

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Background and relationship with Mr. Wang and certain related companies

The Group has benefited in the past and will continue to draw the benefits from Mr. Wang's wealth of experience in the gas markets and, in particular, his strategic leadership which is crucial to the future success of the Group.

Mr. Wang has over 19 years of experience in the investment in, and management of, among others, the gas business in the PRC, primarily through Xinao Gas Group, which principal business is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas and LPG in the PRC. Mr. Wang also, through his private conglomerate, XGCL Group, invests in and operates various businesses in the PRC, including without limitation, bio-chemicals, property investment and property management.

Both Xinao Gas Group and XGCL Group are ultimately controlled by Mr. Wang and Ms. Zhao. As at the Latest Practicable Date, Xinao Gas, the holding company of Xinao Gas Group, was indirectly owned as to approximately 42.94% by Mr. Wang and Ms. Zhao through XGII. Mr. Wang and Ms. Zhao ultimately owned approximately 72.97% beneficiary interest of XGCL, the holding company of XGCL Group as at the Latest Practicable Date.

Due to the nature of its business activities, Xinao Gas Group has, in its ordinary course of business, ongoing demand for the Group's specialised gas equipment and integrated business solutions. Further, as Hebei Finance Leasing Company Limited provides lease financing as its business activities, there will be ongoing demand from Hebei Finance Leasing Company Limited, in its ordinary course of business, for the Group's products. Other than trade related transactions between the Group and certain related companies controlled by Mr. Wang, there have been and will be transactions of other natures which are expected to continue after the Listing. For particulars of the contemplated continuing connected transactions of the Group after the Listing, please refer to the section headed "Connected transactions" in this prospectus.

Despite the connected transactions as described above, the Directors do not consider that there is any significant reliance of the Group on its related companies controlled by Mr. Wang other than ordinary business relationship because of the following reasons: (i) based on the audited accounts of the Group for the six months ended 30 June 2005, the total products sales to Xinao Gas Group and Hebei Finance Leasing Company Limited pursuant to the product sale agreements amounted to approximately RMB47.61 million which represented approximately 22.7% of total turnover for the six months ended 30 June 2005; (ii) based on the sales forecast of the Group, the proposed cap amounts for the product sales transactions with Xinao Gas Group and Hebei Finance Leasing Company Limited will account for less than 30% of the Group's total sales; (iii) all of the Group's existing contractual relationships with third parties operate independently from the controlling Shareholders; (iv) except for Mr. Wang and Mr. Yu Jianchao, each of the Directors and members of the senior management will be devoting full (or majority of their) attention to serve the Company upon the Listing; (v) no material related party transactions are conducted by the Group after the year ended 31 December 2004, except those non-exempt continuing connected transactions mentioned under the section headed "Connected transactions" in this prospectus; and (vi) there will not be any advances due from or to Mr. Wang or related parties after the year ended 31 December 2004.

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The background of some of these related companies which had dealings with the Group during the Track Record Period and/or are expected to have dealings with the Group upon the Listing are set out below:

Xinao Gas and its related companies

1. Xinao Gas

Xinao Gas is an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability, the shares of which are listed on the Main Board by way of introduction since 3 June 2002 and is ultimately controlled by Mr. Wang and Ms. Zhao through XGII as at the Latest Practicable Date. As at the Latest Practicable Date, Xinao Gas was owned as to approximately 42.94% by Mr. Wang and Ms. Zhao. Xinao Gas is an investment holding company and the principal business of Xinao Gas Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas and bottled LPG in the PRC. Its business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas meters and the provision of repair, maintenance and other services in connection with gas supply.

The Group had purchased raw materials, including piped gas, from certain members of Xinao Gas Group, while Xinao Gas Group had purchased specialised gas-related equipment from the Group during the Track Record Period.

Xinao Gas Group has commenced introducing a new line of gas distribution business using CNG refueling stations in 2004. Accordingly, this new line of business involves the actual building of CNG refueling stations using the services provided by the Group in order to develop or conduct Xinao Gas Group's sale of gas business, while the Group, among others, is engaged in the provision of integrated business solutions for CNG refueling stations, which involves the design of system, the manufacture, installation and commissioning of specialised gas-related equipment to target customers including Xinao Gas Group. The Directors are of the view that there is no competition between the business of Xinao Gas Group and that of the Group.

The directors of Xinao Gas include Mr. Wang, Yang Yu, Chen Jiacheng, Zhao Jinfeng, Qiao Limin, Jin Yongsheng, Yu Jianchao, Cheung Yip Sang, Cheng Chak Ngok, Ms. Zhao, Wang Guangtian, Yien Yu Yu, Catherine and Kong Chung Kau. Members of the senior management include Ju Xilin, Han Jishen, Zheng Haiyan, Liang Zhiwei, Wang Dongzhi and Yang Junjie.

No companies comprising the Group or predecessors thereof has ever been part of Xinao Gas Group.

2. Beihai Xinao Gas Company Limited* (北海新奧燃氣有限公司)

Beihai Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 13 January 2004. As at the Latest Practicable Date, it was owned by Dongguan Xinao Gas Company Limited and Xinao Gas China Investment Limited as to approximately 62% and 38% respectively. The effective interests of Mr. Wang

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and Ms. Zhao in Beihai Xinao Gas Company Limited was approximately 29.36% as at the Latest Practicable Date. Its principal business is the production and sales of LNG and CNG, the design and installation of piped gas facilities and the production, sales and repair of gas equipment and appliances including cooking stoves, water boilers and heaters, which are targeted at end-users in the natural gas market. As the business of the Group primarily involves the manufacture of specialised gas equipment and the provision of integrated business solutions targeting at the transportation, storage and distribution of natural gas from its source to end-users, the Directors are of the view that there is no competition between the business of Beihai Xinao Gas Company Limited and that of the Group. Beihai Xinao Gas Company Limited had purchased specialised gas-related equipment from the Group during the Track Record Period.

