

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

The following connected transactions have been, and will be, carried out by the Group in the ordinary and usual course of business and on normal commercial terms and are expected to continue in the foreseeable future.

Continuing connected transactions exempt from reporting, announcement and independent Shareholders' approval requirements

(A) The following continuing connected transactions will be exempt from reporting, announcement and independent Shareholders' approval requirements upon the Listing under Rule 20.33(1) of the GEM Listing Rules:

1. *Supply of piped gas and LPG by connected persons of the Company*

Piped gas and LPG are supplied and are expected to be supplied to the Group by Bengbu Xinao Gas Development Company Limited* (蚌埠新奧燃氣發展有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) and Shijiazhuang Xinao Gas Company Limited* (石家莊新奧燃氣有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) respectively for the Group's own consumption, with gas usage charges which are not less favourable to the Group than those charged by Bengbu Xinao Gas Development Company Limited to Independent Third Parties.

Both Bengbu Xinao Gas Development Company Limited and Shijiazhuang Xinao Gas Company Limited are engaged in piped gas distribution in the PRC. As each of Bengbu Xinao Gas Development Company Limited and Shijiazhuang Xinao Gas Company Limited is a subsidiary of Xinao Gas, which is ultimately controlled by Mr. Wang and Ms. Zhao, each of these companies is a connected person of the Company under the GEM Listing Rules upon the Listing. Since the supply of gas by such connected persons to the Group is a utility business and it is essential for the Group to use energy in its ordinary course of business rather than on-sale to external parties, the Directors confirm that the supply of piped gas and LPG by such connected persons to the Group does not and will not constitute furthering of the Group's business.

Each of the conditions set out under Rule 20.31(7) of the GEM Listing Rules has been complied with. The Company will continue to monitor and ensure compliance with Rule 20.31(7) requirements.

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The table below sets out the gas usage charges paid and/or payable to Bengbu Xinao Gas Development Company Limited by the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively:

	Year ended 31 December 2003 RMB	Year ended 31 December 2004 RMB	Six months ended 30 June 2005 RMB
Gas usage charges paid and/or payable to Bengbu Xinao Gas Development Company Limited	74,900	73,410	23,077

Shijiazhuang Xinao Gas Company Limited did not supply piped gas to the Group for the two years ended 31 December 2004 and the six months ended 30 June 2005.

The total consideration paid and/or payable by the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 were less than 1% of the total revenue of the Group in the relevant period.

2. *Provision of gas connection services by Xinao Gas Group*

As Xinao Gas Group is engaged in piped gas distribution in the PRC, Xinao Gas Group will charge its customers connection fee receivable on the initial connection of gas and gas usage charges. Accordingly the Group has been and is expected to continue to be provided with gas connection services for its certain properties in cities where Xinao Gas Group operates. For the provision of gas connection services by Xinao Gas Group, the fee will be determined between the parties on the same basis as the fee to be charged to Independent Third Parties and that no such fee shall be higher than the government guidance prices.

As Xinao Gas is ultimately controlled by Mr. Wang and Ms. Zhao, Xinao Gas and its subsidiaries are connected persons of the Company under the GEM Listing Rules upon the Listing. Since the provision of gas connection services is ordinarily supplied for the Group's own use rather than on-sale to external parties and the services used by the Group are the same as the services provided by Xinao Gas Group to Independent Third Parties, the Directors are of the view that the provision of gas connection services will not constitute furthering of the Group's business.

The table below sets out the connection fee paid to Xinao Gas Group by the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively:

	Year ended 31 December 2003 RMB	Year ended 31 December 2004 RMB	Six months ended 30 June 2005 RMB
Total connection fee paid to Xinao Gas Group	315,000	3,600,000	Nil

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Each of the conditions set out under Rule 20.31(7) of the GEM Listing Rules has been complied with except that the connection fee paid to Xinao Gas Group in 2004 exceeds 1% of the total revenue of the Group for the year ended 31 December 2004. The significant increase in gas connection fee in 2004 resulted from the entering into an agreement with a member of Xinao Gas Group in June 2004 pursuant to which Xinao Gas Group provided gas connection services for a factory of the Group in Shijiazhuang, Hebei province, the PRC at a consideration of RMB3.6 million. The consideration was arrived at after arm's length negotiations and based on rates offered by the Xinao Gas Group to Independent Third Parties. The Directors consider that such transaction was entered into on normal commercial terms and that the terms thereof were fair and reasonable as far as the interests of the Group as a whole was concerned. Notwithstanding the above, based on the Group's forecast for the requirement for gas connection services in the production facilities of the Group from 2005 to 2007, the Group expects that the annual connection fee to be paid to Xinao Gas Group would be less than 1% of the total revenue of the Group for each of the three years ending 31 December 2007. If any of the conditions set out under Rule 20.31(7) of the GEM Listing Rules are not complied with since the Listing Date, the Company will no longer be entitled to the exemption under Rule 20.31 and will comply with all relevant requirements under Chapter 20 of the GEM Listing Rules.

