



新奧燃氣控股有限公司*

XINAO GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



Placing

Sponsor



N M ROTHSCHILD & SONS

Global Co-ordinator, Lead Manager and Bookrunner



ICEA

A subsidiary of ICBC

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

PROPOSED LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares: 180,000,000 (subject to the Over-allotment Option)
Placing Price: not more than HK\$1.25 per Share and expected to be not less than HK\$1.15 per Share
Nominal value: HK\$0.10 each
Stock code: 8149

Sponsor



N M ROTHSCHILD & SONS

Global Co-ordinator, Lead Manager and Bookrunner



Co-lead Manager

CLSA Emerging Markets

Co-Managers

The Bank of East Asia, Limited
Guotai Junan Securities (Hong Kong) Limited
Sun Hung Kai International Limited

DBS Asia Capital Limited
Kingsway SW Securities Limited
Tai Fook Securities Company Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Placing Price will not be more than HK\$1.25 and is expected to be not less than HK\$1.15 per Placing Share. The Placing Price is expected to be fixed by an agreement between the Company and ICEA (on behalf of the Underwriters) at or prior to 5:00 p.m. on 7 May 2001. If, for any reason, the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001, the expected timetable will be postponed, but in any event, the determination of the Placing Price and commencement of dealings in the Shares on GEM will not be later than 23 May 2001 and 25 May 2001, respectively. If, for any reason, the Placing Price is not agreed between the Company and ICEA (on behalf of the Underwriters) at or prior to 9:00 a.m. on 23 May 2001, the Placing will not proceed. The Company and ICEA (on behalf of the Underwriters) may agree to a Placing Price of less than HK\$1.15 per Placing Share at any time prior to the relevant price determination time if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. In the event of a reduction in the indicative Placing Price or a postponement in the timetable or if no price determination agreement is entered into at or prior to 5:00 p.m. on 7 May 2001, an announcement will be published on the GEM website on the business day after such determination.

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2001

| | |
|---|--|
| Determination of Placing Price at or prior to ⁽¹⁾ | 5:00 p.m. on Monday, 7 May |
| Application lists open and close | 11:45 a.m. to 12:00 noon on Monday, 7 May |
| Allocation of Placing Shares on or before | Monday, 7 May |
| Announcement of the Placing Price and the level of indication of interest in the Placing to be published on the GEM website at “www.hkgem.com” prior to | 9:00 a.m. on Wednesday, 9 May |
| Share certificates available on or about ⁽²⁾ | Wednesday, 9 May |
| Dealings in the Shares on GEM to commence on | Thursday, 10 May |

Notes:

- (1) The Placing Price will not be more than HK\$1.25 and is expected to be not less than HK\$1.15 per Placing Share. The Placing Price is expected to be fixed by an agreement between the Company and ICEA (on behalf of the Underwriters) at or prior to 5:00 p.m. on 7 May 2001. If, for any reason, the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001, the expected timetable will be postponed, but in any event, the determination of the Placing Price and commencement of dealings in the Shares on GEM will not be later than 23 May 2001 and 25 May 2001, respectively. If, for any reason, the Placing Price is not agreed between the Company and ICEA (on behalf of the Underwriters) at or prior to 9:00 a.m. on 23 May 2001, the Placing will not proceed. The Company and ICEA (on behalf of the Underwriters) may agree to a Placing Price of less than HK\$1.15 per Placing Share at any time prior to the relevant price determination time if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. In the event of a reduction in the indicative Placing Price or a postponement in the timetable or if no price determination agreement is entered into at or prior to 5:00 p.m. on 7 May 2001, an announcement will be published on the GEM website on the business day after such determination.

- (2) The share certificates for Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on 9 May 2001 for credit to the relevant CCASS participants' stock accounts designated by the Underwriters, the places or their agents (as the case may be). No temporary document of title will be issued.

- (3) All times refer to Hong Kong local time (except as otherwise stated).

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, Rothschild, the Underwriters, the directors of any of them, or any other person involved in the Placing.

Page

| | |
|--|----|
| Definitions | 1 |
| Glossary of terms | 11 |
| Summary | |
| Overview | 12 |
| Principal strengths of the Group | 14 |
| Business objectives | 14 |
| Use of proceeds | 15 |
| Placing statistics | 16 |
| Trading record | 17 |
| Risk factors | 18 |
| Corporate reorganisation | 19 |
| Risk factors | 20 |
| Waiver from compliance with the GEM Listing Rules | 28 |
| Information about this prospectus and the Placing | 33 |
| Directors and parties involved in the Placing | 39 |
| Corporate information | 43 |
| Industry overview | 45 |
| The Group's business | |
| Introduction | 52 |
| Principal strengths of the Group | 52 |
| History and development | 53 |
| Statement of active business pursuits | 54 |
| Corporate structure | 56 |
| The gas delivery process | 56 |
| Description of the business | 59 |
| Areas of operations | 62 |
| Description of the Project Companies | 64 |
| Sales and marketing | 86 |
| Pricing | 88 |
| Purchases | 89 |
| Safety and quality control | 91 |
| Research and development | 92 |
| Competition | 92 |
| Transactions with connected persons | 94 |

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Directors, senior management and staff | |
| Directors | 99 |
| Audit committee | 100 |
| Senior management | 101 |
| Qualified accountant and company secretary | 102 |
| Staff | 102 |
| Substantial and Initial Management Shareholders | 104 |
| Share capital | 106 |
| Financial information | |
| Trading record | 108 |
| Indebtedness | 115 |
| Disclosure under Chapter 17 of the GEM Listing Rules | 117 |
| Liquidity, financial resources and capital structure | 117 |
| Property interests | 118 |
| Dividends | 120 |
| Distributable reserves | 120 |
| Adjusted net tangible assets | 121 |
| No material adverse change | 121 |
| Statement of business objectives and strategies | |
| Business objectives and strategies | 122 |
| Bases and assumptions | 125 |
| Use of proceeds | 126 |
| Placing structure and expenses | |
| The Placing | 127 |
| Expenses | 128 |
| Fixing of the Placing Price | 128 |
| Price payable on application | 129 |
| Conditions of the Placing | 129 |
| Placing Agreement | 130 |
| Sponsor's interest | 133 |
| Appendices | |
| I. Accountants' report for the Company | 134 |
| II. Accountants' report for the Acquisition Companies | 153 |
| III. Property valuation | 173 |
| IV. Summary of the constitution of the Company and the Cayman Islands Companies Law | 236 |
| V. Statutory and general information | 258 |
| VI. Documents delivered and available for inspection | 292 |

DEFINITIONS

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

| | |
|----------------------------|---|
| “Acquisition Agreement(s)” | the three conditional acquisition agreements all dated 31 January 2001 and entered into between XGCL as vendor and each of Pinggu BVI, Huangdao BVI and Changping BVI as purchasers in relation to the acquisition of a 70% interest in Jinggu Xinao, a 90% interest in Qingdao Xinao and an 80% interest in Jingchang Xinao, respectively, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Acquisition Companies” in this prospectus |
| “Acquisition Companies” | Jinggu Xinao, Qingdao Xinao and Jingchang Xinao |
| “Articles of Association” | the articles of association of the Company |
| “associate” | shall have the meaning ascribed thereto in the GEM Listing Rules |
| “Beijing Xinao” | 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 8 August 2000 in which Miyun BVI has an 80% interest and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Existing Project Companies” in this prospectus) has a 20% interest. Beijing Xinao is the successor of a PRC company bearing the same name as Beijing Xinao established on 10 September 1999 and was then owned as to 80% by XGCL |
| “branch pipeline” | a pipeline which is laid within an Operational Location connecting a main pipeline with a pressure regulating box |
| “CCASS” | the Central Clearing and Settlement System established and operated by Hongkong Clearing |
| “Capitalisation Issue” | the issue of Shares upon capitalisation of the Shareholder’s loans referred to in the paragraph headed “Further information about the Company – Changes in share capital” in Appendix V to this prospectus |
| “Changping BVI” | Xinao Changping Investment Limited, a company incorporated in the British Virgin Islands on 19 December 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |

DEFINITIONS

| | |
|------------------------------|--|
| “Chengyang BVI” | Xinao Chengyang Investment Limited, a company incorporated in the British Virgin Islands on 15 August 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Chengyang Xinao” | 城陽新奧燃氣有限公司 (Chengyang Xinao Gas Company Limited*), a Sino-foreign equity joint venture to be established pursuant to Project Chengyang. Chengyang Xinao will be owned as to 90% by Chengyang BVI and 10% by 青島市城陽區建設工程監理處 (Qingdao City Chengyang District Construction Engineering Supervisory Office*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – New Project Companies” in this prospectus) |
| “Companies Law” | the Companies Law (2001 Revision) (Chapter 22 of the Laws of the Cayman Islands) |
| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| “Company” | Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability |
| “connected person(s)” | shall have the meaning ascribed thereto in the GEM Listing Rules |
| “customers’ pipeline” | a pipeline which is laid within the relevant customer’s premises and connected to a pressure regulating box |
| “Director(s)” | the director(s) of the Company |
| “Easywin” | Easywin Enterprises Limited, a company incorporated in the British Virgin Islands on 18 July 2000 with limited liability which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao and is an investment holding company |
| “Enlarged Group” | the Group as enlarged after the listing of Shares on GEM and following the completion of the acquisition of the Acquisition Companies and the establishment of the New Project Companies |
| “Existing Project Companies” | Langfang Xinao, Liaocheng Xinao, Beijing Xinao and Huludao Xinao |
| “Founders” | Mr. Wang and Ms. Zhao |