The directors of Beihai Xinao Gas Company Limited include Cheung Yip Sang, Liu Jie, Chen Zhongxin, Yang Jun and Liu Kanglin. Members of the senior management include Yin Xuexin and Yin Junhua.

3. **Bengbu Xinao Gas Development Company Limited*** (蚌埠新奧燃氣發展有限公司)

Bengbu Xinao Gas Development Company Limited is a company incorporated in the PRC with limited liability on 30 June 2003. As at the Latest Practicable Date, it was owned by Xinao Southeast China Investment Company Limited and an Independent Third Party as to approximately 70% and 30% respectively. The effective interests of Mr. Wang and Ms. Zhao in Bengbu Xinao Gas Development Company Limited was approximately 30.06% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the provision of piped gas and bottled LPG. As the business of Bengbu Xinao Gas Development Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Bengbu Xinao Gas Development Company Limited and that of the Group. The Group had purchased natural gas from Bengbu Xinao Gas Development Company Limited and Bengbu Xinao Gas Development Company Limited had purchased specialised gas-related equipment from the Group during the Track Record Period. Particulars of the Group's transaction and/or proposed transactions with Bengbu Xinao Gas Development Company Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

The directors of Bengbu Xinao Gas Development Company Limited include Mr. Wang, Yang Jie, Yang Yu, Zhao Jinfeng, Yu Jianchao, Han Jishen and Zhang Qun. Members of the senior management include Zhang Jianfei and Sun Jian.

4. **Changsha Xinao Gas Company Limited*** (長沙新奧燃氣有限公司)

Changsha Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 29 August 2003. As at the Latest Practicable Date, it was owned by Xinao Gas China Investment Limited and an Independent Third Party as to approximately 55% and 45% respectively. The effective interests of Mr. Wang and Ms. Zhao in Changsha Xinao Gas Company Limited was approximately 23.62% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal

business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials and equipment for construction of gas pipeline infrastructure by itself, Changsha Xinao Gas Company Limited purchases materials, such as pipes and specialised gas-related equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. Accordingly, Changsha Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Changsha Xinao Gas Company Limited and that of the Group. Changsha Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Changsha Xinao Gas Company Limited include Zou Zhimou, Yang Yu, Jin Yongsheng, Yu Jianchao, Han Jishen, He Xianglin and Liang Zhiqiang. Members of the senior management include Gao Jihua and Guan Xinyuan.

5. **Dongguan Xinao Gas Company Limited*** (東莞新奧燃氣有限公司)

Dongguan Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 30 June 2003. As at the Latest Practicable Date, it was owned by an Independent Third Party and Xinao Langfang Investment Limited as to approximately 51% and 49% respectively. The effective interests of Mr. Wang and Ms. Zhao in Dongguan Xinao Gas Company Limited was approximately 21.04% as at the Latest Practicable Date. Its principal business is the investment in gas pipeline infrastructure and sales of piped gas and LPG. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials and equipment for construction of gas pipeline infrastructure by itself, Dongguan Xinao Gas Company Limited purchases materials, such as pipes and specialised gas-related equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Dongguan Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Dongguan Xinao Gas Company Limited and that of the Group. Dongguan Xinao Gas Company Limited had purchased gas-related products from the Group during the Track Record Period.

The directors of Dongguan Xinao Gas Company Limited include Li Zhirong, Yang Yu, Li Beiqing, Lu Xianrong, Wu Shizhong, Chen Jiacheng and Cheung Yip Sang. Members of the senior management include Cheung Yip Sang and Lu Guozhuang.

6. **Guilin Xinao Gas Company Limited*** (桂林新奧燃氣有限公司)

Guilin Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 28 April 2004. As at the Latest Practicable Date, it was owned by Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司) and an Independent Third Party as to approximately 60% and 40% respectively as at the Latest Practicable Date. The effective interests of Mr. Wang and Ms. Zhao in

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Guilin Xinao Gas Company Limited was approximately 25.76%. It is a subsidiary of Xinao Gas and its principal business is the investment in gas pipeline infrastructure and sales of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Guilin Xinao Gas Company Limited purchases materials, such as pipes and equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Guilin Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Guilin Xinao Gas Company Limited and that of the Group. Guilin Xinao Gas Company Limited had purchased gas-related products from the Group during the Track Record Period.

The directors of Guilin Xinao Gas Company Limited include Mr. Wang, Zhong Xinmin, Cheung Yip Sang, Ju Xilin and Xie Xiangyu. Members of the senior management include Wang Shipeng and Cheng Zhong.

7. Haining Xinao Gas Company Limited* (海寧新奧燃氣有限公司)

Haining Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 6 December 2002. As at the Latest Practicable Date, it was owned by Xinao Zhejiang Investment Limited and other Independent Third Parties as to approximately 80% and 20% respectively. The effective interests of Mr. Wang and Ms. Zhao in Haining Xinao Gas Company Limited was approximately 34.35% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas. Its principal business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Haining Xinao Gas Company Limited purchases materials, such as pipes and equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Haining Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Haining Xinao Gas Company Limited and that of the Group. Haining Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Haining Xinao Gas Company Limited include Mr. Wang, Cheung Yip Sang, Chen Jiacheng, Shen Zhitie and Chen Fuming. Members of the senior management include He Yizhang and Huang Tangqiang.

8. Langfang Xinao Gas Company Limited* (廊坊新奧燃氣有限公司)

Langfang Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 28 March 1993. As at the Latest Practicable Date, it was owned by Xinao Langfang Investment Limited and Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司) as to approximately 30% and 70%

respectively. The effective interests of Mr. Wang and Ms. Zhao in Langfang Xinao Gas Company Limited was approximately 42.94% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Langfang Xinao Gas Company Limited purchases materials, such as pipes and equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Langfang Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Langfang Xinao Gas Company Limited and that of the Group. Langfang Xinao Gas Company Limited had purchased gas-related products from the Group during the Track Record Period.

The directors of Langfang Xinao Gas Company Limited include Mr. Wang, Yang Yu, Zhao Jinfeng, Ms. Zhao and Yin Xuexin. Members of the senior management include Liang Hao and Jiang Bo.

