company Limited*

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

(Stock Code: 08290)

DOMESTIC SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that a class meeting (“Domestic Shares Class Meeting”) of the holders of domestic shares of Tianjin Tianlian Public Utilities Company Limited (the “Company”) will be held at Floor 9, Gangao Tower, 18 Zhangzhou Road, He Ping District, Tianjin, PRC on 15 February 2011 at 4:00 p.m. (or immediately after the conclusion or adjournment of the extraordinary general meeting (“EGM”) of the holders of domestic shares and holders of H shares of the Company and the class meeting of the holders of H shares of the Company, both of which will be held at the same place and date) for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTIONS

1. “**THAT:**

- (i) the assets acquisition agreement (the “Assets Acquisition Agreement”) (a copy of which is produced before the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) dated 16 September 2009 and entered into between 天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited*) (“Tianjin Gas”) being the vendor and the Company being the purchaser, pursuant to which the Company agreed to acquire part of the tangible assets and gas ancillary facilities (“Transferred Assets”) held by the Hedong District Sales Offices and the Heping District Sales Offices of both the Transmission Branch and the First Sales Branch of Tianjin Gas, at a consideration of RMB620,736,991.84 (“Consideration”) to be satisfied by the issue of 689,707,800 domestic shares of nominal value of RMB 0.10 each of the Company (“Domestic Shares”) to Tianjin Gas (as amended and supplemented by a supplemental agreement (the “Supplemental Agreement”) (a copy of which is produced before the meeting marked “B” and initialed by the chairman of the meeting for the purpose of identification) dated 28 December 2010 and entered into between Tianjin Gas and the Company) be and is hereby approved, confirmed and ratified, and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one director of the Company (“Director”) be and is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents and to take such steps as he or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) and all transactions contemplated under the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith.”

* For identification purpose only

NOTICE OF DOMESTIC SHARES CLASS MEETING

2. **“THAT:**
- (i) the waiver granted or to be granted by the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any of his delegates) in accordance with Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation of Tianjin Gas to make an unconditional mandatory general offer for all the issued ordinary shares of the Company of nominal value of RMB0.10 each not already owned or agreed to be acquired by Tianjin Gas as a result of the issue of the new Domestic Shares to Tianjin Gas pursuant to the Assets Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) be and is hereby approved; and
 - (ii) any one Director be and is hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with item (i) of this Special Resolution.”
3. **“THAT** conditional upon the passing of Ordinary Resolutions No. 1 and 2 and Special Resolutions No. 1 and 2 set out in the notice convening the EGM, the passing of Special Resolutions No. 1, 2, 3 and 4 set out in the notice convening the class meeting of the holders of H shares of the Company, and the passing of Special Resolutions No. 1 and 2 set out in this notice, the grant of a specific mandate to the board of Directors (“Specific Mandate”) for the allotment and issue of 689,707,800 Domestic Shares to Tianjin Gas pursuant to the Assets Acquisition Agreement be and is hereby approved, and the board of Directors be and is hereby authorised to take any action and execute any document as it thinks necessary or fit to effect and implement the Specific Mandate, and to make such necessary amendments to the articles of association of the Company to increase the registered share capital of the Company and to reflect changes in the share capital of the Company arising out of the issue of Domestic Shares pursuant to the Specific Mandate.”
4. **“THAT** conditional upon the passing of Ordinary Resolutions No. 1 and 2 and Special Resolutions No. 1 and 2 set out in the notice convening the EGM, the passing of Special Resolutions No. 1, 2, 3 and 4 set out in the notice convening the class meeting of the holders of H shares of the Company and the passing of Special Resolutions No. 1, 2 and 3 set out in this notice, and the issue of the Domestic Shares pursuant to the Specific Mandate, the existing articles of association of the Company be and is hereby amended in the following manner:
- (i) Article 16
- By deleting the clause in its entirety and replacing it with the following:
- “The registered share capital of the Company is RMB183,930,780, comprising 1,839,307,800 ordinary shares of a nominal value of RMB0.10 each.”

NOTICE OF DOMESTIC SHARES CLASS MEETING

(ii) Article 19

By deleting the clause in its entirety and replacing it with the following:

“The registered share capital of the Company is RMB183,930,780.”

By Order of the Board
Tianjin Tianlian Public Utilities Company Limited*
Sun Bo Quan
Chairman

Tianjin, PRC, 31 December 2010

Notes:

- (a) Holders of Domestic Shares are reminded that, pursuant to Article 39 of the articles of association of the Company, the Domestic Share register of members of the Company will be closed from 17 January 2011 (Monday) to 15 February 2011 (Tuesday), both days inclusive, during which period no change to the Domestic Share register of members will be allowed and no transfer of shares will be registered. Holders of Domestic Shares, whose names appear on the Domestic Share register of members of the Company on 14 January 2011 (Friday) (after closing of trading), are entitled to attend the Domestic Shares Class Meeting and to vote thereat.
- (b) Holders of the Domestic Shares entitled to attend and vote at the Domestic Shares Class Meeting are entitled to appoint a proxy to attend and vote on their behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company. A shareholder holding two or more shares may appoint more than one proxy.
- (c) Where a shareholder of the Company appoints more than one proxy, his proxies may only vote in a poll.
- (d) To be valid, the proxy forms for the use of shareholders and, if such proxy form is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority must be delivered to the Company or the Company's Domestic share registrar in accordance with Note (g) not less than 24 hours before the time scheduled for holding the Domestic Shares Class Meeting or adjourned meeting.
- (e) Shareholders of the Company who intend to attend the Domestic Shares Class Meeting are required to complete and return to the Company the enclosed reply slip by 27 January 2011 (Thursday). Further details are set out in the reply slip and explanation thereto.
- (f) Completion and return of the proxy forms and reply slip will not affect the right of shareholders of the Company to attend and vote at the Domestic Shares Class Meeting if the shareholders of the Company so desire and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (g) Holders of Domestic Shares shall deliver the proxy forms (and a notarially certified copy of the power of attorney or other authority if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority) and the reply slip to the office of the Company at its address at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC.
- (h) Shareholders of the Company and proxies attending the Domestic Shares Class Meeting shall be responsible for their own transportation and accommodation expenses.