- (B) The following continuing connected transactions will be exempt from reporting, announcement and independent Shareholders' approval requirements upon the Listing under Rule 20.33(3) of the GEM Listing Rules:

3. *Tenancy agreement dated 1 September 2003 between Enric Gas Equipment and Hebei Veyong Group Company Limited* (河北威遠集團有限公司)*

Pursuant to the tenancy agreement dated 1 September 2003 entered into by Enric Gas Equipment as tenant and Hebei Veyong Group Company Limited (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) as landlord, the Group has rented out from the landlord certain property located in Shijiazhuang in the PRC at a rent of RMB3,600 per annum for a term of twenty years commencing on 1 September 2003 and expiring on 1 September 2023 for office purpose. As Hebei Veyong Group Company Limited is a company controlled by Mr. Wang, it is a connected person of the Company under the GEM Listing Rules upon the Listing.

Sallmanns (Far East) Limited, an independent valuer appointed by the Company for the purpose of the Listing, has reviewed the tenancy agreement, and confirmed that the amount of rental is fair and reasonable compared with the prevailing market rate in Shijiazhuang, the PRC.

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4. *Tenancy agreement dated 30 September 2004 between Enric Gas Equipment and Xinao Group Solar Energy Company Limited* (新奧太陽能有限公司)*

Pursuant to the tenancy agreement dated 30 September 2004 entered into by Enric Gas Equipment as tenant and Xinao Group Solar Energy Company Limited (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) as landlord, the Group has rented out from the landlord two floors (including their ancillary facilities and office equipment) in a building located in the Langfang Economic and Technical Development Zone in the PRC at a rent of RMB520,000 per annum for a term of three years commencing on 30 September 2004 and expiring on 29 September 2007 for office purpose. As Xinao Group Solar Energy Company Limited is a company controlled by Mr. Wang, it is a connected person of the Company under the GEM Listing Rules upon the Listing.

Sallmanns (Far East) Limited, an independent valuer appointed by the Company for the purpose of the Listing, has reviewed the tenancy agreement, and confirmed that the amount of rental is fair and reasonable compared with the prevailing market rate in Shijiazhuang, the PRC.

5. *A property management services agreement dated 30 September 2004 between Enric Gas Equipment and Langfang Xinao Property Management Company Limited* (廊坊新奧物業管理有限公司)*

Pursuant to a property management services agreement dated 30 September 2004 entered into between Enric Gas Equipment and Langfang Xinao Property Management Company Limited (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus), Langfang Xinao Property Management Company Limited agreed to provide property management services in relation to the rented properties under the tenancy agreement as mentioned in paragraph 4 as described in the section headed "Continuing connected transactions" in this section to Enric Gas Equipment for a term of three years commencing on 1 October 2004 at the consideration of RMB180,000 per year. The property management services under such agreement includes but not limited to providing security guard services, ensuring the property's compliance with the relevant fire regulations, providing cleaning and repair and maintenance services in public areas of the building and all other incidental services necessary for carrying out this agreement. As Langfang Xinao Property Management Company Limited is a company controlled by Mr. Wang, it is a connected person of the Company under the GEM Listing Rules upon the Listing.

6. *A tenancy agreement dated 7 February 2005 between EIGL and Xinao Gas Investment Group Limited*

Pursuant to a tenancy agreement dated 7 February 2005 entered into between EIGL as tenant and Xinao Gas Investment Group Limited (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) as landlord, EIGL has rented out from Xinao Gas Investment Group

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Limited certain properties in a building located in Lippo Centre, Hong Kong at a rent of HK\$455,544 per annum for a term of three years commencing on 1 February 2005 for office purpose. As Xinao Gas Investment Group Limited is a wholly owned subsidiary of Xinao Gas which is ultimately controlled by Mr. Wang and Ms. Zhao, Xinao Gas Investment Group Limited is a connected person of the Company under the GEM Listing Rules upon the Listing.

Sallmanns (Far East) Limited, an independent valuer appointed by the Company for the purpose of the Listing, has reviewed the tenancy agreement, and confirmed that the amount of rental is fair and reasonable compared with the prevailing market rate.