9. Lianyungang Xinao Gas Company Limited* (連雲港新奧燃氣有限公司)

Lianyungang Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 15 August 2003. As at the Latest Practicable Date, it was owned by Xinao Jiangsu Investment Limited and an Independent Third Party as to approximately 70% and 30% respectively. The effective interests of Mr. Wang and Ms. Zhao in Lianyungang Xinao Gas Company Limited was approximately 30.06% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas. Its principal business is the provision of piped gas. As the business of Lianyungang Xinao Gas Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Lianyungang Xinao Gas Company Limited and that of the Group. Lianyungang Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Lianyungang Xinao Gas Company Limited include Mr. Wang, Fang Yonggan, Yang Yu, Chen Jiacheng, Jin Yongsheng, Zhao Jinfeng, Yu Jianchao, Li Sheng and Wang Hongwei. Members of the senior management include Chen Fuchao and Liu Meili.

10. Liaocheng Xinao Gas Company Limited* (聊城新奧燃氣有限公司)

Liaocheng Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 8 August 2000. As at the Latest Practicable Date, it was owned by Xinao Liaocheng Investment Limited and an Independent Third Party as to approximately 90% and 10% respectively. The effective interests of Mr. Wang and Ms. Zhao in Liaocheng Xinao Gas Company Limited was approximately 38.64% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the provision of piped gas. As the business of Liaocheng Xinao Gas Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is

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no competition between the business of Liaocheng Xinao Gas Company Limited and that of the Group. Liaocheng Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Liaocheng Xinao Gas Company Limited include Mr. Wang, Yang Yu, Zhao Jinfeng, Jin Yongsheng, Han Jishen, Zheng Haiyan and Geng Baishun. Members of the senior management include Li Guangfeng and Qi Quanxin.

11. Luquan Fuxin Gas Company Limited* (鹿泉富新燃氣有限公司)

Luquan Fuxin Gas Company Limited is a company incorporated in the PRC with limited liability on 9 August 2004. As at the Latest Practicable Date, it was owned by Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司) and an Independent Third Party as to approximately 49% and 51% respectively. The effective interests of Mr. Wang and Ms. Zhao in Luquan Fuxin Gas Company Limited was approximately 21.04% as at the Latest Practicable Date. Its principal business is the investment in gas pipeline infrastructure and sales of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Luquan Fuxin Gas Company Limited purchases materials, such as pipes and equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Luquan Fuxin Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Luquan Fuxin Gas Company Limited and that of the Group. Luquan Fuxin Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Luquan Fuxin Gas Company Limited include Yang Bingzhen, Chen Jiacheng, Ma Huiyuan, Ju Xilin and Wu Guoji. Members of the senior management include Hu Qili and Zhang Huiru.

12. Qingdao Xinao Jiaonan Gas Company Limited* (青島新奧膠南燃氣有限公司)

Qingdao Xinao Jiaonan Gas Company Limited is a company incorporated in the PRC with limited liability on 12 December 2003. As at the Latest Practicable Date, it was wholly owned by Xinao Shandong Investment Limited. The effective interests of Mr. Wang and Ms. Zhao in Qingdao Xinao Jiaonan Gas Company Limited was approximately 42.94% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the provision of piped gas. As the business of Qingdao Xinao Jiaonan Gas Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Qingdao Xinao Jiaonan Gas Company Limited and that of the Group. Qingdao Xinao Jiaonan Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Qingdao Xinao Jiaonan Gas Company Limited include Mr. Wang, Yang Yu and Chen Jiacheng. Members of the senior management include Li Risen and Ding Fengliang.

13. Shijiazhuang Xinao Gas Company Limited* (石家莊新奧燃氣有限公司)

Shijiazhuang Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 27 December 2002. As at the Latest Practicable Date, it was owned by Xinao Gas China Investment Limited and an Independent Third Party as to approximately 70% and 30% respectively. The effective interests of Mr. Wang and Ms. Zhao in Shijiazhuang Xinao Gas Company Limited was approximately 30.06% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Shijiazhuang Xinao Gas Company Limited purchases materials, such as pipes and equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Shijiazhuang Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Shijiazhuang Xinao Gas Company Limited and that of the Group. Shijiazhuang Xinao Gas Company Limited had purchased specialised gas-related products from the Group and Shijiazhuang Xinao Gas Company Limited had provided gas connection services to the Group during the Track Record Period. The particulars of the Group's transaction and/or proposed transactions with Shijiazhuang Xinao Gas Company Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

The directors of Shijiazhuang Xinao Gas Company Limited include Mr. Wang, Yang Yu, Zhao Jinfeng, Jin Yongsheng, Cheung Yip Sang, Chen Jiacheng, Liu Jishen, Zhang Guoqing, Gao Wenliang and Zhang Jingguang. Members of the senior management include Ju Xilin and Dong Yuwu.

14. Xiangtan Xinao Gas Company Limited* (湘潭新奧燃氣有限公司)

Xiangtan Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 27 June 2003. As at the Latest Practicable Date, it was owned by Xinao Hunan Investment Limited and an Independent Third Party as to approximately 85% and 15% respectively. The effective interests of Mr. Wang and Ms. Zhao in Xiangtan Xinao Gas Company Limited was approximately 36.50% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the investment in gas pipeline infrastructure and provision of piped gas. As the business of Xiangtan Xinao Gas Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xiangtan Xinao Gas Company Limited and that of the Group. Xiangtan Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Xiangtan Xinao Gas Company Limited include Mr. Wang, Yang Yu, Chen Jiacheng, Jin Yongsheng, Han Jisheng, Zhang Yingchun and Ren Xuexiong. Members of the senior management include Xia Mao'an and Cha Lujun.

