

## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all of the information that may be important to you. You should read the entire document before you decide to invest in the Placing Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Company.*

### OVERVIEW

The Group is one of the first non state-owned piped gas distributors in the PRC. The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.

The Group's business operations began in 1993 when the Founders formed Langfang Xinao to invest in the construction of gas pipeline infrastructure for the sale and distribution of piped natural gas in the Langfang Economic and Technical Development Zone in Hebei Province, the PRC. The Group's gas supply business is conducted through the Existing Project Companies, namely Langfang Xinao, Liaocheng Xinao, Beijing Xinao and Huludao Xinao. Upon completion of the acquisition of the Acquisition Companies (namely Jinggu Xinao, Qingdao Xinao and Jingchang Xinao) and the commencement of operations of Project Jingzhou, Project Chengyang and Project Zhucheng, the Enlarged Group will have interests in 10 gas projects in the PRC.

The Group has made gas connections to a total of 22,823, 30,607 and 66,253 households and 131, 165 and 242 commercial and industrial sites as at 31 December 1998, 31 December 1999 and 31 December 2000, respectively. As at 28 February 2001, the Project Companies have made gas connections to a total of 68,160 households and 259 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of approximately 148,914 m<sup>3</sup>). The Group purchases natural gas primarily from PetroChina Company Limited, China National Offshore Oil Corporation and China Petrochemical Group Corporation, which are oil and gas exploration and production companies in the PRC.

The gas pipeline infrastructure owned and operated by the Group consists of intermediate pipelines, processing stations, main pipelines, branch pipelines and other ancillary facilities such as gas storage tanks and pressure regulating boxes. As at 28 February 2001, the Project Companies owned and operated a total of 285 km of intermediate pipelines and main pipelines and 10 processing stations.

Although the PRC has historically relied heavily on coal as its primary energy source, the PRC Government in recent years has strongly encouraged the use of other more environmentally friendly forms of fuel such as natural gas and crude oil to combat the pollution and environmental damage caused by coal combustion. As the natural gas industry in the PRC is still in its infancy, with natural gas usage accounting for only 2.8% of the PRC's total energy consumption in 1999, the Directors believe that the natural gas industry offers significant growth potential.

The Group derives its revenues principally from connection fees receivable on the initial connection of gas and gas usage charges, and to a lesser extent, revenues are also derived from the sale of gas appliances and the provision of repair, maintenance and other services. For each of the

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three financial years ended 31 December 2000, the Group recorded a turnover of approximately RMB41.1 million, RMB52.9 million and RMB122.3 million, respectively. Connection fees accounted for approximately 77.7%, 72.8% and 82.8% of the Group's total turnover for each of the three financial years ended 31 December 2000, respectively. Gas usage charges accounted for approximately 22.0%, 27.1% and 16.8% of the Group's total turnover for each of the three financial years ended 31 December 2000, respectively.

For each of the three financial years ended 31 December 2000, the Group's net profit attributable to Shareholders was approximately RMB9.3 million, RMB15.1 million and RMB37.4 million, respectively.

The table below summarises certain information relating to the Project Companies as at 28 February 2001.

	Length of existing pipelines <sup>(1)</sup> (km)	Number of existing processing stations	Combined designed daily capacity of existing processing stations (m <sup>3</sup> )	Contracted number of gas supply locations <sup>(2)</sup>	Number of gas connections made <sup>(2)</sup>	Estimated daily gas consumption for residential households <sup>(3)</sup> (m <sup>3</sup> )	Installed designed daily capacity for commercial and industrial customers <sup>(4)</sup> (m <sup>3</sup> )
<b>Existing Project Companies</b>							
Langfang Xinao	157	4	409,800	52,088 households and 221 sites	46,074 households and 215 sites	18,430	127,519
Liaocheng Xinao	41	1	50,000	6,865 households and 16 sites	4,298 households and 14 sites	1,719	6,140
Beijing Xinao	17	1	72,000	3,437 households and 8 sites	2,778 households and 8 sites	1,111	5,101
Huludao Xinao	42	1	30,000	17,243 households and 20 sites	14,547 households and 20 sites	5,819	9,254
<b>Acquisition Companies</b>							
Jinggu Xinao	9	1	72,000	1,282 households and 1 site	135 households and 1 site	54	400
Qingdao Xinao	3	1	12,000	1,184 households	44 households	18	–
Jingchang Xinao	16	1	72,000	1,248 households and 1 site	284 households and 1 site	114	500
<b>New Project Companies</b>							
Jingzhou Xinao	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chengyang Xinao	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhucheng Xinao	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total</b>	<b>285</b>	<b>10</b>	<b>717,800</b>	<b>83,347</b> households and 267 sites	<b>68,160</b> households and 259 sites	<b>27,265</b>	<b>148,914</b>

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*Notes:*

- (1) Existing pipelines represent intermediate pipelines and main pipelines.
- (2) The difference between contracted number of gas supply locations and number of gas connections made represents connections to be made.
- (3) Estimated daily gas consumption for households is calculated based on an assumed average daily gas consumption of 0.4 m<sup>3</sup> per household for those residential households with gas connections made.
- (4) Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity of their gas appliance facilities (as set out in the respective supply contracts) for those customers with gas connections made.
- (5) Sites represent both commercial sites and industrial sites.

### PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe that the principal strengths of the Group are:

- The Group is one of the first non state-owned piped gas distributors in the PRC and has an experienced management and operational team.
- The Group has a clear focus in the piped gas business and benefits from favourable governmental policies, in particular, those encouraging the use of natural gas and promoting environmental protection.
- The Group is well positioned to capture a significant share of the expanding piped gas market and to exploit anticipated demographic and economic developments in the Operational Locations.
- The Group is able to obtain exclusive rights or rights of first refusal from local governments to supply piped gas in Operational Locations.
- The Group has a diversified portfolio of residential, commercial and industrial customers that provides the Group with several sources of revenue and reduces the risk of dependency on any one particular category of customer.
- Due to the Group's experience in, and strict enforcement of, quality and safety control procedures, the Group has a solid track record of providing a safe and reliable gas supply service to its customers.

### BUSINESS OBJECTIVES

The business objectives of the Group are:

- (i) to further develop existing Operational Locations;
- (ii) to further expand to new Operational Locations;
- (iii) to carry out research and development with a view to improving the existing piped gas technology; and
- (iv) to obtain certification for technological quality control and improve operational efficiencies and customer relationships by implementing new information systems.

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### USE OF PROCEEDS

The Directors believe that the net proceeds from the Placing will strengthen the Group's capital base and will provide funding for the Group's business objectives. The net proceeds of the Placing, after deducting related commissions and expenses, are estimated to amount to approximately HK\$174 million (based on the expected minimum Placing Price of HK\$1.15 per Share). It is intended that the net proceeds will be applied as follows:

- (i) as to approximately HK\$109 million for the construction of pipelines;
- (ii) as to approximately HK\$31 million for the construction of processing stations;
- (iii) as to approximately HK\$31 million for the acquisition of the Acquisition Companies pursuant to the Acquisition Agreements; and
- (iv) as to approximately HK\$3 million for developing the internal capability to manufacture stored value card gas metres.

To the extent that the net proceeds of the Placing are not immediately used for the above purposes, it is the present intention of the Directors that the net proceeds will be placed in short-term interest-bearing deposits with licensed banks in Hong Kong and/or commercial banks in the PRC.

If the Placing Price is above HK\$1.15 per Share (subject to a maximum of HK\$1.25 per Share), the Company will receive additional net proceeds of up to approximately HK\$17 million. The additional net proceeds will be used as to approximately 80% for the construction of pipelines and as to the remaining of approximately 20% for the construction of processing stations as described in paragraph headed "Statement of business objectives and strategies – Implementation targets" in this prospectus.

If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK\$30 million (based on the expected minimum Placing Price of HK\$1.15 per Share), after deducting related commissions and expenses. The Directors intend to use the additional net proceeds raised from the Over-allotment Option of approximately HK\$30 million as general working capital of the Group to support its ongoing operations and expansion.

The Directors are of the view that the net proceeds of the Placing are not sufficient to finance the implementation targets as described in the paragraph headed "Statement of business objectives and strategies – Implementation targets" in this prospectus in full. The Company will also use internally generated funds from operations and/or through other fund raising activities, including bank borrowings and equity financing. If the Group fails to obtain the necessary funding, the implementation targets may be readjusted or some of the implementation targets may not be achieved. An announcement will be made if there are any changes to the implementation targets.

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## PLACING STATISTICS

Number of Placing Shares <sup>(1)</sup> ..... 180,000,000 Shares

Number of Shares after the Placing <sup>(2)</sup> ..... 600,000,000 Shares

	<b>Maximum Placing Price</b>	<b>Minimum Placing Price</b>
Placing Price <sup>(3)</sup> .....	HK\$1.25 per Share	HK\$1.15 per Share
Market capitalisation at the Placing Price <sup>(4)</sup> .....	HK\$750 million	HK\$690 million
Adjusted net tangible asset value per Share based on the Placing Price .....	HK\$0.58	HK\$0.55

*Notes:*

- (1) This represents the number of Shares offered under the Placing without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option.
- (2) This represents the number of Shares expected to be in issue immediately following the completion of the Placing, without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares that may be issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Resolutions passed by the sole Shareholder of the Company on 28 March 2001 and 24 April 2001" in Appendix V to this prospectus.
- (3) The Company and ICEA (on behalf of the Underwriters) may agree to a Placing Price of less than HK\$1.15 per Placing Share at any time prior to 5:00 p.m. on the Price Determination Date if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. If, for any reason, the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001, the expected timetable will be postponed. In the event of a reduction in the indicative Placing Price or a postponement in the timetable or if no price determination agreement is entered into at or prior to 5:00 p.m. on 7 May 2001, an announcement will be published on the GEM website on 8 May 2001.
- (4) The market capitalisation is calculated on the basis of 600,000,000 Shares as referred to in note (2) above.