7. Provision of finance lease by a connected person of the Company

Hebei Finance Leasing Company Limited* (河北省金融租賃有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) has agreed, from time to time, to provide capital for the purchase of motor vehicles and to lease such motor vehicles to the Group at the direction and for the benefits of the management staff of the Group. The finance lease agreements serve for the purpose of purchasing motor vehicles for the employee's benefits of and use by certain management staff. Under the finance lease agreements, the Group will pay, on a quarterly basis, a rental fee to be determined between the parties by reference to the prevailing lending interest rate in the PRC in compliance with the relevant government regulations, provided such fee shall not be higher than the fee charged to Independent Third Parties for leasing similar motor vehicles by Hebei Finance Leasing Company Limited. Hebei Finance Leasing Company Limited is licenced under the relevant PRC regulations to enter into the said transaction with the Group.

As Hebei Finance Leasing Company Limited is a company controlled by Mr. Wang, it is a connected person of the Company under the GEM Listing Rules upon the Listing.

In relation to the annual rental fee payable by the Group to Hebei Finance Leasing Company Limited, the Directors expect that the applicable percentage ratios will be (i) less than 0.1%; or (ii) equal to or more than 0.1% but less than 2.5% and the annual rental is less than HK\$1,000,000. Accordingly, this transaction falls within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules.

8. Repair and maintenance agreement with Xinao Gas (representing itself and as trustee of its subsidiaries)

Pursuant to a repair and maintenance agreement dated 4 October 2005 entered into between EIGL (representing itself and as trustee of its subsidiaries) and Xinao Gas (representing itself and as trustee of its subsidiaries), EIGL agreed to provide Xinao Gas Group with repair, maintenance, installation and ancillary services for the gas equipment manufactured by the Group from time to time on demand basis

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and to sell machinery spare parts and ancillary products to replace any parts of such equipment which are worn out or damaged in the course of providing repair and maintenance services, for a term of three years commencing on 4 October 2005. The service charge payable by Xinao Gas Group is based on actual costs incurred by EIGL and its subsidiaries plus a profit margin of not more than 15.0%, provided no such fee shall be lower than the fee charged by EIGL to Independent Third Parties for provision of similar services.

For the year ended 31 December 2003, the provision of the aforesaid services and the sales of the aforesaid parts by the Group to Xinao Gas Group, in aggregate, amounted to approximately RMB85,600, representing approximately 0.12% of the total turnover of the Group for the corresponding period. The Group had not provided any of the aforesaid services nor entered into any sales of the aforesaid parts with Xinao Gas Group for the year ended 31 December 2004 and the six months ended 30 June 2005.

As Xinao Gas is ultimately controlled by Mr. Wang and Ms. Zhao, each of Xinao Gas and its subsidiaries is a connected person of the Company under the GEM Listing Rules upon the Listing.

9. *Licence agreement dated 16 September 2005 with Xinao Shijiazhuang as licensor*

Pursuant to a licence agreement dated 16 September 2005 (the “Licence Agreement”) entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric Integration jointly as licensees, it was agreed, during the remaining term of the Neogas Agreement commencing on the Listing Date, that (i) Xinao Shijiazhuang shall licence its rights under the Neogas Agreement to Enric Gas Equipment and Enric Integration exclusively at nil consideration; (ii) Xinao Shijiazhuang shall unconditionally and irrevocably undertake not to use its rights under the Neogas Agreement and not to grant any licences under the Neogas Agreement to any other parties outside the Group; (iii) any licence fees, royalties and other related fees (if any) payable under the Neogas Agreement shall be paid by Enric Gas Equipment and/or Enric Integration directly to Neogas; and (iv) Xinao Shijiazhuang shall fully indemnify the Group for any losses, damages and liabilities which may be suffered by any members of the Group as a result of the breach of the Licence Agreement and/or the Neogas Agreement by Xinao Shijiazhuang. In order to ensure uninterrupted and continual use of the Neogas System under the Neogas Agreement, the Directors consider that it is beneficial for the Group to enter into the Licence Agreement for the remaining term of the Neogas Agreement (which amounts to approximately 18 years) commencing on the Listing Date.

As Xinao Shijiazhuang is a company controlled by Mr. Wang and Ms. Zhao, it is a connected person of the Company under the GEM Listing Rules upon the Listing.