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15. Xinao Gas Development Company Limited* (新奧燃氣發展有限公司)

Xinao Gas Development Company Limited is a company incorporated in the PRC with limited liability on 26 June 2001. As at the Latest Practicable Date, it was owned by Xinao Langfang Investment Limited and Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司) as to approximately 30% and 70% respectively. The effective interests of Mr. Wang and Ms. Zhao in Xinao Gas Development Company Limited was approximately 42.94% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials and equipment for construction of gas pipeline infrastructure by itself, Xinao Gas Development Company Limited purchases materials, such as pipes and specialised gas-related equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Xinao Gas Development Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Xinao Gas Development Company Limited and that of the Group. Xinao Gas Development Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Xinao Gas Development Company Limited include Mr. Wang, Yang Yu, Zhao Jinfeng, Yu Jianchao and Qiao Limin. Members of the senior management include Yang Jun and Zhang Ping.

16. Xinao Gas Development Company Limited Weifang Branch Company* (新奧燃氣發展有限公司濰坊分公司)

Xinao Gas Development Company Limited Weifang Branch Company is a branch company of Xinao Gas Development Company Limited. As at the Latest Practicable Date, the effective interests of Mr. Wang and Ms. Zhao in Xinao Gas Development Company Limited Weifang Branch Company was approximately 42.94%. Its principal business is the production and sale of CNG. As the business of Xinao Gas Development Company Limited Weifang Branch Company does not involve the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xinao Gas Development Company Limited Weifang Branch Company and that of the Group. Xinao Gas Development Company Limited Weifang Branch Company had purchased specialised gas-related products from the Group during the Track Record Period.

Members of the senior management include Yang Jun, Ma Tao and Zhang Guang.

17. Xinao Gas Investment Group Limited

Xinao Gas Investment Group Limited is a company incorporated in BVI with limited liability on 4 January 2000 and was wholly owned by Xinao Gas as at the Latest Practicable Date. As at the Latest Practicable Date, the effective interests of Mr. Wang

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and Ms. Zhao in Xinao Gas Investment Group Limited was approximately 42.94%. It is a subsidiary of Xinao Gas and its principal business is investment holding. It conducts the business of gas pipeline infrastructure and sale and distribution of piped gas and LPG in the PRC through its subsidiaries within Xinao Gas Group. As such business does not involve production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xinao Gas Investment Group Limited and that of the Group. Xinao Gas Investment Group Limited leased certain properties in Lippo Centre, Hong Kong to the Group for office purpose during the Track Record Period. Particulars of the Group's rental transaction and/or proposed rental transactions with Xinao Gas Investment Group Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

The directors of Xinao Gas Investment Group Limited include Mr. Wang, Ms Zhao, Yang Yu, Zhao Jinfeng, Qiao Limin, Jin Yongsheng and Yu Jianchao.

18. **Yancheng Xinao Compressed Natural Gas Company Limited*** (鹽城新奧壓縮天然氣有限公司)

Yancheng Xinao Compressed Natural Gas Company Limited is a company incorporated in the PRC with limited liability on 26 April 2002. As at the Latest Practicable Date, it was owned by Xinao Jiangsu Investment Limited and an Independent Third Party as to approximately 50% and 50% respectively. The effective interests of Mr. Wang and Ms. Zhao in Yancheng Xinao Compressed Natural Gas Company Limited was approximately 21.47% as at the Latest Practicable Date. Its principal business is the production and distribution of CNG. As the business of Yancheng Xinao Compressed Natural Gas Company Limited does not involve the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Yancheng Xinao Compressed Natural Gas Company Limited and that of the Group. Yancheng Xinao Compressed Natural Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Yancheng Xinao Compressed Natural Gas Company Limited include He Zhong, Zhao Jinfeng, Chen Jiacheng, Jin Yongsheng, Wang Shengliang and Gao Mingdong. He Zhong, Wu Jiahong is a member of the senior management.

19. **Zhuzhou Xinao Gas Company Limited*** (株洲新奧燃氣有限公司)

Zhuzhou Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 12 November 2003. As at the Latest Practicable Date, it was owned by Xinao Hunan Investment Limited and an Independent Third Party as to approximately 55% and 45% respectively. The effective interests of Mr. Wang and Ms. Zhao in Zhuzhou Xinao Gas Company Limited was approximately 23.62% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas. Its principal business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline

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infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Zhuzhou Xinao Gas Company Limited purchases materials, such as pipes and specialised gas-related equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Zhuzhou Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Zhuzhou Xinao Gas Company Limited and that of the Group. Zhuzhou Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Zhuzhou Xinao Gas Company Limited include Ouyang Su, Yang Yu, Chen Jiacheng, Jin Yongsheng, Han Jishen, Xue Zhi and Tan Yuehui. Members of the senior management include Sun Weihong and Cha Lujun.

XGCL and its related companies

1. XGCL

XGCL is a joint stock limited company incorporated in the PRC on 5 August 1997. As at the Latest Practicable Date, it was owned by Langfang City Natural Gas Company Limited, Xinao Energy Development Investment Company Limited* (新奧能源發展投資有限公司), Langfang Guofu, Wang Baozhong (Mr. Wang's father), Ms. Zhao and other Independent Third Parties as to approximately 29.74%, 17.72%, 23.17%, 2.27%, 2.34% and 24.76% respectively. It was therefore directly and/or indirectly owned as to approximately 72.97% by Mr. Wang and Ms. Zhao as at the Latest Practicable Date. XGCL is an investment holding company and the principal business of XGCL Group is the investment in bio-chemical industry and property and property management. As the business of XGCL Group does not involve the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of XGCL and that of the Group. The Group had cash advances to and from XGCL during the Track Record Period.

The directors of XGCL include Mr. Wang, Liu Derun, Qiao Limin, Cai Fuying, Zhao Jinfeng, Yin Xuexin and Ju Xilin. Members of the senior management include Yang Yu and Yu Jianchao.

Prior to the Reorganisation, Enric Gas Equipment was part of XGCL Group and was held as to 70% interests by Xinao Shijiazhuang, a subsidiary of XGCL.

Other than XGCL's interests in Enric Gas Equipment prior to the Reorganisation, no companies comprising the Group or predecessors thereof have ever been part of XGCL Group.