DEFINITIONS

| | |
|-------------------------------------|---|
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries or any of them or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or their predecessors (before their conversion into Sino-foreign equity joint ventures) |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hongkong Clearing” | Hong Kong Securities Clearing Company Limited |
| “Huangdao BVI” | Xinao Huangdao Investment Limited, a company incorporated in the British Virgin Islands on 19 December 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Huludao BVI” | Xinao Huludao Investment Limited, a company incorporated in the British Virgin Islands on 25 May 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Huludao Xinao” | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 7 August 2000 in which Huludao BVI has a 90% interest and 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Existing Project Companies” in this prospectus) has a 10% interest. Huludao Xinao is the successor of a PRC company bearing the name 葫蘆島市新奧天然氣有限責任公司 (Huludao City Xinao Natural Gas Limited Liability Company*) established on 24 December 1999 and was then owned as to 90% by XGCL |
| “ICEA” or “Global Co-ordinator” | ICEA Capital Limited, the global co-ordinator, lead manager and bookrunner of the Placing and a registered dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| “Initial Management Shareholder(s)” | Easywin, Mr. Wang and Ms. Zhao |
| “intermediate pipeline” | a pipeline connecting a long distance pipeline with a processing station |

DEFINITIONS

| | |
|-------------------|--|
| “Jingchang Xinao” | 北京新奧京昌燃氣有限公司(Beijing Xinao Jingchang Gas Company Limited*), a company established in the PRC on 16 November 2000 with limited liability, which is owned as to 80% by XGCL and 20% by 北京市昌平市政經濟發展總公司(Beijing City Changping Urban Economic Development Corporation*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Acquisition Companies” in this prospectus). Upon completion of the relevant Acquisition Agreement, Jingchang Xinao will change its legal status to a Sino-foreign equity joint venture and will be owned as to 80% by Changping BVI |
| “Jinggu Xinao” | 北京新奧京谷燃氣有限公司(Beijing Xinao Jinggu Gas Company Limited*), a company established in the PRC on 11 August 2000 with limited liability, which is owned as to 70% by XGCL and 30% by 平谷縣液化石油氣公司(Pinggu County LPG Company*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Acquisition Companies” in this prospectus). Upon completion of the relevant Acquisition Agreement, Jinggu Xinao will change its legal status to a Sino-foreign equity joint venture and will be owned as to 70% by Pinggu BVI |
| “Jingzhou BVI” | Xinao Jingzhou Investment Limited, a company incorporated in the British Virgin Islands on 15 August 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Jingzhou Xinao” | 荊州新奧燃氣有限公司(Jingzhou Xinao Gas Company Limited*), a Sino-foreign equity joint venture to be established pursuant to Project Jingzhou. Jingzhou Xinao will be owned as to 80% by Jingzhou BVI and 20% by 荊州市城市建設投資開發公司(Jingzhou City Urban Construction Investment Development Company*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – New Project Companies” in this prospectus) |
| “Langfang BVI” | Xinao Langfang Investment Limited, a company incorporated in the British Virgin Islands on 21 February 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |

DEFINITIONS

| | |
|---------------------------|--|
| “Langfang City Gas” | 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited*), a company established in the PRC on 26 October 1992 and controlled and 100% indirectly owned by Mr. Wang’s family (with Mr. Wang owning an indirect interest of approximately 93.2%) |
| “Langfang Xinao” | 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 28 March 1993 in which Langfang BVI has a 95% interest and Langfang City Gas has a 5% interest |
| “Latest Practicable Date” | 23 April 2001, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus |
| “Liaocheng BVI” | Xinao Liaocheng Investment Limited, a company incorporated in the British Virgin Islands on 26 April 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Liaocheng Xinao” | 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited*), a Sino-foreign equity joint venture company established in the PRC on 8 August 2000 in which Liaocheng BVI has a 90% interest and 聊城市熱力公司 (Liaocheng City Heating Company*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Existing Project Companies” in this prospectus) has a 10% interest. Liaocheng Xinao is the successor of a PRC company bearing the name 聊城市天然氣有限公司 (Liaocheng City Natural Gas Company Limited*) established on 11 June 1999 and was then owned as to 90% by XGCL |
| “Listing Date” | 10 May 2001, the date on which dealings in the Shares on GEM are expected to commence |
| “long distance pipeline” | a pipeline used for the transmission of natural gas from a gas source to major gas consumption areas |
| “Main Board” | the securities market operated by the Stock Exchange under the Rules Governing the Listing of Securities on the Stock Exchange. For avoidance of doubt, the Main Board excludes GEM |
| “main pipeline” | a pipeline which is laid underneath major roads or streets within an Operational Location connecting a processing station with branch pipelines |

DEFINITIONS

| | |
|---------------------------|--|
| “Memorandum” | the memorandum of association of the Company |
| “Miyun BVI” | Xinao Miyun Investment Limited, a company incorporated in the British Virgin Islands on 26 April 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Mr. Wang” | Mr. Wang Yusuo (王玉鎖), the chairman of the Company and an executive Director, and the spouse of Ms. Zhao |
| “Ms. Zhao” | Ms. Zhao Baoju (趙寶菊), a non-executive Director and the spouse of Mr. Wang |
| “New Project Companies” | Jingzhou Xinao, Chengyang Xinao and Zhucheng Xinao to be established pursuant to Project Jingzhou, Project Chengyang and Project Zhucheng, respectively |
| “New Projects” | Project Jingzhou, Project Chengyang and Project Zhucheng |
| “Newstar” | Newstar Australia Pty. Ltd., a company incorporated in Australia on 3 September 1996 with limited liability which is wholly-owned by Ms. Zhao and is an investment holding company |
| “Operational Location(s)” | existing or future location(s) in the PRC at which any member of the Group operates, or intends to operate, piped gas business from time to time |
| “Over-allotment Option” | the option to be granted by the Company to Underwriters pursuant to the Placing Agreement under which ICEA (on behalf of the Underwriters) will have the right to require the Company to allot and issue up to an aggregate of 27,000,000 additional new Shares at the Placing Price solely to cover over-allocations in the Placing, if any |
| “Pinggu BVI” | Xinao Pinggu Investment Limited, a company incorporated in the British Virgin Islands on 19 December 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Placing” | the placing of 180,000,000 Placing Shares (subject to the Over-allotment Option) at the Placing Price and subject to the terms and conditions as further described in the section headed “Placing structure and expenses” in this prospectus |
| “Placing Agreement” | the placing and underwriting agreement dated 26 April 2001 entered into between, among others, the Company and the Underwriters relating to the Placing |

DEFINITIONS

| | |
|---------------------------------|--|
| “Placing Price” | the price per Placing Shares, which will not be more than HK\$1.25 and is expected to be not less than HK\$1.15 per Placing Share, to be fixed at or prior to 5:00 p.m. on the Price Determination Date. The Company and ICEA (on behalf of the Underwriters) may agree to a Placing Price of less than HK\$1.15 per Share at any time prior to the relevant price determination time if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. In such case, notice of the reduction in the indicative Placing Price will be published on the GEM website on the business day after such determination |
| “Placing Share(s)” | the new Share(s) being offered for subscription under the Placing and, where applicable, together with any additional new Shares to be issued pursuant to the exercise of the Over-allotment Option |
| “PRC” or “China” | the People’s Republic of China, which for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “pressure regulating box” | a box size device usually located at the customer’s premises adjusting the gas pressure before the gas is transmitted into the customers’ pipeline |
| “Price Determination Agreement” | the agreement to be entered into between the Company and ICEA (on behalf of the Underwriters) at or prior to 5:00 p.m. on the Price Determination Date, which will record the agreed Placing Price. If the price cannot be determined at or prior to 5:00 p.m. on the Price Determination Date, the proposed Placing will not become unconditional and will become void |
| “Price Determination Date” | the date on which the proposed Placing Price shall be fixed, which is expected to take place on or before 7 May 2001, or such other date as may be agreed by the Company and ICEA (on behalf of the Underwriters) |
| “processing station” | a station normally located on the outskirts of an Operational Location with facilities to store, transmit, depressurise, measure and add odour to gas. In addition, backup facilities such as CNG depressurising facilities, pressurising facilities and LPG air mixing facilities may be installed at such station |
| “Project Chengyang” | the project relating to the provision of piped gas to Chengyang district centre by way of establishment of Chengyang Xinao as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – New Projects – Project Chengyang” in this prospectus |

DEFINITIONS

| | |
|---------------------------|---|
| “Project Companies” | the Existing Project Companies, the Acquisition Companies and the New Project Companies |
| “Project Jingzhou” | the project relating to the provision of piped gas to Jingzhou district centre by way of establishment of Jingzhou Xinao as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – New Projects – Project Jingzhou” in this prospectus |
| “Project Zhucheng” | the project relating to the provision of piped gas to Zhucheng district centre by way of establishment of Zhucheng Xinao as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – New Projects – Project Zhucheng” in this prospectus |
| “Qingdao Xinao” | 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*), a company established in the PRC on 30 October 2000 with limited liability, which is owned as to 90% by XGCL and 10% by 青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – Acquisition Companies” in this prospectus). Upon completion of the relevant Acquisition Agreement, Qingdao Xinao will change its legal status to a Sino-foreign equity joint venture and will be owned as to 90% by Huangdao BVI |
| “Regulation S” | Regulation S under the Securities Act |
| “Relevant Shares” | the number of Shares to be held or deemed to be held by an Initial Management Shareholder immediately prior to the listing as more particularly set out in the paragraph headed “Substantial and Initial Management Shareholders – Restriction on disposal of shares by Initial Management Shareholders” in this prospectus |
| “Reorganisation” | the reorganisation of the group of companies now comprising the Group as more particularly described in the paragraph headed “Corporate reorganisation” in Appendix V to this prospectus |
| “Rothschild” or “Sponsor” | N M Rothschild & Sons (Hong Kong) Limited |
| “SDI Ordinance” | Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |

DEFINITIONS

| | |
|-------------------------|--|
| “Securities Act” | the US Securities Act of 1933, as amended |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “Share(s)” | share(s) of HK\$0.10 each in the share capital of the Company |
| “Share Option Scheme” | the share option scheme for employees and directors of the Group conditionally adopted by the Company on 24 April 2001, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus |
| “Shareholder(s)” | the shareholder(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Track Record Period” | the period comprising the three financial years ended 31 December 2000 |
| “US” or “United States” | the United States of America |
| “Underwriters” | ICEA, CLSA Limited, The Bank of East Asia, Limited, DBS Asia Capital Limited, Guotai Junan Securities (Hong Kong) Limited, Kingsway SW Securities Limited, Sun Hung Kai International Limited and Tai Fook Securities Company Limited |
| “XGCL” | 新奧集團股份有限公司(Xinao Group Company Limited*), a joint stock limited company established in the PRC on 5 August 1997 and controlled by and indirectly owned as to approximately 50.7% by Mr. Wang |
| “XGCL Group” | XGCL and its subsidiaries |
| “Xinao Gas Investment” | Xinao Gas Investment Group Limited, a company incorporated in the British Virgin Islands on 4 January 2000 with limited liability which is a direct wholly-owned subsidiary of the Company and is an investment holding company |
| “Zhucheng BVI” | Xinao Zhucheng Investment Limited, a company incorporated in the British Virgin Islands on 10 August 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |

DEFINITIONS

| | |
|------------------------------|---|
| “Zhucheng Xinao” | 諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited*), a Sino-foreign equity joint venture to be established pursuant to Project Zhucheng. Zhucheng Xinao will be owned as to 80% by Zhucheng BVI and 20% by 諸城市燃氣熱力總公司 (Zhucheng City Gas and Heating Corporation*, an independent third party not associated with the connected persons of the Company, as more particularly described in the paragraph headed “The Group’s business – Description of the Project Companies – New Project Companies” in this prospectus) |
| “HK\$” or “cents” | Hong Kong dollars or cents, the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “US\$” | United States dollars, the lawful currency of the United States |
| “%” | percentage |
| “km” | kilometre |
| “km ² ” | square kilometre |
| “m ² ” or “sq.m.” | square metre |
| “m ³ ” | cubic metre |
| “sq.ft.” | square feet |

For the purposes of this prospectus, unless otherwise indicated, the following exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged at these or any other rates:

$$\begin{aligned}HK\$7.80 &= US\$1.00 \\HK\$1.00 &= RMB1.06\end{aligned}$$

* For identification only

GLOSSARY OF TERMS

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

| | |
|--------------------------------------|--|
| “compressed natural gas” or “CNG” | natural gas that is compressed to high density through imposing high-pressure to facilitate the ease and efficiency of transportation |
| “GDP” | gross domestic product |
| “gigajoule” | 1,000,000,000 joules |
| “heat content” | the amount of energy released when certain fuel is being burnt. The measurement unit for heat content is joule per unit of fuel |
| “joule” | measurement unit of heat |
| “liquefied natural gas” or “LNG” | natural gas which is converted into liquid form through application of high pressure and cooling |
| “LPG” | liquefied petroleum gas, being petroleum gas composed primarily of propane and butane, which is converted into liquid form through application of high pressure and cooling. LPG is a by-product of the extraction of oil or natural gas |
| “natural gas” | a fossil fuel with a combustible mixture of hydrocarbon compounds composed primarily of methane, but also containing small amounts of other gases including ethane, propane, butane and pentane, and usually found in deep underground reservoirs formed by porous rocks |
| “piped gas” | gas transmitted to end users through pipelines, “piped natural gas” and “piped LPG” shall be construed accordingly |

SUMMARY

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

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

OVERVIEW

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

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

The Group has made gas connections to a total of 22,823, 30,607 and 66,253 households and 131, 165 and 242 commercial and industrial sites as at 31 December 1998, 31 December 1999 and 31 December 2000, respectively. As at 28 February 2001, the Project Companies have made gas connections to a total of 68,160 households and 259 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of approximately 148,914 m³). The Group purchases natural gas primarily from PetroChina Company Limited, China National Offshore Oil Corporation and China Petrochemical Group Corporation, which are oil and gas exploration and production companies in the PRC.

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

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

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

SUMMARY

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

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

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

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

SUMMARY

Notes:

- (1) Existing pipelines represent intermediate pipelines and main pipelines.
- (2) The difference between contracted number of gas supply locations and number of gas connections made represents connections to be made.
- (3) Estimated daily gas consumption for households is calculated based on an assumed average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made.
- (4) Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity of their gas appliance facilities (as set out in the respective supply contracts) for those customers with gas connections made.
- (5) Sites represent both commercial sites and industrial sites.

PRINCIPAL STRENGTHS OF THE GROUP

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

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

BUSINESS OBJECTIVES

The business objectives of the Group are:

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

SUMMARY

USE OF PROCEEDS

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

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

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

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

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

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

SUMMARY

PLACING STATISTICS

Number of Placing Shares ⁽¹⁾ 180,000,000 Shares

Number of Shares after the Placing ⁽²⁾ 600,000,000 Shares

| | Maximum Placing Price | Minimum Placing Price |
|---|----------------------------------|----------------------------------|
| Placing Price ⁽³⁾ | HK\$1.25 per Share | HK\$1.15 per Share |
| Market capitalisation at the Placing Price ⁽⁴⁾ | HK\$750 million | HK\$690 million |
| Adjusted net tangible asset value per Share based on the Placing Price | HK\$0.58 | HK\$0.55 |

Notes:

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

SUMMARY

TRADING RECORD

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

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

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

SUMMARY

RISK FACTORS

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

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

SUMMARY

CORPORATE REORGANISATION

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

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

Notes:

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

RISK FACTORS

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP AND ITS BUSINESS

Substantial initial capital expenditure requirement

Due to the nature of the Group's business, the Group is required to make a substantial initial investment in the construction of gas pipeline infrastructure for each gas project. The initial investment must be financed by internal resources of the Group, bank loans or equity fund raising. There can be no assurance that external sources of financing will be available to fund the Group's capital expenditure programme. The failure to obtain such financing may hinder the Group's ability to continue its existing investments or make new investments.

Dependence on economic development of an Operational Location

The business of the Group relies, in part, on the economic development of its Operational Locations. Although the Group carries out comprehensive financial and legal due diligence in respect of each project before it enters into a joint venture contract with the relevant local joint venture partner, there is no guarantee that an Operational Location will develop or prosper economically as projected by the relevant local government. Given the substantial capital investment at the early stages of each project, any unexpected adverse changes in the economic growth of an Operational Location may materially adversely affect the performance of the relevant project and hence, the performance of the Group.

Price control

(i) Connection fees

Connection fees chargeable by the Group require the approval of the local state price bureau. There is no assurance that the Group will be able to obtain approvals from the relevant state price bureau for an increase in the connection fees, which may in turn materially adversely affect the profits of the Group.

(ii) Gas usage charges

Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases (except for an increase to offset the rise in the Group's purchase price of gas) will be approved.

Dependence on property development of an Operational Location

The Group normally acts as the project manager for the laying of customers' pipeline in a property development project and the Group receives connection fees in stages based on the percentage-of-completion of pipeline construction work.

RISK FACTORS

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

Reliance on the suppliers of natural gas

Natural gas, the primary raw material purchased by the Group, accounted for 34.4%, 35.5% and 25.9% of total purchases for each of the three financial years ended 31 December 2000, respectively. At present, the Group purchases natural gas primarily from three PRC national oil and gas exploration and production companies pursuant to gas purchase agreements with terms ranging from one to 15 years. There can be no assurance that the Group will be able to obtain natural gas from suppliers on terms similar to the current ones or without material interruption. If natural gas cannot be purchased by the Group on schedule or on terms acceptable to the Group, the Group's business and profitability may be materially adversely affected.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Group has implemented strict safety measures for the operation and maintenance of its facilities. However, the Group cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Group's operations that could have a material adverse impact on the financial condition of the Group.

The Group has obtained insurance for certain fixed assets (including the pipelines owned by the Group) with net book value of RMB167,460,000 as at 28 February 2001 that the Group considers to be subject to significant operating risks. The maximum coverage is RMB102,800,000.

The Group has also taken out third party liability insurance policies covering (i) the loss of life or property of third parties arising out of any accident that may occur at processing stations of the Group (with maximum coverage being RMB10,000,000), and (ii) the loss of life of staff arising out of the business operations (with maximum coverage being RMB6,625,000). However, the Group has not taken out an insurance policy for any interruption in the business of the Group.

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

Environmental liability

The Group is subject to the PRC environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. Since natural gas is an environmentally friendly form of fuel, the Group has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry.

RISK FACTORS

Joint venture risks

The Group has, and may have, interests in many joint ventures engaging in the piped gas business in the PRC. Such joint ventures may involve special risks, including the possibility that the joint venture partner may (i) have economic or business objectives that are inconsistent with those of the Group; (ii) experience financial difficulties; or (iii) be unable or unwilling to fulfil its obligations under the joint venture contracts. Although the Company has majority shareholdings in, and control over, the board of each of its existing joint ventures, certain important resolutions of these joint ventures, including (i) the amendment to articles of association; (ii) the termination and dissolution of the joint ventures; (iii) the transfer of any interests in the joint ventures; or (iv) the merger of the joint ventures with other economic entities, must be passed by unanimous approval of the joint venture partners.