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Non-exempt continuing connected transactions

The following continuing connected transactions will be subject to reporting, announcement and independent Shareholders' approval requirements upon the Listing under Rule 20.35 of the GEM Listing Rules:

10. *Product sales agreement with Xinao Gas as purchaser (representing itself and as trustee of its subsidiaries)*

Pursuant to a product sales agreement dated 31 January 2005 entered into between EIGL (representing itself and as trustee of its subsidiaries) and Xinao Gas (representing itself and as trustee of its subsidiaries), EIGL and its subsidiaries agreed to sell its gas-related machinery and equipment, including gas refueling stations, gas daughter refueling station trailers, storage tanks, CNG trailers and LNG trailers and compressors, to Xinao Gas Group for their own use in the ordinary course of business operation for a term of three years commencing on 1 January 2005. The price payable shall be determined based on the then market price of the particular products.

For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the sales of the aforesaid products by the Group to Xinao Gas Group, in aggregate, amounted to approximately RMB1.0 million, RMB28.7 million and RMB42.8 million respectively, representing approximately 1.5%, and 11.4% and 20.4% of the total turnover of the Group for the corresponding periods respectively.

After evaluating the historical figures, the forecasted figures and the anticipated development and growth of the relevant business of the Group, the Directors estimate that the maximum amount of annual sales of products pursuant to this product sales agreement will not exceed RMB111 million, RMB185 million and RMB271 million for each of the three years ending 31 December 2007 respectively. The substantial increase in the proposed cap amounts for 2005 to 2007 is mainly attributable to the expected strong demand from Xinao Gas Group for CNG vehicles and refueling stations in the coming years. Xinao Gas Group has commenced developing the business of supplying natural gas at various CNG refueling stations purchased from the Group in 2004. In anticipation that a large number of public vehicles are expected to be converted to using natural gas for the sake of environmental protection and cost saving reasons, it is expected that a large number of CNG refueling stations will be purchased by Xinao Gas Group to accommodate such gas usage for the three years ending 31 December 2007. In addition to the CNG vehicle refueling stations to be purchased by Xinao Gas Group, when determining the annual caps for this product sale transaction, the Group has also taken into account the estimated number of new gas projects to be undertaken by Xinao Gas Group which will require purchases of CNG trailers or LNG trailers from the Group for transporting natural gas from the gas source to the operation locations.

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As Xinao Gas is ultimately controlled by Mr. Wang and Ms. Zhao, each of Xinao Gas and its subsidiaries is a connected person of the Company under the GEM Listing Rules upon the Listing.

11. Product sales and finance lease agreement with Hebei Finance Leasing Company Limited

As the Group engages in the sale of specialised gas equipment, some of the customers may require finance leasing in order to be able to purchase the Group's products. When the Group is approached by those customers who wish to make purchases through finance leasing, the Group will refer these customers to Hebei Finance Leasing Company Limited.

Pursuant to a product sales and finance lease agreement dated 4 October 2005 entered into between EIGL (representing itself and as trustee of its subsidiaries) and Hebei Finance Leasing Company Limited, Hebei Finance Leasing Company Limited agrees to purchase gas-related machinery and equipment, including gas refueling stations, gas daughter refueling station trailers, storage tanks, CNG trailers and LNG trailers and compressors, from the Group for the purpose of providing finance lease to customers of the Group for a term of three years commencing on 1 January 2005. The price payable shall be determined based on the then market price of the particular products which will be agreed upon by the Group, the customer and Hebei Finance Leasing Company Limited and no special discount will be offered by the Group to Hebei Finance Leasing Company Limited. Hebei Finance Leasing Company Limited will make full payment of the products to the Group and then the Group will deliver the products to the customer under the instruction of Hebei Finance Leasing Company Limited for the completion of the sales transaction between the Group and Hebei Finance Leasing Company Limited. In addition, the Group offers a one-year quality guarantee period to customers during which the Group will provide free repair and maintenance services. After the end of the quality guarantee period, the Group will provide repair and maintenance services at a fee comparable to the fee charged by the Group to Independent Third Parties and to be determined between the parties.

For the six months ended 30 June 2005, the sales of the aforesaid products by the Group to Hebei Finance Leasing Company Limited amounted to approximately RMB4.4 million, representing approximately 2.1% of the total turnover of the Group for the corresponding period.

Hebei Finance Leasing Company Limited conducts finance lease business in the PRC and it purchases gas-related machinery and equipment from the Group for the purpose of leasing these products to customers who require finance leasing. Hebei Finance Leasing Company Limited will separately enter into a finance lease agreement with the customer and the Group will not be a party to such finance lease agreement. In this regard, any default in payment by the customer under the said finance lease agreement will not have any adverse impact on the Group.