Enric Compressor had been holding approximately 12.27% equity interests in XGCL since August 2003 and such interests were subsequently transferred to Langfang Guofu in June 2004.

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2. Bengbu Xinao Property Company Limited* (蚌埠新奧置業有限公司)

Bengbu Xinao Property Company Limited is a company incorporated in the PRC with limited liability on 9 January 2003. As at the Latest Practicable Date, it was owned by Langfang Xinao Property Development Company Limited, Langfang Guofu and Langfang City Natural Gas Company Limited as to approximately 57%, 14% and 29% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 87.68% as at the Latest Practicable Date. Its principal business is property development and investment. As such business is not related to production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Bengbu Xinao Property Company Limited and that of the Group. Bengbu Xinao Property Company Limited had cash advances to and from the Group during the Track Record Period.

The directors of Bengbu Xinao Property Company Limited include Mr. Wang, Shang Xiujun and Yin Xuexin. Members of the senior management include Yin Xuexin and Sun Jian.

3. Hebei Finance Leasing Company Limited* (河北省金融租賃有限公司)

Hebei Finance Leasing Company Limited is a company incorporated in the PRC with limited liability on 11 December 1995. As at the Latest Practicable Date, it was owned by XGCL, Langfang Guofu and other Independent Third Parties as to approximately 24%, 10% and 66% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 27.51% as at the Latest Practicable Date. Its principal business is finance leasing in the PRC. As the business of Hebei Finance Leasing Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Hebei Finance Leasing Company Limited and that of the Group. Hebei Finance Leasing Company Limited had purchased specialised gas-related products from the Group during the Track Record Period. Particulars of the Group's transaction and/or proposed transactions with Hebei Finance Leasing Company Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

The directors of Hebei Finance Leasing Company Limited include Mr. Wang, Zhang Jiangguang, Cao Xin, Yu Jianchao, Hu Chengzhong, Zhang Wenzhong, Yu Jianfu and Jin Yongsheng. Members of the senior management include Zhang Jiangguang and Zhang Xiangmin.

4. Hebei Veyong Biochemical Joint Stock Company Limited* (河北威遠生物化工股份有限公司)

Hebei Veyong Biochemical Joint Stock Company Limited is a company incorporated in the PRC with limited liability on 29 December 1992. As at the Latest Practicable Date, it was owned by Hebei Veyong Group Company Limited and other Independent Third Parties as to approximately 44.09% and 55.01% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 34.08% as at the

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Latest Practicable Date. Its principal business is the production and sale of fertilisers and medicine for animals. As the business of Hebei Veyong Biochemical Joint Stock Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Hebei Veyong Biochemical Joint Stock Company Limited and that of the Group. Hebei Veyong Biochemical Joint Stock Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Hebei Veyong Biochemical Joint Stock Company Limited include Yang Yu, Dai Yuanchen, Xu Shouqin, Pan Wenliang, Li Xiufen, Yang Qian and Wu Sheng. Members of the senior management include Li Xiufen and Fu Bailin.

5. Hebei Veyong Group Company Limited* (河北威遠集團有限公司)

Hebei Veyong Group Company Limited is a company incorporated in the PRC with limited liability on 23 November 1998. As at the Latest Practicable Date, it was owned by XGCL and Shijiazhuang Xiniao Investment Company Limited* (石家莊新奧投資有限公司) as to approximately 80% and 20% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 77.30% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is investment holding and property leasing. It conducts the businesses of production and sale of fertilisers and medicine for animals through Hebei Veyong Biochemical Joint Stock Company Limited and the production and sale of switchgear through Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited respectively. As such businesses do not relate to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Hebei Veyong Group Company Limited and that of the Group. Hebei Veyong Group Company Limited leased certain property located in Shijiazhuang in the PRC to the Group for office purpose during the Track Record Period. Particulars of the Group's lease transaction and/or proposed lease transactions with Hebei Veyong Group Company Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

The directors of Hebei Veyong Group Company Limited include Yang Yu, Chen Xiaoshuang and Zhang Guohui. Members of the senior management include Yang Yu and Jiang Yuemei.

6. Inner Mongolia New Veyong Biochemical Company Limited* (內蒙古新威遠生物化工有限公司)

Inner Mongolia New Veyong Biochemical Company Limited is a company incorporated in the PRC with limited liability on 16 July 2004. As at the Latest Practicable Date, it was owned by Hebei Veyong Biochemical Joint Stock Company Limited and an Independent Third Party as to approximately 75% and 25% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 25.56% as at the Latest Practicable Date. Its principal business is the production and sale of agricultural chemicals. As the business of Inner Mongolia

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New Veyong Biochemical Company Limited does not involve the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Inner Mongolia New Veyong Biochemical Company Limited and that of the Group. Inner Mongolia New Veyong Biochemical Company Limited purchased specialised gas-related products from the Group during the Track Record Period.

The directors of Inner Mongolia New Veyong Biochemical Company Limited include Li Xiufen, Yin Xuexin, Xu Bing, Fan Zhaohui and Fu Bailin. Li Zhigang is a member of the senior management.

7. Langfang Xinao Construction Installation Engineering Company Limited* (廊坊新奧建築安裝工程有限公司)

Langfang Xinao Construction Installation Engineering Company Limited is a company incorporated in the PRC with limited liability on 17 November 1997. As at the Latest Practicable Date, it was owned by XGCL and Langfang Xincheng Property Development Company Limited*(廊坊新城房地產開發有限公司) as to approximately 75% and 25% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 79.73% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is building construction in the PRC. As the business of Langfang Xinao Construction Installation Engineering Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Langfang Xinao Construction Installation Engineering Company Limited and that of the Group. The Group had purchased raw materials from Langfang Xinao Construction Installation Engineering Company Limited during the Track Record Period.

The directors of Langfang Xinao Construction Installation Engineering Company Limited include Shang Xiujun. Members of the senior management include Shang Xiujun and Li Yujun.