Although the Acquisition Agreements and the Sino-foreign joint venture contracts have been entered into by the Group in respect of the Acquisition Companies and the New Project Companies, the completion of the acquisitions and the investments depends on obtaining approval from the relevant local foreign trade and economic co-operation departments. According to the Catalogue for the Guidance of Foreign Investment Industries (外商投資行業指導目錄) approved by the State Council on 29 December 1997 and promulgated on 31 December 1997, foreign investors are prohibited from ownership and management of complete gas supply networks for cities. As advised by the Company's PRC legal adviser, the business of the Group, being the provision of piped gas to selected locations within a city (such as economic development zones and independent residential districts and counties surrounding a city), does not contravene the relevant PRC laws and regulations. The Directors are of the view that the business of the Group is in line with national policy and that local governments are highly supportive of the business of the Group. This is evidenced by the fact that the establishment and the business of the Existing Project Companies have been approved by the relevant local foreign trade and economic co-operation departments. **In the event the relevant approvals in respect of the transfer of interests in the Acquisition Companies and the establishment of the New Project Companies are not granted, the Group's existing expansion plans and strategies may have to be revised and the operating results, prospects and financial condition of the Group may be materially adversely affected.**

Holding company risks

The Company's profits are derived from its Sino-foreign joint ventures, which have been established in the PRC. Profits available for distribution to the Shareholders are conditional upon profits being available for distribution to the Company by these joint ventures. Dividends to be declared will be based on the profits of these joint ventures determined pursuant to generally accepted accounting principles in the PRC or Hong Kong (whichever results in a lower profit calculation). In addition, pursuant to pertinent PRC laws and regulations on finance, profits available for distribution shall be determined after allocation to the statutory reserve funds. For further details, please refer to the paragraphs headed "Dividends" and "Distributable reserves" in the section headed "Financial information" in this prospectus. The ability of the joint ventures to make distributions to the Company will be subject to, among other things, the profit recorded in accordance with PRC generally accepted accounting principles, cashflow conditions and the expected future capital requirements of the joint venture.

As initial investment in a gas project is substantial, if the Directors decide to use retained profits to fund the Group's future development, the amount of profit available for distribution will be reduced. There is no guarantee that dividends will be declared by the Directors and there is no assurance that the current dividend payout ratio will continue in the future.

RISK FACTORS

Reliance on key management

To a significant extent, the Group's success is built upon the technical expertise and in-depth knowledge of the piped gas supply industry possessed by the executive Directors and certain other key technical and management personnel as set out in the section headed "Directors, senior management and staff" in this prospectus. Each of the executive Directors has entered into a service contract with the Group for a fixed term of three years expiring on 29 February 2004 which service contract may be early terminated by the executive Director giving not less than six months' notice in writing, such notice not to be given at any time before 1 September 2003. Each of the key technical and management personnel (as referred to in the section headed "Directors, senior management and staff" in this prospectus) has entered into a service contract with the Group for a fixed term of at least two years which service contract may be early terminated by him or her giving not less than three months' notice in writing. Each of the executive Directors has also undertaken not to divulge or communicate confidential or other information or to engage in a competing business during the term of the service contract and for at least two years after expiration of the service contract. If any of the executive Directors or any of the key technical and management personnel ceases to be involved in the operation of the Group or if any of them fails to observe and perform their obligations under their service contracts, the implementation of the Group's business strategies may be affected and may lead to a material adverse impact on the operations of the Group.

Future growth and success of the Group will depend to a large extent on its ability to retain or recruit qualified individuals to strengthen its management, operational and research teams. With the growth in business, there may be a lack of sufficient management staff to oversee sales and operating, administrative and financial procedures and controls, which may in turn materially adversely affect the business of the Group.

Concentration of ownership

The Company will be beneficially owned by Easywin as to 70% of the issued capital of the Company following the completion of the Placing (assuming the Over-allotment Option is not exercised). As a result, Easywin will have the ability to reject all matters which are subject to approval of the Shareholders whether by way of ordinary resolution or special resolution (but excluding those from which Easywin must abstain from voting) and, therefore, Easywin has the ability to manage the Company's affairs. Such concentration of ownership may have the effect of delaying, deferring or preventing a change in control of the Company, impeding a merger, consolidation, takeover or other business combination involving the Company or discouraging a potential acquirer from making a general offer or otherwise attempting to obtain control of the Company, which in turn could have a material adverse effect on the market price of the Shares.

Additional funding may be required

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

RISK FACTORS

RISKS RELATING TO THE INDUSTRY

Substitute products

Coal gas, LPG and electricity are the main substitutes for natural gas. Ultimate consumers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. Save for newly built residential apartments which are required to be equipped with gas supply for cooking stoves in most of the Operational Locations in which the Group has established a presence, there is no assurance that existing fuel users will shift to use piped natural gas.

RISKS RELATING TO THE PRC

Since substantially all of the business of the Group is operated in the PRC, the profitability, financial position and prospects of the Group may be affected by the PRC's economic, political and regulatory regime.

Political and economic considerations

The PRC economy is currently evolving from a planned economy into a market-oriented economy. Although the PRC has adopted an open door policy, changes in the policies of the PRC Government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy. The current reforms are unprecedented, produce effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the PRC Government to make adjustments to these reform measures. Such amendments and adjustments may not have a favorable effect on the Group's business. Any change, variation or adjustment to the reform measures taken by the PRC Government may have a material adverse effect on the business of the Group.

Changes in laws, regulations and policies

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

In the PRC, gas distribution companies invest in and operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including the Ministry of Foreign Trade and Economic Co-operation (對外經濟貿易合作部), the State Economic and Trade Commission (國家經濟貿易委員會), the Ministry of Construction (建設部), the Ministry of Labour and Social Security (勞動和社會保障部) and the

RISK FACTORS

Ministry of Public Security (公安部). The Group must comply with the relevant requirements of certain regulations, including the City Fuel Gas Administration Regulations (《城市燃氣管理辦法》), the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines (《石油天然氣管道安全監督與管理暫行規定》) and the Regulations of the Safety of City Fuel Gas Administration (《城市燃氣安全管理規定》). In addition, the Group must comply with the relevant requirements and policies of local authorities where the Group's projects are situated.

Exclusive rights or rights of first refusal to provide piped gas are granted by local governments pursuant to policies of promoting environmental protection and encouraging the use of natural gas and the construction of natural gas supply facilities.

There can be no assurance that the above regulatory regime and policies (including the granting of exclusive rights or rights of first refusal to supply piped gas in Operational Locations) will not be changed. The Group's operations and profitability may be materially adversely affected if changes that occur are not favourable to the Group.

Changes in favourable taxation treatment

According to the rules and regulations of the PRC on taxation, a Sino-foreign joint venture which commences to be profitable may first recoup prior years' retained losses (such recoupment may not exceed five consecutive years), and thereafter such joint venture is exempt from income tax for the first two years after becoming profitable and is subject to a 50% reduction in the rate of profit tax for the following three years.

The Group holds interests in four Sino-foreign equity joint ventures, namely Langfang Xinao, Liaocheng Xinao, Beijing Xinao and Huludao Xinao which are all currently conducting operations. Langfang Xinao was established on 28 March 1993 and its first profit-making year was the financial year ended 31 December 1996. Accordingly, Langfang Xinao was exempted from PRC enterprise income tax for each of the financial years ended 31 December 1996 and 1997 and was then entitled to a 50% reduction in the rate of profit tax for each of the financial years ended 31 December 1998, 1999 and 2000. With effect from 1 January 2001, Langfang Xinao will pay income tax at the normal rate of 30%. As for the other three joint ventures, they became Sino-foreign equity joint ventures in August 2000, accordingly, they will be entitled to favourable taxation treatment from their respective first profit-making year.

Income tax refund amounted to approximately RMB5,180,000 for the two financial years ended 31 December 1999 was received by Langfang Xinao in January 2001. Such refund was granted pursuant to a favourable taxation policy adopted by the Finance Department of the Langfang Economic and Technical Development Zone in 1999. Based on such policy, part of the income tax paid for the two financial years ended 31 December 1999 was refunded. There can be no assurance that such tax concession will be granted to the Company again in the future. Pursuant to relevant tax regulations, Langfang Xinao may be refunded such amount of sales tax which exceeds the amount payable under the Commercial and Industrial Consolidated Tax abolished on 1 January 1994 upon obtaining approval from the tax authority. Sales tax refund amounting to approximately RMB2,656,000 was received in the financial year ended 31 December 1999. Such refund was one-off in nature and, accordingly, there can be no assurance that such refund will occur in the future.

There can be no assurance that the current taxation allowance (including sales tax refunds) will not be changed in the future. In the event of any change, the profitability of the Group may be materially adversely affected.

RISK FACTORS

Changes in foreign exchange regulations

Since 1996, the PRC Government has promulgated various foreign exchange rules, regulations and notices (the “Policies”) to raise the convertibility of Renminbi. According to the Policies, a foreign-invested enterprise (“FIE”) must open a “current account” and a “capital account” at a bank authorised to trade foreign exchange. A FIE may convert Renminbi in the capital account into any foreign currency at any authorised bank with the prior approval of the State Administration for Foreign Exchange (“SAFE”).

The income and expenditures of the Group are denominated in Renminbi. At present, Renminbi cannot be freely converted into other currencies. According to the Policies, upon producing the board resolution on the authorisation of the distribution of profits or dividends or the commercial documents evidencing foreign exchange transactions, the Group may purchase the foreign exchange required for the distribution from a designated authorised bank. The Group cannot guarantee that the Policies will not be withdrawn or amended.

The Group continues to have substantial requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials. Repayment of the principal and interest of loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirement could affect the Group’s ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure.