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As the Group does not engage in finance lease business, the Group sells the products to Hebei Finance Leasing Company Limited for it to arrange finance lease to these customers. As Hebei Finance Leasing Company Limited engages in finance lease business but not manufacture of gas equipment and that it will not sell any products in competition with the products sold by the Group, the Directors consider that there is no competition between the Group and Hebei Finance Leasing Company Limited. In addition, the prices of the products being sold to Hebei Finance Leasing Company Limited by the Group are comparable to those offered to Independent Third Parties. Other than finance lease arrangement provided by Hebei Finance Leasing Company Limited, there is no value added services provided to its customers.

The Directors estimate that the maximum amount of annual sales of products pursuant to this product sales and finance lease agreement will not exceed RMB14 million, RMB23 million and RMB31 million for each of the three years ending 31 December 2007 respectively, basing on the expected amount of sales of the products to Hebei Finance Leasing Company Limited for the corresponding period. In determining the annual cap amounts, the Directors estimate the growth in demand for products manufactured by the Group and the proportion of sales to customers who require finance leasing with Hebei Finance Leasing Company Limited in purchasing the products.

As Hebei Finance Leasing Company Limited is an associate of Mr. Wang, it is a connected person of the Company under the GEM Listing Rules upon the Listing.

WAIVER APPLICATION

The Group will continue to enter into or carry out the transactions set out above following the Listing and these transactions will constitute continuing connected transactions (collectively, the “Continuing Connected Transactions”) under the GEM Listing Rules upon the Listing. According to the GEM Listing Rules, such transactions may, depending on the nature and value of the transactions, require full disclosure and prior approval by the independent Shareholders.

The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions have been conducted, and will be carried out, in the ordinary course of business of the Group, on normal commercial terms, are fair and reasonable, and in the interests of the Shareholders as a whole.

As it is estimated that the aggregate amount receivable by the Company under each of the product sales agreement with Xinao Gas as purchaser and the product sales and finance lease agreement with Hebei Finance Leasing Company Limited as purchaser (collectively, the “Non-Exempt Continuing Connected Transactions”) is expected to exceed 2.5% of the total turnover or 2.5% of the total assets of the Group for each of the three years ending 31 December 2007 or 2.5% of the total market capitalisation of the Group as at the Listing Date, these transactions will be subject to the reporting, announcement and independent Shareholders’ approval requirements under Rule 20.35 of the GEM Listing Rules upon the Listing.

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As the Non-Exempt Continuing Connected Transactions are important to the Group's overall strategy and are expected to continue on a recurring basis, the Directors consider that full compliance with the disclosure and the independent Shareholders' approval requirements would be impractical and unduly burdensome to the Company. Accordingly, in respect of such Non-Exempt Continuing Connected Transactions, the Company has applied for an one-off waiver from strict compliance with the announcement and independent Shareholders' approval requirements for the Non-Exempt Continuing Connected Transactions under Rule 20.42 of the GEM Listing Rules. The Company will comply with Rules 20.35 to 20.40 of the GEM Listing Rules in respect of the Non-Exempt Continuing Connected Transactions.

For the Non-Exempt Continuing Connected Transactions the relevant amount of the transactions for the three financial years ending 31 December 2007 shall not exceed the respective caps below:

Type of transactions	Annual cap		
	2005	2006	2007
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Product sales agreement with Xinao Gas as purchaser (representing itself and as trustee of its subsidiaries)	111	185	271
Product sales and finance lease agreement with Hebei Finance Leasing Company Limited as purchaser	14	23	31

The Directors (including the independent non-executive Directors) are of the view that (i) the Non-Exempt Continuing Connected Transactions are entered into on normal commercial terms, in the usual and ordinary course of the Group's business and that they are fair and reasonable and in the interests of the Shareholders taken as a whole are concerned; and (ii) the annual caps set out above are fair and reasonable as far as the Shareholders taken as a whole are concerned.

The Sponsor is of the view that (i) the Non-Exempt Continuing Connected Transactions are in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole; and (ii) the annual caps set out in the above are fair and reasonable so far as the Shareholders taken as a whole are concerned.

The Company will set up its internal control system for scrutinising connected transactions upon the Listing. The control system for limiting the relevant amounts within the caps will include mainly the following procedures: (i) preparation of list of connected persons and updating the same from time to time to assist identification of connected transactions and potential connected transactions; (ii) supervision of the entering into of connected transactions or potential connected transactions of each Group companies by the financial control department of the Company which will issue an approval letter for each proposed agreements of connected transactions of the Group companies; and (iii) preparation of monthly consolidation table of connected transactions by each Group companies and submission of the same to the financial control department of the Company.