8. Langfang Xinao Property Development Company Limited* (廊坊新奧房地產開發有限公司)

Langfang Xinao Property Development Company Limited is a company incorporated in the PRC on 29 April 2002. As at the Latest Practicable Date, it was owned by XGCL and Langfang Guofu as to approximately 80% and 20% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 78.38% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is property development. As the business of Langfang Xinao Property Development Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Langfang Xinao Property Development Company Limited and that of the Group.

The directors of Langfang Xinao Property Development Company Limited include Mr. Wang, Yang Yu, Yu Jianchao, Yin Xuexin and Wu Jie. Members of the senior management include Cai Fuying and Song Xiaoyu.

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9. Langfang Xinao Property Management Company Limited* (廊坊新奧物業管理有限公司)

Langfang Xinao Property Management Company Limited is a company incorporated in the PRC with limited liability on 11 July 1997. As at the Latest Practicable Date, it was owned by Langfang Xinao Property Development Company Limited and XGCL as to approximately 92.2% and 7.8% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 77.96% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is the provision of property management services. As the business of Langfang Xinao Property Management Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Langfang Xinao Property Management Company Limited and that of the Group. Langfang Xinao Property Management Company Limited provided property management services to the Group during the Track Record Period. Particulars of the Group's transaction and/or proposed transactions with Langfang Xinao Property Management Company Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

The directors of Langfang Xinao Property Management Company Limited include Yin Xuexin. Members of the senior management include Wu Jianhua and Pan Aihua.

10. Shijiazhuang Radiation Appliances Company Limited* (石家莊輻射器材有限責任公司)

Shijiazhuang Radiation Appliances Company Limited is a company incorporated in the PRC with limited liability on 22 February 1995. It ceased operation in July 2004. It was owned by Xinao Shijiazhuang and other Independent Third Parties as to approximately 96% and 4% respectively immediately before it ceasing its operation. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 79.32% immediately before it ceased operation. Its principal business was the production and sale of X-ray defectoscopes for industrial use. As Shijiazhuang Radiation Appliances Company Limited is no longer in operation, there is no competition between Shijiazhuang Radiation Appliances Company Limited and the Group. Shijiazhuang Radiation Appliances Company Limited had cash advances from the Group during the Track Record Period.

11. Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited* (石家莊威遠高壓開關製造有限公司)

Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited is a company incorporated in the PRC with limited liability on 4 February 1999. As at the Latest Practicable Date, it was wholly owned by Hebei Veyong Group Company Limited. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 77.30% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is the production and sale of switchgear. As the business of Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Shijiazhuang Veyong High-voltage

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Switchgear Manufacturing Company Limited and that of the Group. The Group had purchased raw materials from Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited during the Track Record Period.

The directors of Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited include Chen Xiaoshuang, Gao Xiaofang and Cui Xinze. Member of the senior management includes Gao Xiaofang.

12. Xinao Bowei Technology Company Limited* (新奧博為技術有限公司)

Xinao Bowei Technology Company Limited is a company incorporated in the PRC with limited liability on 19 December 2003. As at the Latest Practicable Date, it was owned by XGCL and an Independent Third Party as to approximately 65% and 35% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 47.43% as at the Latest Practicable Date. It is a subsidiary of XGCL. Its principal business is production and sale of robots and modern medical appliances. As the business of Xinao Bowei Technology Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xinao Bowei Technology Company Limited and that of the Group. The Group had cash advances from Xinao Bowei Technology Company Limited during the Track Record Period.

The directors of Xinao Bowei Technology Company Limited include Mr. Wang, Yang Yu, Li Xiufen, Gan Zhongxue, Zhao Lei and Sun Yunquan. Members of the senior management include Sun Yunquan and Wang Qingxiang.

13. Xinao Group International Economic Development Company Limited* (新奧集團國際經濟發展有限公司)

Xinao Group International Economic Development Company Limited is a company incorporated in the PRC with limited liability on 30 April 2002. As at the Latest Practicable Date, it was owned by XGCL, Mr. Wang and other Independent Third Parties as to approximately 80%, 10% and 10% respectively. It was therefore directly and/or indirectly owned by Mr. Wang and Ms. Zhao as to approximately 68.38% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is import and export trading. As the business of Xinao Group International Economic Development Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xinao Group International Economic Development Company Limited and that of the Group. Due to the fact that it is engaged in import and export trading, the Group purchased imported raw materials from Xinao Group International Economic Development Company Limited and Xinao Group International Economic Development Company Limited purchased specialised gas-related products for exporting purposes from the Group during the Track Record Period.

The directors of Xinao Group International Economic Development Company Limited include Mr. Wang, Zhou Rong and Xu Wei. Pong Weilong is a member of the senior management.

14. Xinao Shijiazhuang

Xinao Shijiazhuang is a joint stock limited company and was first incorporated in the PRC in February 1994. As at the Latest Practicable Date, it was owned by XGCL, Langfang City Natural Gas Company Limited, Langfang Xinao Property Development Company Limited, Langfang Guofu and Beijing Dingchangyuan Energy Resources Equipment Company Limited* (北京鼎昌源能源物資裝備有限公司) as to approximately 51%, 10%, 5%, 29% and 5% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 82.63% as at the Latest Practicable Date. It is a subsidiary of XGCL and its principal business is NGV conversion. As the business of Xinao Shijiazhuang is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors believe that the business of Xinao Shijiazhuang does not compete with the business of the Group. Xinao Shijiazhuang purchased specialised gas-related products from the Group and had cash advances to and from the Group during the Track Record Period.

The directors of Xinao Shijiazhuang include Mr. Wang, Yang Yu, Cai Hongqiu, Li Jianmin, Chen Jiachen. Members of the senior management include Liu Zhi'ang.

Prior to the assets injection as capital contribution to Enric Gas Equipment, Xinao Shijiazhuang was mainly engaged in the manufacture and sale of relatively traditional and standard pressure vessels primarily for use in the petrochemical industry.