In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained pursuant to a specific exchange rate in order to satisfy the Group’s entire needs. A shortage in the foreign exchange may prevent the Company from obtaining sufficient currency to pay dividends or limit its ability to satisfy its needs for foreign exchange.

Currency and exchange fluctuations

The value of Renminbi is subject to changes in the PRC Government’s policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable, and Renminbi has appreciated slightly against the US dollar. However, given the economic instability and currency fluctuations in Asia in recent years, the Directors cannot give any assurance that the value of Renminbi will continue to remain stable against the US dollar or any other foreign currency.

Any devaluation of Renminbi may adversely affect the value of, and dividends payable on, the Shares in foreign currency terms since the Group receives its revenues and expresses its profits in Renminbi. Results of operations and the financial condition of the Group may also be affected by changes in the value of certain currencies other than Renminbi in which the Group’s obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of the Group’s cash flow required to satisfy its foreign currency-denominated obligations.

RISK FACTORS

RISKS RELATING TO THE PLACING

Non-active trading market and potential share price volatility

Prior to the listing of Shares on GEM, the Shares will not be available in any open market. The Placing Price is determined by the Company and ICEA (on behalf of the Underwriters) upon considering a number of factors, including the current market conditions, the market value of companies which the Group and ICEA believe are comparable to the Group, the Group's development and financial position, the Group's piped gas supply business in the PRC and its prospects, the income and profit forecasts of the Group and other relevant factors. There can be no assurance that an active trading market will develop, that the market will be sustained upon the flotation of the Shares on the market and that the market price of the Shares will not drop below the Placing Price.

In addition to the above factors, the trading price of the Shares may fluctuate due to other factors, including:

- investors' views on the Group and investments in the PRC;
- the development of the gas industry;
- fluctuations in the business results of the Group;
- variations in the prices charged by the Group, its competitors or suppliers of fuel substitutes;
- shareholding distribution ratio and liquidity of Shares; and
- the overall economic situation or other factors.

The Shares held by the public Shareholders may be sold in the market immediately after listing. If the Shareholders sell the Shares in bulk within a short time frame, the Share price may fall substantially.

Developments in other markets

Securities listed on GEM have been, to varying degrees, influenced by economic and market conditions in other emerging markets and other countries. Although economic conditions vary among countries, investors' reactions to developments in one country may affect the securities of issuers in other countries, including the PRC. Continued volatility in the Asian or the United States financial markets, may lead to increased volatility in other securities markets, including Hong Kong and the PRC securities markets, and may materially adversely affect the price of the Placing Shares.

In addition, Hong Kong and the PRC financial and securities markets are, to varying degrees, influenced by economic and market conditions in more industrialised countries, particularly the United States. Events that increase the opportunity cost of investing outside the United States may tend to reduce the attractiveness of the securities investments in other countries, such as the PRC.

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of listing of Shares on GEM, the Company has sought a number of waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Details of such waivers are described below.

Stock borrowing arrangement

The stock borrowing arrangement to be entered into between Easywin and ICEA is to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option or the acquisition of a sufficient number of Shares from other sources but would result in non-compliance by Easywin with Rule 13.16 of the GEM Listing Rules.

The granting of the Over-allotment Option together with the accompanying stock borrowing arrangement is a practice adopted by ICEA to facilitate the distribution of the Shares under the Placing. Rothschild, on behalf of the Company and the Initial Management Shareholders, has requested the Stock Exchange to grant a waiver and the Stock Exchange has granted the waiver to Easywin from strict compliance with the requirement set out under Rule 13.16 of the GEM Listing Rules in connection only with the stock borrowing arrangements on condition that:

- (i) such stock borrowing arrangement from Easywin will only be effected by ICEA for settlement of over-allocations in connection with the Placing;
- (ii) the maximum number of Shares borrowed from Easywin will be limited to 27,000,000 Shares, being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- (iii) the same number of Shares will be returned to Easywin no later than three business days following the earlier of:
 - (a) the last day on which the Over-allotment Option may be exercised in full; and
 - (b) the day on which the Over-allotment Option is exercised in full;
- (iv) the returned Shares will be deposited with an escrow agent acceptable to the Stock Exchange as soon as practicable;
- (v) the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- (vi) no payments will be made to Easywin by ICEA in relation to such stock borrowing arrangement.

Share lock-up period

Pursuant to Rule 13.16 of the GEM Listing Rules, the Company shall procure that every Initial Management Shareholder (i) places in escrow, with an escrow agent acceptable to the Stock Exchange, the Relevant Shares for a period of two years from the Listing Date, on terms acceptable to the Stock Exchange; and (ii) undertakes to the Company and the Stock Exchange that, for a period of two years from the Listing Date, the Initial Management Shareholders will not dispose of (or enter into agreements to dispose of) or permit the registered holder to dispose of (or enter into agreements to dispose of) any of their direct or indirect interest in the Relevant Shares.

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

Immediately after the Placing, Easywin, Mr. Wang and Ms. Zhao will be interested in 70% of the issued share capital of the Company (assuming the Over-allotment Option is not exercised).

Rothschild, on behalf of the Company and the Initial Management Shareholders, has applied to the Stock Exchange for a waiver from strict compliance with the share lock-up requirements under Rule 13.16 of the GEM Listing Rules. The Stock Exchange has granted a waiver to shorten the two-year moratorium provisions imposed on the Initial Management Shareholders provided that none of the Initial Management Shareholders is allowed to dispose of (or enter into agreements to dispose of) any relevant securities (as defined in the GEM Listing Rules) in the second six-month period after listing if such disposal would result in the Initial Management Shareholders together ceasing to have control over 35% of the voting rights at general meeting of the Company.

Share Option Scheme

Under Rule 23.03(2) of the GEM Listing Rules, the total number of Shares subject to the Share Option Scheme and any other schemes must not, in aggregate exceed 10% of the issued share capital of the Company from time to time (the "Option Scheme General Mandate Limit").

Pursuant to an application made by Rothschild, on behalf of the Company, the Stock Exchange has granted a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules such that the total number of Shares subject to the Share Option Scheme and any other schemes to be increased from 10% to 30% of the issued share capital of the Company from time to time on the following conditions:

- (i) the total number of Shares which may be issued upon the exercise of the options granted under the Share Option Scheme and any other schemes, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time;
- (ii) subject to (i) above, the Shareholders may authorise the Directors to grant options under the Share Option Scheme and any other schemes entitling participants to subscribe Shares pursuant to the exercise of options representing up to the Option Scheme General Mandate Limit which may be renewed, if approved, by Shareholders in general meeting from time to time;
- (iii) subject to (i) above, the Company may seek a separate approval from Shareholders in general meeting prior to the granting of options beyond the Option Scheme General Mandate Limit to participants specified by the Company;
- (iv) any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by all independent non-executive Directors;
- (v) where options are proposed to be granted to a connected person, who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) or any of its associates, and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months' period, would entitle him to receive more than 0.1% of the total number of issued Shares and the value of which is in excess of HK\$5 million, the granting of such option will be subject to independent Shareholders' approval in general meeting in which the connected person involved and all other connected persons of the Company must abstain from voting (except where any connected person intends to vote against the proposed grant). A

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

circular explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant must be sent to the Shareholders; and

- (vi) details of the options granted to each Director and all other participants and a summary of the major terms of each option scheme adopted and approved by Shareholders must be disclosed in the annual and interim reports of the Company in addition to the disclosures required under Rule 23.08 of the GEM Listing Rules,

Connected transactions

Certain agreements and arrangements referred to in the paragraph headed “The Group’s business – Transactions with connected persons” in this prospectus will, or will be deemed to, constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the announcement requirements set out in Rule 20.35 of the GEM Listing Rules and the shareholders approval requirement set out in Rule 20.36 of the GEM Listing Rules, which have been considered by the Directors to be impractical and of little or no benefit to the Shareholders as these transactions will be conducted on a regular basis. The Directors (including the independent non-executive Directors) and the Sponsor are of the view that each of the transactions has been entered into on normal commercial terms, in the usual and ordinary course of business of the relevant members of the Group and that they are fair and reasonable and in the best interests of the Shareholders taken as a whole. As such, the Company has instructed Rothschild to apply on its behalf to the Stock Exchange for a waiver from strict compliance with Rules 20.35 and 20.36 of the GEM Listing Rules in respect of the agreements and arrangements with members of the XGCL Group and the agreements and arrangements with Langfang Xinao both for a period of three years commencing from the Listing Date. The Stock Exchange has granted such waiver subject to the following conditions:

- (i) the consideration in respect of the sale and purchase of CNG between Langfang Xinao and each of Beijing Xinao, Jinggu Xinao and Jingchang Xinao does not exceed RMB6.5 million, RMB4.5 million and RMB14.0 million, respectively, for each of the three financial years ending 31 December 2003;
- (ii) the consideration in respect of the transactions with Langfang Xinao and 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited) does not exceed RMB12.0 million for each of the three financial years ending 31 December 2003;
- (iii) the transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than those available to or from independent third parties; and
 - (c) in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

- (iv) the independent non-executive Directors shall review the transactions annually and confirm in the Company's annual report and accounts for the year in question that the transactions are conducted in the manner as stated in (iii) above;
- (v) the Company's auditors shall review the transactions annually and confirm in a letter (the "Letter") to the board of Directors (a copy of which shall be provided to the Stock Exchange) confirming that the transactions:
 - (a) have received the approval of the board of Directors;
 - (b) are in accordance with the pricing policies of the Company if the transactions involve provision of goods and services by the Company;
 - (c) have been entered into in accordance with the relevant agreements governing the transactions; and
 - (d) the consideration in respect of each of the transactions has not exceeded the respective cap,

where, for whatever reasons, the auditors of the Company decline to accept the engagement or are unable to provide the Letter, the board of Directors should contact the Stock Exchange immediately;

- (vi) details of the transactions shall be disclosed in the Company's annual report as described in Rules 20.34(1) to (5) of the GEM Listing Rules;
- (vii) the Company will promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.27 and/or 20.28 of the GEM Listing Rules as required under Rule 20.29 of the GEM Listing Rules and will re-comply with Rules 20.26(3) and (4) of the GEM Listing Rules and any other conditions the Stock Exchange considers appropriate;
- (viii) the Company and the counter-parties to the transactions shall provide to the Stock Exchange an undertaking to provide the Company's auditors with full access to the relevant records for the purpose of the auditors' review of the transactions referred to in paragraph (v) above; and
- (ix) where the cap in any year is to be greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Group, the transaction(s) and the cap are subject to review and re-approval by independent Shareholders in the annual general meeting following the initial approval and in each subsequent annual general meeting so long as the transaction(s) continue(s). The independent non-executive Directors will be required to opine in the annual report whether or not the Group should continue with the agreement(s) for the transaction(s).

