

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

BUSINESS OBJECTIVES AND STRATEGIES

The Directors anticipate strong growth in the demand for piped gas in the PRC for the foreseeable future. In addition, the PRC Government's commitment and determination to increase natural gas usage will create many opportunities. Hence, the Group will remain focused on the development of its core business of distributing piped gas. The Directors believe that the Group is well positioned to (i) capture this opportunity as the Group can leverage on its experience, established market position and solid track record, and (ii) develop into a leading piped gas distributor in the PRC. Accordingly, the Directors have formulated the following objectives for the Group:

- (i) **To further develop existing Operational Locations.** The Group will continue to expand the coverage area and increase its customer base within each of its Operational Locations. The Group will only develop an area within the existing Operational Locations as and when it is commercially viable to do so. The Group will market primarily to property developers, government departments and organisations, and state-owned enterprises as these entities will enter into master supply contracts for the connection of gas to a large number of residential units at a time. Because commercial and industrial customers are large volume gas users, the Group will also place significant efforts in marketing to them. The Group will continue to maintain regular dialogues and contacts with natural gas suppliers and the regulatory authorities which regulate the gas industry in order to monitor the development of long distance pipelines and evaluate relevant new policies. These dialogues will facilitate the Group's future strategic planning.
- (ii) **To further expand to new Operational Locations.** The Directors believe that there is further opportunity for business expansion in the PRC as evidenced by the Group's rapid and successful expansion since 1999. The Group will continue to explore and identify new Operational Locations for investment by the Group giving due consideration to the highest rates of return (the Group would require a premium over its weighted average cost of capital). The Group will seek to target new Operational Locations with access to either gas sources or long distance pipelines or new Operational Locations neighbouring its existing Operational Locations. In addition, the Group will also take into consideration factors such as the affluence of a new Operational Location and whether or not local governments will implement favorable policies for piped gas supply.

In respect of locations with access to gas sources or long distance pipelines, the Group will seek to expand into Shanghai Municipality since it is the destination of the West to East Pipelines and one of the most economically viable regions in the PRC. Furthermore, as a majority of the districts within Shanghai Municipality are not currently equipped with piped gas supply, the Directors believe that there is significant market potential for the Group's business. The Group will set up a representative office in Shanghai Municipality before the end of 2001 to coordinate the market development activities for the eastern part of the PRC in areas where the West to East Pipelines cross (such as Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province).

In respect of locations neighbouring its existing Operational Locations, the Group will continue to expand its operations in Beijing Municipality, Hebei Province, Hubei Province, Shandong Province and Liaoning Province. The Group currently maintains a competitive advantage in these areas because it is familiar with local operational

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conditions and has already established good working relationships with the local and provincial governments. One such location is Tianjin Municipality which is nearby Langfang. Another location that the Group has targeted is a selected region within Shandong Province, within which the Group already possesses a number of operational locations. The Shandong Province is in close proximity to gas sources.

When expanding into new Operational Locations, the Group will remain cognizant of its capabilities and resources so that its expansion is manageable and sufficient funding is available to meet the capital intensive nature of the investments.

- (iii) **To carry out research and development with a view to improving the existing piped gas technology.** The Group will continue its research and development efforts in piped gas technology in order to make the supply and usage of gas more convenient and safe, to improve efficiencies, to reduce costs and to provide better service to customers. The Group has identified the following areas for its research and development:
- (a) pipeline design – the Group intends to develop its in-house capability of designing main pipelines which is currently being carried out by 中國市政工程華北設計研究院 (China Urban Engineering Huabei Design and Research Institute); after the certificate of competency in pipeline design is obtained, the Group intends to have the in-house team design some of the main pipelines, to strengthen the technical capabilities of the internal technical staff and to reduce costs;
 - (b) stored value card gas metres – in order to reduce operational costs, the Group plans to develop the capability of producing stored value card gas metres internally instead of sourcing the product from external parties; the Group expects to produce about 50,000 stored value card gas metres in 2001; and
 - (c) joint research and development efforts with universities or institutes – the Group plans to continue the existing information exchange programmes with universities or institutes as set out in the paragraph headed “The Group’s business – Research and development” in this prospectus: one of the new areas of research and development to be financed by the Group is to invite Tianjin Finance Institute to conduct research to improve management efficiency.
- (iv) **To obtain certification for technological quality control and improve operational efficiencies and customer relationships by the implementation of new information systems.** Langfang Xinao has already received ISO 9000 certification. The Group currently plans to implement the new information systems in other existing Operational Locations according to the schedule set out in the paragraph headed “Implementation targets” below. The Group plans to set up two new information systems, which are:
- (a) Map Information System – a database that stores all the technical details of the pipelines such as the detailed design information, geological data, completion date and the contractors responsible for constructing different segments of pipelines. The hardware and software will be purchased externally. The Map Information System will enhance operational efficiency as it provides information to enable proper actions to be taken in the event any pipeline problems are identified and to maintain an optimal maintenance schedule.