As set out in the section headed "Business – History and development" in this prospectus, in order to broaden the spectrum of the specialised gas-related equipment products offered by the Group and to establish a specialised arm and brandname in the provision of gas equipments (particularly, the pressure vessels) in the PRC, Shijiazhuang BVI entered into the Shijiazhuang JV Agreement on 16 July 2003 with Xinao Shijiazhuang, whereby Xinao Shijiazhuang contributed, among others, land, manufacturing equipment and buildings as capital for the establishment of Enric Gas Equipment. Such contribution from Xinao Shijiazhuang provided Enric Gas Equipment with assets and more importantly, requisite licences and certificates to advance the Group's focused business line in the provisions of specialised gas-related equipment and associated integrated business solutions.

The preparatory works for the new products subsequently provided by Enric Gas Equipment like CNG hydraulic daughter refuelling stations had commenced as early as 2002. Such preparatory works included the recommendations from a PRC independent consultant, Greatwall Strategy Consultants, as well as the feasibility study performed by XGCL Group. Upon the determination of this strategy, the Group engaged research and business development experts and technical personnel for the Group's manufacturing process.

The newly hired personnel of Enric Gas Equipment had played a crucial role in developing the new products, including the development of seamless pressure cylinders, cryogenic liquid storage and transportation equipment, the CNG hydraulic daughter refuelling stations and CNG daughter refuelling station trailer products, as well as the development of markets for these products. In addition, the Directors believe that these personnel are experienced in their related fields and are also difficult to source in the market.

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Notwithstanding the above, additional capital expenditures amounting to approximately RMB13.2 million were made subsequent to the initial capital contribution to enable the Group to produce the new products.

In summary, based on the preparatory work, which commenced as early as 2002, coupled with the new experts and personnel hired by the Group, as well as the capital expenditures, the Group was able to produce new products that could store gases at temperatures as low as -196 degrees celsius and seamless pressure cylinders as opposed to that of Xinao Shijiazhuang, after the capital contribution of the assets from Xinao Shijiazhuang.

However, due to this new product focus, Enric Gas Equipment did not have any substantial sales contracts in the initial period immediately after the capital contribution of Enric Gas Equipment. Despite the fact that Enric Gas Equipment started its marketing efforts in early 2004, the first batch of deals was concluded in later half of the year. The few initial customers gained by Enric Gas Equipment since its establishment were customers of Xinao Shijiazhuang. However, most customers of Xinao Shijiazhuang are not the targeted customer base of the Group.

Subsequent to the capital contribution on 31 March 2004, there were substantial purchases from Xinao Shijiazhuang. This is due to the fact that sales contracts and raw materials of Xinao Shijiazhuang were not included as part of the capital contribution, and there was no assignment of sales contracts from Xinao Shijiazhuang to Enric Gas Equipment during the Track Record Period. As Xinao Shijiazhuang had continued its sales after the capital contribution, Xinao Shijiazhuang was required to obtain a manufacturer for the purpose of fulfilling the outstanding sales contracts and utilisation of its raw materials. As a result of the commercial negotiations between the Group and Xinao Shijiazhuang, the Group agreed to manufacture products for Xinao Shijiazhuang on a temporary basis. Purchase orders were lodged by Xinao Shijiazhuang on a deal-by-deal basis. The Directors confirmed that the Group was manufacturing products for Xinao Shijiazhuang whilst the Group continued to make the necessary investment and capital expenditure so as to commence commercial production of its products of specialised gas-related equipment and integrated business solutions.

In the circumstances, the Group accepted Xinao Shijiazhuang's purchase order on a deal by deal basis and not all outstanding contracts in one entirety. In deciding whether to accept Xinao Shijiazhuang's order, the Group considered its then production capacity and its own sales order of specialised gas-related equipment and integrated business solutions. Hence, the Group would purchase the necessary raw materials from Xinao Shijiazhuang and/or other suppliers when it required to fulfil the necessary order on hand.

The Directors consider that the purchase of products from the Group by Xinao Shijiazhuang and sales of raw materials by Xinao Shijiazhuang to the Group were commercially beneficial for both Xinao Shijiazhuang and Enric Gas Equipment. As far as Xinao Shijiazhuang is concerned, it did not have to source for these products from other suppliers (who were readily acceptable from a quality and creditability perspective) to meet its outstanding sales obligation; whilst from Enric Gas Equipment's perspective, (i) the raw materials kept by Xinao Shijiazhuang were suitable for the manufacturing of the products to fulfill the outstanding sales contracts

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of Xinao Shijiazhuang; and (ii) due to the new product focus, Enric Gas Equipment has not yet materialised any substantial sales contracts in the first few months after the capital contribution.

Apart from the fulfillment of the outstanding sales obligations and the sales of inventories following the completion of the capital contribution of assets to Enric Gas Equipment, Xinao Shijiazhuang maintained a group of approximately 10 personnel out of the over 30 members in the technical department and approximately 20 personnel out of its marketing team of over 30 members, in order to pursue the NGV conversion business. Upon March 2005, Xinao Shijiazhuang has commenced operating the NGV conversion business.

Approximately RMB136.2 million of turnover was contributed by Enric Gas Equipment during the year ended 31 December 2004, of which approximately RMB52.0 million represented sales to Xinao Shijiazhuang from April to September 2004 for Xinao Shijiazhuang to satisfy its sales obligation entered into prior to April 2004. Pursuant to the capital contribution, majority of Xinao Shijiazhuang's production facilities were transferred to Enric Gas Equipment and therefore, Xinao Shijiazhuang did not have the production capacity after capital contribution. However, sales contracts were not included as part of capital contribution because the Group intended to have an acquisition of assets, and there was no assignment of sales contracts from Xinao Shijiazhuang to Enric Gas Equipment during the Track Record Period. As Xinao Shijiazhuang required a manufacturer for the purpose of fulfilling the outstanding sales contracts, the Group commercially agreed to manufacture products for Xinao Shijiazhuang on a temporary basis. Sales to Xinao Shijiazhuang ceased since September 2004 after Xinao Shijiazhuang fulfilled all of the aforesaid sales obligations. This non-recurring connected transaction has been included as part of the balance in sales to related companies in 2004 in Section C Note 28 headed "Material related parties transactions" of the Accountants' Report.