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### TRADING RECORD

The following table summarises the Group's combined results for the three financial years ended 31 December 2000 and is prepared on the basis that the Group's equity interest in Langfang Xinao contributed by the Founders had been in existence since 1 January 1998 and throughout the Track Record Period and the Group's additional equity interest in Langfang Xinao and equity interests in other companies since their respective dates of acquisition. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	<b>1998</b>	<b>1999</b>	<b>2000</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover			
Connection fees	31,941	38,508	101,282
Gas usage charges	9,045	14,342	20,517
Sale of gas appliances	123	73	471
	<u>41,109</u>	<u>52,923</u>	<u>122,270</u>
Cost of sales	<u>(18,327)</u>	<u>(23,492)</u>	<u>(58,362)</u>
Gross profit	22,782	29,431	63,908
Other revenues	324	793	945
Tax refund	–	2,656	5,180
Selling expenses	(222)	(273)	(2,041)
Administrative expenses	(3,449)	(3,690)	(9,153)
Other operating expenses	<u>(656)</u>	<u>(45)</u>	<u>(357)</u>
Profit from operations	18,779	28,872	58,482
Interest expense	<u>(2,957)</u>	<u>(3,300)</u>	<u>(8,112)</u>
Profit before taxation	15,822	25,572	50,370
Taxation	<u>(2,373)</u>	<u>(3,836)</u>	<u>(6,976)</u>
Profit before minority interests	13,449	21,736	43,394
Minority interests	<u>(4,117)</u>	<u>(6,653)</u>	<u>(6,018)</u>
Profit for the year	<u>9,332</u>	<u>15,083</u>	<u>37,376</u>
Dividends	<u>–</u>	<u>–</u>	<u>30,529</u>
Earnings per Share (RMB) ( <i>Note</i> )	<u>2.2 cents</u>	<u>3.6 cents</u>	<u>8.9 cents</u>

*Note:* The calculation of earnings per Share is based on the profits attributable to Shareholders of the relevant years and on 420,000,000 Shares as if those Shares had been outstanding for each year presented.

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## RISK FACTORS

The Directors consider the business of the Group to be subject to a number of risks, which can be summarised as follows:

- **Risks relating to the Group and its business**
  - Substantial initial capital expenditure requirement
  - Dependence on economic development of an Operational Location
  - Price control
    - Connection fees
    - Gas usage charges
  - Dependence on property development of an Operational Location
  - Reliance on the suppliers of natural gas
  - Limited insurance coverage
  - Environmental liability
  - Joint venture risks
  - Holding company risks
  - Reliance on key management
  - Concentration of ownership
  - Additional funding may be required
- **Risks relating to the industry**
  - Substitute products
- **Risks relating to the PRC**
  - Political and economic considerations
  - Changes in laws, regulations and policies
  - Changes in favourable taxation treatment
  - Changes in foreign exchange regulations
  - Currency and exchange fluctuations
- **Risks relating to the Placing**
  - Non-active trading market and potential share price volatility
  - Developments in other markets

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## CORPORATE REORGANISATION

The Company's reorganisation process is detailed in the paragraph headed "Further information about the Company" in Appendix V to this prospectus. As a result of, among other things, the Reorganisation and without taking into account the Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, the existing Shareholders' interests in the Company are summarised as follows:

Existing Shareholder	Date of original investment in the Group	Shares held after the Placing <sup>(4)</sup>		Average cost per Share (HK\$)	Total investment amount (HK\$)	Moratorium Period <sup>(4)</sup>
		('000)	(%)			
Easywin <sup>(1)</sup>	28 March 1993	420,000 <sup>(3)</sup>	70	0.23	96,168,000	1 year
Mr. Wang <sup>(2)</sup>	28 March 1993	420,000 <sup>(3)</sup>	70	0.23	96,168,000	1 year
Ms. Zhao <sup>(2)</sup>	28 March 1993	420,000 <sup>(3)</sup>	70	0.23	96,168,000	1 year

*Notes:*

- (1) Easywin is a company incorporated in the British Virgin Islands with limited liability on 18 July 2000.
- (2) Mr. Wang and Ms. Zhao are husband and wife.
- (3) The three references to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao.
- (4) Easywin, Mr. Wang and Ms. Zhao are required, pursuant to a waiver granted by the Stock Exchange from strict compliance with Rule 13.16 of the GEM Listing Rules, not to dispose of their respective interests in the Company during the first six-month period following the Listing Date. In addition, each of Easywin, Mr. Wang and Ms. Zhao has undertaken to the Stock Exchange and the Sponsor that it, he or she will not dispose of any of its, his or her respective direct or indirect interests in its, his or her Relevant Shares during the second six-month period following the Listing Date such that they would after such disposal cease to have control over an aggregate of 35% of the issued share capital of the Company.