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

If the relevant cap amounts are exceeded for the transactions at any time or if any terms of the transactions as mentioned above are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the GEM Listing Rules) in the future, the Company must comply with the provisions of Chapter 20 of the GEM Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

The Company shall comply with the requirements of Chapter 20 of the GEM Listing Rules in respect of the transactions after 31 December 2003, if the transactions continue, unless the Company obtains another waiver from the Stock Exchange in relation thereto.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' ASSUMPTION OF RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Law, the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the GEM Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (i) the information contained in this prospectus is accurate and complete in all material respects and is not misleading;
- (ii) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (iii) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, Rothschild, the Underwriters, any of their respective directors or any other person involved in the Placing.

UNDERWRITING

Fully underwritten

This prospectus is published solely in connection with the Placing which is sponsored by Rothschild. The Placing is fully underwritten by the Underwriters pursuant to the Placing Agreement. The obligations of the Underwriters to underwrite the Placing Shares are conditional on the fulfilment of certain conditions, including the signing of the Price Determination Agreement by the Company and ICEA at or prior to 5:00 p.m. on 7 May 2001 (or such later time as may be agreed by the Company and ICEA (on behalf of the Underwriters)). For further information relating to the underwriting arrangements, please see the section headed "Placing structure and expenses" in this prospectus.

Structure of the Placing

Details of the structure of the Placing, including conditions thereof, are set out in the section headed "Placing structure and expenses" in this prospectus.

Prospectus to be distributed in Hong Kong only

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised to any person to whom it is unlawful to make an unauthorised offer or invitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

The distribution of this prospectus and the offering or sale of the Placing Shares in certain jurisdictions is restricted by law, in particular, but without limitation, the following:

(i) United States

The Placing Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, or to, or for the account or benefit of, US persons.

The Placing Shares may not be offered or sold (i) as part of a distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Placing and the completion of the distribution of the Shares, within the United States or to, or for the account or benefit of, US persons, and the Underwriters will send to each dealer to which it sells Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Shares within the United States or to, or for the account or benefit of, US persons.

An offer or sale by any dealer of Shares within the United States (whether or not as part of the Placing) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such registration requirements.

The Placing Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Placing Shares or the accuracy or adequacy of this prospectus.

(ii) United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Placing Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended). In addition, no person may issue or pass on to any person in the United Kingdom any document received by it in connection with the Placing unless that person is of a kind described in Regulation 11(3) of the Financial Services Act 1986 (Investment advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

(iii) Singapore

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. Accordingly, this prospectus and any other document or material in connection with the offer of the Placing Shares may not be circulated or distributed in Singapore, either directly or indirectly, nor may any of the Placing Shares be offered or sold, whether directly or indirectly, nor may any invitation or offer to subscribe for or purchase any Placing Shares be made, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 106C of the Singapore Companies Act, (b) to a sophisticated investor, and in accordance with the conditions specified in Section 106D of the Singapore Companies Act, or (c) otherwise pursuant to, and in accordance with, any other provision of the Singapore Companies Act.

(iv) Japan

The Placing has not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). None of the Placing Shares may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of the Securities and Exchange Law and in accordance with any other applicable requirements of Japanese Law. The offer and solicitation for the Placing Shares will only be made to not more than 49 investors in Japan pursuant to Article 2, paragraph 3, item 2(B) of the Securities and Exchange Law.

(v) Cayman Islands

No offer of Shares may be made to the public in the Cayman Islands.

Each person subscribing for or acquiring the Placing Shares will be required to, or deemed by this subscription or acquisition of Placing Shares to, confirm that he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

Fixing of the Placing Price

The Placing Price will not be more than HK\$1.25 and is expected to be not less than HK\$1.15 per Placing Share. The Placing Price will be determined by the Company and ICEA (on behalf of the Underwriters) at or prior to 5:00 p.m. on 7 May 2001, or such later date and time as may be agreed by the Company and ICEA (on behalf of the Underwriters) but in any event not later than 9:00 a.m. on 23 May 2001. The Company and ICEA (on behalf of the Underwriters) may agree to a Placing Price of less than HK\$1.15 per Placing Share at any time prior to the relevant price determination time if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. In such case, notice of the reduction in the indicative Placing Price will be published on the GEM website on the business day after such determination.

If, for any reason, the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001, the expected timetable will be postponed, but in any event, the commencement of dealings in the Shares on GEM will not be later than 25 May 2001. In the event the expected listing timetable is required to be postponed as a result of the Placing Price not

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

being determined at or prior to 5:00 p.m. on 7 May 2001, an announcement will be published on the GEM website at “www.hkgem.com” on 8 May 2001.

If, for any reason, the Placing Price is not agreed to between the Company and ICEA (on behalf of the Underwriters) at or prior to 9:00 a.m. on 23 May 2001, the Placing will not proceed.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, its existing Shares, the Placing Shares (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme on GEM.

No part of the Company’s share or loan capital is listed on or dealt in on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal in any of its securities on the Main Board or any other stock exchange.

MARKET CAPITALISATION AND PUBLIC FLOAT

The market capitalisation of the Company on the date and at the time when dealings in the Shares commence is estimated to be HK\$690 million based on 600,000,000 Shares in issue and to be issued (assuming the Over-allotment Option is not exercised) pursuant to the Placing and the expected minimum Placing Price of HK\$1.15 per Share.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is 20%.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the tax implications of the subscription for, holding, purchase or disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, Rothschild, the Underwriters, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the subscription for, holding, purchase or disposal of or dealing in or exercise of any rights relating to the Shares.

REGISTRATION AND STAMP DUTY

All Shares in issue and to be traded on GEM must be registered on the Company’s Hong Kong branch register of members to be maintained by Central Registration Hong Kong Limited. The Company’s principal register of members will be maintained by Bank of Butterfield International (Cayman) Ltd. in the Cayman Islands.

Only Shares registered in the Company’s Hong Kong branch register of members may be traded on GEM. Dealings in Shares registered on the register of members kept by the Company’s Hong Kong branch share registrar will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

STABILISATION AND OVER ALLOCATION

In connection with the Placing, ICEA (on behalf of the Underwriters) may over-allocate Shares and may cover such over-allocations by exercising the Over-allotment Option no later than 30 days after the date of this prospectus, by stock borrowing or by making open market purchases in the secondary market. The number of Shares over-allocated will not be greater than the number of Shares which may be issued upon exercise of the Over-allotment Option, being 27,000,000 Shares, which is 15% of the Shares available under the Placing. ICEA (on behalf of the Underwriters) may also effect transactions which stabilise or maintain the market price of the Shares. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such stabilisation, if begun, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of Shares, they will be done at the absolute discretion of ICEA.

Stabilisation is a practice used by securities practitioners in some markets to facilitate the distribution of securities. To stabilise, the securities practitioners may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to delay and, if possible, prevent a decline in the initial public offering price of the securities. The stabilisation price shall not exceed the Placing Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where securities practitioners genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

In order to facilitate the settlement of over-allocations in connection with the Placing, ICEA (on behalf of the Underwriters) may either borrow Shares from Easywin under stock borrowing arrangements pending exercise of the Over-allotment Option, or acquire a sufficient number of Shares from other sources. Such stock borrowing arrangements may include arrangements agreed in-principle between Easywin and ICEA. An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Easywin following a new listing in order to allow Easywin to enter into such stock borrowing arrangements. Please refer to the paragraph headed “Waiver from compliance with the GEM Listing Rules – Stock borrowing arrangement” in this prospectus for details of such waiver application. Easywin will not receive any payment or benefit in respect of such stock borrowing arrangements. Any stock borrowing arrangement will be conducted in accordance with all applicable legal and regulatory requirements.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS effective from the date of commencement of dealings in the Shares on GEM or on any other date Hongkong Clearing chooses.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

All necessary arrangements have been made for the Shares in issue, the Shares which are to be issued pursuant to the Placing and the Shares which may fall to be issued upon the exercise of the Over-allotment Option and of options which may be granted under the Share Option Scheme to be admitted into CCASS.

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence on 10 May 2001.

Shares will be traded in board lots of 2,000 Shares each.

Dealings in the Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on the Stock Exchange's teletext page information system.

Delivery and payment for Shares dealt on GEM will be effected two trading days following the transaction date ("T+2"). Dealings in Shares on GEM are settled by physical delivery of share certificates against payment with a valid instrument of transfer and bought and sold notes correctly stamped in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) or via CCASS. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on T+2. Only certificates for Shares registered on the Hong Kong branch share register of members will be valid for delivery in respect of transactions effected on GEM.