After having reviewed the relevant documents and having carried out due diligence, the Sponsor is of the view that the above sale and purchase transactions between the Group and Xinao Shijiazhuang were conducted at arm's length at terms comparable to similar transactions with independent third parties.

When Xinao Shijiazhuang contributed its assets into Enric Gas Equipment and hence, forgone its production capability, it had also transferred its trade-related assets for the purposes of fulfilling its capital contribution requirements.

Details of the financial information of Xinao Shijiazhuang before capital contribution of assets to Enric Gas Equipment, commencing from the beginning of the Track Record Period to the date of completion of the capital contribution (i.e. from 1 January 2003 to 31 March 2004) is set out in Appendix II to this prospectus.

The information included in Appendix II to this prospectus is for reference purpose only, as the operating results of Xinao Shijiazhuang do not form part of the Group's operating results either during the Track Record Period or after the Listing.

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15. Xinao Group Solar Energy Company Limited* (新奧集團太陽能有限公司)

Xinao Group Solar Energy Company Limited is a company incorporated in the PRC with limited liability on 2 May 1996. As at the Latest Practicable Date, it was owned by XGCL, Langfang City Natural Gas Company Limited and XGII as to approximately 42.82%, 31.77% and 25.41% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 88.43% as at the Latest Practicable Date. Its principal business is property leasing. As the business of Xinao Group Solar Energy Company Limited is not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xinao Group Solar Energy Company Limited and that of the Group. Xinao Group Solar Energy Company Limited leased certain property located in Langfang in the PRC to the Group for office purpose and had cash advances to and from the Group during the Track Record Period. Further information in relation to the tenancy agreement of the abovementioned leased property is set out in the section headed “Connected Transactions – Continuing Connected Transactions” in this prospectus.

The directors of Xinao Group Solar Energy Company Limited include Mr. Wang, Qiao Limin, Zhen Nifen, Wang Weidong and Ju Xilin. Members of the senior management include Ju Xilin and Hao Hongrui.

Others

1. XGII

XGII is a company incorporated in BVI with limited liability on 18 July 2000, which was owned as to approximately 50% by Mr. Wang and 50% by Ms. Zhao as at the Latest Practicable Date. It is a controlling shareholder of the Company and a substantial shareholder of Xinao Gas. Its principal business is investment holding. The Group had cash advances to and from XGII during the Track Record Period.

The directors of XGII include Mr. Wang and Ms. Zhao.

2. Langfang City Natural Gas Company Limited* (廊坊市天然氣有限公司)

Langfang City Natural Gas Company Limited is a company incorporated in the PRC with limited liability on 5 December 1992. As at the Latest Practicable Date, it was owned by Langfang Guofu and Mr. Wang as to approximately 36.00% and 64.00% respectively. The effective interests of Mr. Wang in Langfang City Natural Gas Company Limited was approximately 100% as at the Latest Practicable Date. Its principal business is investment holding. It conducts the businesses of building construction, NGV conversion and property leasing through Langfang Xinao Construction Installation Engineering Company Limited, Xinao Shijiazhuang and Xinao Group Solar Energy Company Limited respectively. As such businesses are not related to the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Langfang City Natural Gas Company Limited and that of the Group.

The directors of Langfang City Natural Gas Company Limited include Mr. Wang, Zhao Jinfeng and Yin Xuexin.

3. Langfang Guofu

Langfang Guofu is a company incorporated in the PRC with limited liability on 13 January 2000 and was beneficially wholly owned by Mr. Wang (as to approximately 90% by Mr. Wang personally and approximately 10% by Wang Baozhong (Mr. Wang's father) as a nominee for Mr. Wang) as at the Latest Practicable Date. Its principal business is investment holding mainly in respect of infrastructure and energy exploitation companies. As the business held by Langfang Guofu does not involve the production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Langfang Guofu and that of the Group.

Mr. Wang is the sole director of Langfang Guofu.

Non-competition undertakings

Pursuant to a deed of non-competition undertakings dated 26 September 2005 given by each of the Initial Management Shareholders (collectively, the "Covenantor(s)") in favour of the Company (for itself and as trustees for its subsidiaries), each of the Covenantors has irrevocably undertaken and covenanted with the Company that for so long as it/he/she shall remain as a controlling Shareholder or an Initial Management Shareholder and for one month thereafter, and for so long as the Shares are listed on GEM:

- (a) it/he/she shall not, and shall procure that its/his/her subsidiaries and any company, enterprise or entity in which it/he/she has a majority control of the board of directors or controls more than 50% of the issued share capital of such company, enterprise or entity (other than any members of the Group) (together, the "Parent Group") shall not, and shall use best endeavours to procure Xinao Gas Group shall not, directly or indirectly, own, invest in, participate in or operate by any means any businesses which compete or is likely to compete directly or indirectly with the business currently carried on by the Group or any other businesses which the Group plans to develop, both as disclosed in this prospectus (collectively, the "Relevant Businesses"); and
- (b) if there is an opportunity for any of the Covenantors or any members of their respective Parent Group to own, invest in, participate in, develop, operate or engage in or to acquire an interest in any Relevant Businesses, it/he/she shall immediately notify the Company and shall use its/his/her best endeavours to procure that the Group will have the first opportunity to own, invest in, participate in, develop, operate or engage in or to acquire an interest in such business on no less favourable terms than those available to the relevant Covenantor or relevant member of the Parent Group, provided that if the Group decides not to take up such opportunity or has not taken up such opportunity within two months after it is offered to the Group, the relevant Covenantor or relevant member of the Parent Group shall have the right to invest in, participate in, develop, operate or engage in or to acquire an interest in the Relevant Businesses (as the case may be) as offered to the Group.

The Directors are of the view that there is no competition between the businesses of Xinao Gas Group and XGCL Group and that of the Group.