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- (b) Supervisory Control and Data Acquisition system (“SCADA”) – As mentioned in the paragraph headed “The Group’s business – Safety and quality control” in this prospectus, SCADA is a computerised system whereby a number of small detectors are installed at key points along the main pipelines to collect information such as temperature, pressure and volume of gas. This information is then sent back to the control centre electronically in order to improve efficiency and to reduce cost. The hardware and software will be purchased from third parties. SCADA will enhance safety and efficiency as it can quickly detect any pipeline irregularities. SCADA is operational in Langfang Xinao.
- (c) In order to improve customer relationships, the Group plans to set up call centres in its Operational Locations – The call centres is the centerpiece of the Group’s customer relationship management initiative. The call centres will operate 24 hours a day and serve as a platform for communication with the customers. The call centres will continue to carry out the functions of the existing 24-hours customer hotline. In addition, the call centres will have a database system which keeps track of all the relevant data of each customer. The Group will analyse such data to devise new marketing campaigns or optimal maintenance schedules for the customers. The call centres will also conduct regular telephone interviews with customers to determine their level of satisfaction with the services provided by the Group. The Group plans to assess the operations and performance of the call centre in Langfang so that it can be enhanced before being installed in other Operational Locations.

Implementation targets

The Group has the following targets for sales and operations, research and development and quality control and information systems:

	Latest Practicable Date – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 – 30/6/2002	1/7/2002 – 31/12/2002	1/1/2003 – 30/6/2003	1/7/2003 – 31/12/2003
Sales and operations*						
Number of new residential household connections	13,000	40,490	43,042	46,941	59,369	62,129
Additional installed designed daily capacity for commercial and industrial customers (m ³ /day)	17,484	55,131	67,138	73,240	92,238	112,759
Residential gas consumption ('000 m ³)	2,686	6,492	10,718	12,872	20,365	23,508
Commercial/industrial gas consumption ('000 m ³)	3,140	11,781	22,940	25,493	47,400	49,920
Pipelines to be constructed (km)	150	338	246	341	251	337
New processing stations to be constructed	–	4	1	1	1	–

* These relate to the Project Companies

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	Latest Practicable Date – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 – 30/6/2002	1/7/2002 – 31/12/2002	1/1/2003 – 30/6/2003	1/7/2003 – 31/12/2003
Research and development						
Develop internal capability to manufacture stored value card gas metres	-	Commence supply	-	-	-	-
Quality control and information system						
Commencement of operation for Map Information System	-	-	-	Langfang Xinao, Liaocheng Xinao, Huludao Xinao, Beijing Xinao	Jinggu Xinao, Jingchang Xinao, Qingdao Xinao	Jingzhou Xinao, Chengyang Xinao, Zhucheng Xinao
Supervisory Control and Data Acquisition system	-	-	-	Liaocheng Xinao, Huludao Xinao, Beijing Xinao	Jinggu Xinao, Jingchang Xinao, Qingdao Xinao	Jingzhou Xinao, Chengyang Xinao, Zhucheng Xinao
Call centre	-	-	-	Langfang Xinao, Liaocheng Xinao, Huludao Xinao, Beijing Xinao	Jinggu Xinao, Jingchang Xinao, Qingdao Xinao	Jingzhou Xinao, Chengyang Xinao, Zhucheng Xinao
ISO 9000 certification	-	-	-	Liaocheng Xinao, Huludao Xinao, Beijing Xinao	Jinggu Xinao, Jingchang Xinao, Qingdao Xinao	Jingzhou Xinao, Chengyang Xinao, Zhucheng Xinao

BASES AND ASSUMPTIONS

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

- (i) There will be no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in the PRC.
- (ii) The Group will be able to obtain all governmental approvals and licenses to operate the piped gas business within its Operational Locations.
- (iii) The Group will not encounter any problem or disruption adversely affecting its operations or development plans in any way, including but not limited to:
 - (a) shortage or disruption in supplies of natural gas;
 - (b) industrial accidents, natural or political disasters;
 - (c) malfunctioning of the Group's machinery and equipment;
 - (d) labour disputes or industrial actions; and
 - (e) any other force majeure event.
- (iv) The Group will be able to complete the acquisition of the Acquisition Companies.
- (v) The Group will be able to achieve successful implementation and establishment of the New Project Companies.

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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.

Items in (HK\$ million)	Latest Practicable Date - 30/6/2001	1/7/2001 - 31/12/2001	1/1/2002 - 30/6/2002	1/7/2002 - 31/12/2002	1/1/2003 - 30/6/2003	1/7/2003 - 31/12/2003	Total
Sales and operations							
Pipelines to be constructed	27	51	31	-	-	-	109
New processing stations to be constructed	8	13	10	-	-	-	31
Research and development							
Develop internal capability to manufacture stored value card gas metres	2	1	-	-	-	-	3
Others							
Acquisition of the Acquisition Companies	31	-	-	-	-	-	31
Total	68	65	41	-	-	-	174

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 approximately 20% for the construction of processing stations as described in paragraph headed "Implementation targets" above.

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 "Implementation targets" above 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.