If you are uncertain about the procedures for dealings and settlement arrangements on GEM and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

| |
|--|
| DIRECTORS AND PARTIES INVOLVED IN THE PLACING |
|--|

| Name | Address | Nationality |
|-------------------------------|---|--------------------|
| <i>Executive Directors</i> | | |
| Mr. Wang Yusuo | No. 18, Huachun Lane Langfang City Hebei Province The PRC | Chinese |
| Mr. Yang Yu | Room 601, Unit 2, Block 11 6 Guandao Bureau Xin Liu District Langfang City Hebei Province The PRC | Chinese |
| Mr. Zhao Jinfeng | Room 302, Unit 4, Block 2 Jinhua Lane Langfang City Hebei Province The PRC | Chinese |
| Mr. Qiao Limin | Room 501, Unit 4 2 Jinhua Lane Chaoyang Small District Langfang City Hebei Province The PRC | Chinese |
| Mr. Jin Yongsheng | Room 502, Unit 1, Block 1 Jincheng Lane Langfang City Hebei Province The PRC | Chinese |
| Mr. Yu Jianchao | 15C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC | Chinese |
| <i>Non-executive Director</i> | | |
| Ms. Zhao Baoju | No. 18, Huachun Lane Langfang City Hebei Province The PRC | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Independent non-executive Directors

| | | |
|--------------------|---|---------|
| Mr. Wang Guangtian | Flat B, 7th Floor Fuji Building 381-383 Lockhart Road Wanchai Hong Kong | Chinese |
|--------------------|---|---------|

| | | |
|--------------|--|---------|
| Mr. Xu Liang | 36 Sihua Lane Shaoxing Road Hexi District Tianjin City The PRC | Chinese |
|--------------|--|---------|

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

| | |
|---|---|
| Sponsor | N M Rothschild & Sons (Hong Kong) Limited 16th Floor, Alexandra House 16-20 Chater Road Central Hong Kong |
| Global Co-ordinator and Lead Manager | ICEA Capital Limited 42nd Floor, Jardine House 1 Connaught Place Central Hong Kong |
| Underwriters | CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong |
| | The Bank of East Asia, Limited 8th Floor, 10 Des Voeux Road Central Hong Kong |
| | DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong |
| | Guotai Junan Securities (Hong Kong) Limited Suite 2509-2510 Asia Pacific Finance Tower Citibank Plaza 3 Garden Road Central Hong Kong |
| | Kingsway SW Securities Limited 5th Floor, Hutchison House 10 Harcourt Road Central Hong Kong |
| | Sun Hung Kai International Limited 12th Floor, One Pacific Place 88 Queensway Hong Kong |
| | Tai Fook Securities Company Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong |

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Legal advisers to the Company

As to Hong Kong law:
Woo, Kwan, Lee & Lo
27th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:
Commerce & Finance Law Offices
No. 714 Huapu International Plaza
19 Chaowai Avenue
Chaoyang District
Beijing 100020
The PRC

As to Cayman Islands law:
Maples and Calder Asia
1504, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Legal advisers to the Sponsor, Global Co-ordinator and Lead Manager

As to Hong Kong law:
Richards Butler
20th Floor, Alexandra House
16-20 Chater Road
Central
Hong Kong

As to US law:
Dewey Ballantine LLP
Suite 701, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Auditors and reporting accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Professional surveyors and valuers

Chesterton Petty Limited
16th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CORPORATE INFORMATION

| | |
|--|--|
| Registered office | Ugland House P O Box 309 South Church Street George Town Grand Cayman Cayman Islands British West Indies |
| Principal place of business in Hong Kong | Room 4202 Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong |
| Head Office in the PRC | Huaxiang Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC |
| Compliance officer | Mr. Yang Yu |
| Qualified accountant and company secretary | Mr. Cheng Chak Ngok, <i>AHKSA, ACCA, ACS, ACIS</i> |
| Authorised representatives | Mr. Yang Yu Mr. Cheng Chak Ngok |
| Members of the audit committee | Mr. Wang Guangtian Mr. Xu Liang Mr. Yu Jianchao |
| Principal share registrar and transfer office in the Cayman Islands | Bank of Butterfield International (Cayman) Ltd. Butterfield House Fort Street P O Box 705 George Town Grand Cayman Cayman Islands British West Indies |
| Hong Kong branch share registrar and transfer office | Central Registration Hong Kong Limited Room 1901-5, 19th Floor, Hopewell Centre 185 Queen's Road East Wanchai Hong Kong |

CORPORATE INFORMATION

Principal bankers

Agricultural Bank of China
Langfang Development Zone Branch
Huaxiang Road
Langfang Economic and Technical Development Zone
Langfang City
Hebei Province
The PRC

China Construction Bank
Langfang Anci District Branch
25 Yinhe Main Road
Langfang City
Hebei Province
The PRC

INDUSTRY OVERVIEW

Investors should note that the Directors have included in this section information relating to the energy market and the natural gas industry in the PRC. The information contained in this section has been extracted from publicly available documents that have not been independently verified by the Company, the Sponsor, the Underwriters or any of their respective advisers or affiliates in connection with the Placing. In addition, potential investors should be aware that market conditions in the PRC may have changed significantly since the dates to which the relevant statistics pertain.

INTRODUCTION

For the past decade, the PRC has experienced rapid economic growth due to the implementation of economic reform and the adoption of an open door policy. The GDP (based on current prices) has grown from RMB1,691 billion in 1989 to RMB8,191 billion in 1999 (Source: China Statistical Yearbook, 2000). On an inflation adjusted basis, the real GDP (based on comparable prices) grew by a compound annual growth rate of 9.7%. In December 2000, the PRC Government declared that the GDP had exceeded its target set in the ninth five-year plan for the period 1995 to 2000, and the GDP for the PRC in 2000 was estimated by the 國家統計局 (National Bureau of Statistics) to have reached RMB8,900 billion, representing an increase of 8.7% over 1999. In addition, the PRC Government has targeted a GDP growth rate of 7% for 2001. This trend of economic growth is expected to continue in the foreseeable future especially in view of the PRC's imminent accession to the World Trade Organisation. Significant development of energy related infrastructure is essential if the PRC is to sustain its rapid economic growth.

ENERGY MARKET IN THE PRC

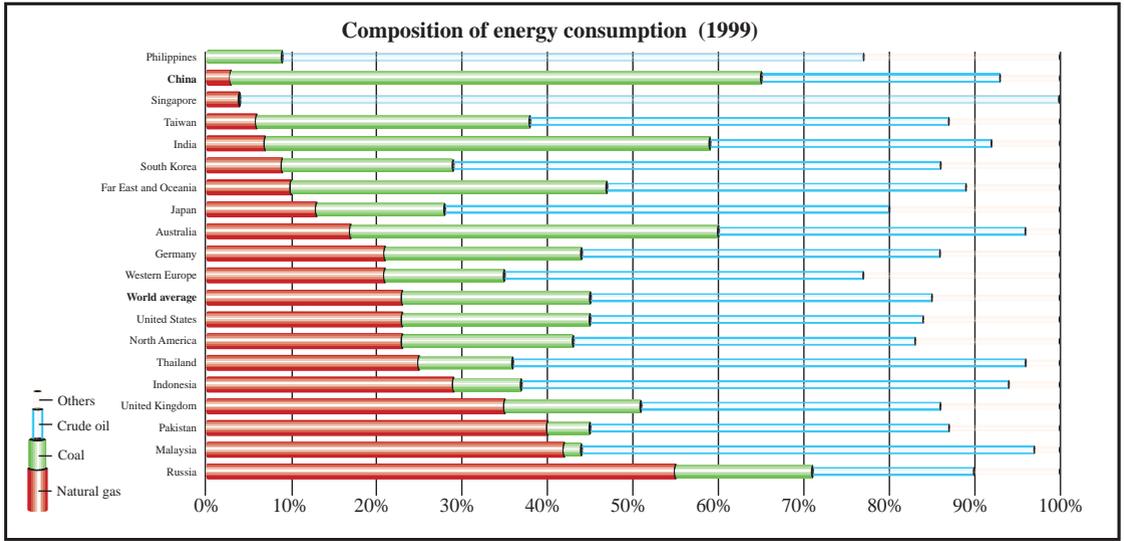
Although the PRC is the world's second largest energy consumer, its energy consumption per capita is lower than the per capita level in most other countries. This is largely due to the fact that a relatively large portion of the population in the PRC live in rural areas where access to energy sources is limited and the energy supply infrastructure in the PRC as a whole is still relatively underdeveloped. Energy consumption is concentrated in the urban areas where there is greater access to energy sources.

The PRC is the most populous country in the world, with a population of approximately 1.26 billion at the end of 1999. Between 1989 and 1999, the population in its urban areas grew at an average rate of 3.1% per annum whilst the population in its rural areas grew at an average rate of approximately 0.5% (Source: China Statistical Yearbook, 2000). With the development of energy related infrastructure, the accessibility of energy by the general population is expected to increase. A combination of the above factors is expected to lead to an increase in both total actual energy consumption for the nation and energy consumption per capita.

In 1999, coal, crude oil, hydro-electricity and natural gas accounted for approximately 67.1%, 23.4%, 6.7% and 2.8%, respectively, of the PRC's total energy consumption (Source: China Statistical Yearbook, 2000).

INDUSTRY OVERVIEW

The following graph illustrates the composition of energy consumption in the PRC, as compared to various other countries in the world:



Source: Energy Information Administration, US Department of Energy

The PRC has historically relied heavily on coal as its primary energy source. Coal represented approximately 67.1% of the PRC's total energy consumption in 1999. This greatly exceeded the world's average coal consumption, which was approximately 22.2% in 1999 (Source: Energy Information Administration, US Department of Energy).

Over the past decade, air pollution and other damages to the environment caused by coal combustion have caused serious concerns in many countries around the world and resulted in a global trend to reduce coal usage. The continued heavy reliance on coal in the PRC has led to serious pollution problems in various areas. In an air pollution study conducted by the World Health Organisation in 1998, seven of the ten most polluted cities in the world were located in the PRC. Recognising the serious problems caused by coal usage, the PRC Government has planned to gradually reduce coal usage by substituting coal with other more environmentally friendly forms of fuel such as crude oil and natural gas.

The use of crude oil as a percentage of the PRC's total energy consumption was similar to that of other countries and the world's average in 1999. On the other hand, the use of natural gas as a percentage of the PRC's total energy consumption was approximately 2.8% in 1999, which was significantly lower than the world average of approximately 22.8% (Source: Energy Information Administration, US Department of Energy). As the natural gas industry in the PRC is in its infant stage of development and natural gas is one of the most environmentally friendly and economical energy sources, the Directors believe that there is enormous growth potential in the near future for the natural gas industry.

INDUSTRY OVERVIEW

NATURAL GAS

In recent years, global warming and erratic weather patterns have attracted the world's attention to the environmental problems caused by air pollution. As a result, many countries have decided to devote an increasing amount of resources to environmental protection. Natural gas is often referred to as the cleanest fossil fuel available. The pollutants emitted by natural gas are only a fraction of those emitted by most other energy sources such as coal and crude oil. Therefore, natural gas is regarded as a preferred energy source for the future and an environmentally friendly alternative to other fossil fuels. Some of the more desirable qualities of natural gas can be summarised as follows:

| | |
|------------|---|
| Clean | Natural gas is one of the cleanest fossil fuels available. When burnt, the principal products are carbon dioxide and water vapour. Combustion results in virtually no atmospheric emissions of sulphur dioxide or small particulate matter, and far lower emissions of harmful elements when compared to combustion of other fossil fuels, such as coal and crude oil. |
| Economical | On a heat content adjusted basis, the price of natural gas is cheaper than most other forms of fuel. For example, natural gas is approximately 34% to 88% cheaper than coal gas, approximately 38% to 52% cheaper than LPG and approximately 63% to 80% cheaper than electricity (for details on pricing of various fuel sources, please refer to the paragraph headed "Natural gas in the PRC – Pricing of natural gas in the PRC" below). |
| Safe | Natural gas is not explosive on its own, it can only be burnt after mixing with oxygen resulting in the oxygen content of the mixture exceeding a certain percentage. Furthermore, natural gas does not contain carbon monoxide and other toxic gases, thus it is not harmful when inhaled in small quantities. Unlike bottled LPG, natural gas is delivered to end-users through pipelines, hence the danger associated with fuel storage is eliminated. |
| Efficient | Natural gas has a high heat content compared to other forms of fossil fuel. Under the same pressure, combustion of an equal volume of natural gas results in a higher heat content than most other forms of fossil fuel. |
| Convenient | As natural gas is delivered to end-users using pipelines, there is no need to store or replenish the fuel on-site, as is required for other fuel sources such as bottled LPG. Furthermore, for industrial users, gas units tend to be less complex and easier to operate and maintain than equipment powered by coal and other fossil fuels. In addition, there is no solid waste or ash requiring disposal following the consumption of natural gas. |

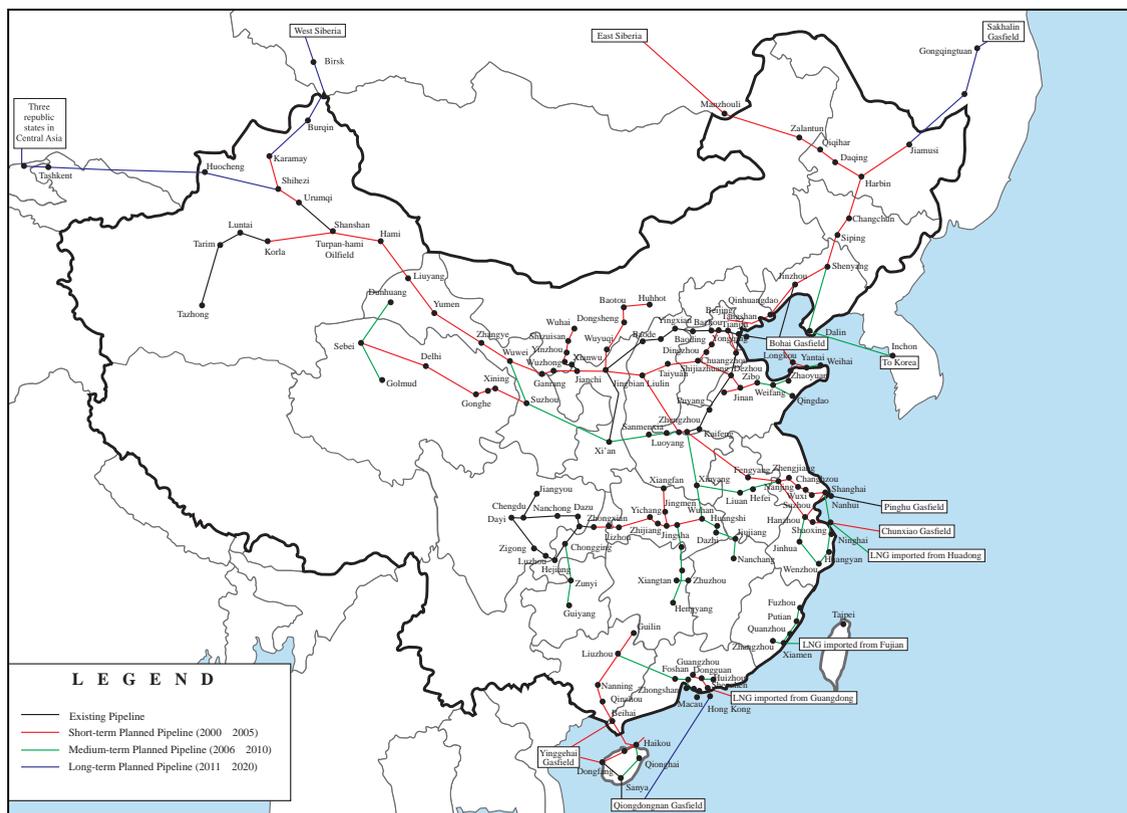
NATURAL GAS IN THE PRC

The major method for transportation of natural gas from source to end-users within the PRC is by means of pipelines. In order to develop the natural gas industry, it is essential that the necessary pipeline infrastructure be in place so that natural gas is easily accessible for distribution to end users. The backbone of the gas delivery system in the PRC consists of long distance pipelines which are used to transport purified natural gas from the gas fields to major consumption areas. The long distance pipelines are owned and operated by national oil and gas exploration and production companies.

INDUSTRY OVERVIEW

The PRC Government has re-affirmed its commitment to making significant investments in the expansion of the natural gas pipeline infrastructure over the next decade in its tenth five-year plan for 2001 to 2005. One of the PRC Government's major projects is the construction of long distance pipelines for the transportation of natural gas from the reserve-rich western provinces of the PRC to the more affluent provinces in the east referred to as 西氣東輸 (“West to East Pipelines”). Construction of the approximately 4,200 km West to East Pipelines has been approved by the State Council and is expected to be completed by 2003.

The following map shows long distance pipelines constructed or currently planned to be constructed in the PRC:



Source: 《中國城市煤氣協會》 (Chinese Gas Association)

In addition to its investment in the natural gas pipeline infrastructure, the PRC Government is encouraging the use of natural gas. In most locations where natural gas supply is available, the local governments have promulgated rules requiring that all new residential buildings incorporate piped gas connections in their designs as a condition to the issuance of the construction or occupational permit. Furthermore, in an effort to control pollution problems, there are a growing number of cities where the local governments have issued legislation to gradually replace coal with other cleaner energy sources such as natural gas.

The average compound growth rate of natural gas consumption in the PRC was 6.4% per annum for the years 1991 through 1999. Natural gas consumption as a percentage of total energy consumption in the PRC increased slightly from 2.0% to 2.8% over the same period.

At the end of 1999, 10,638 km of natural gas long distance pipelines had been built in the PRC and the population that had access to piped natural gas was approximately 22 million.

INDUSTRY OVERVIEW

According to forecasts made by the Petroleum Economist, natural gas usage as a percentage of total energy consumption in the PRC will increase from 2.8% in 1999 to approximately 9% to 10% in 2010, representing an increase of up to approximately 257%. Coal consumption as a percentage of total energy consumption is projected to decrease in the future. The natural gas industry is expected to experience significantly higher growth relative to other energy sectors.

Reserves and production

According to the 第二輪油氣評估結果 (Second Oil and Gas Reserve Assessment) carried out by the 地質礦產資源部門 (Geological and Mineral Resources Department), natural gas reserves in the PRC are estimated to be approximately 38,000 billion cubic metres with approximately 30,000 billion cubic metres onshore and 8,000 billion cubic metres offshore. These estimated reserves are sufficient for 74 to 120 years of PRC consumption based on the current consumption level. However, since the energy reserves in the PRC is underexplored and has substantial coal reserves (with coal-bed methane), it is likely that reserves are much higher than currently estimated, with the majority of the reserves lying in the far western region.

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

Pricing of natural gas in the PRC

The wholesale price of natural gas payable by distribution companies to the suppliers of natural gas is comprised of three components, namely the wellhead price, the pipeline transportation tariff and the purification fee. The wellhead price is fixed by the State Development Planning Commission, and is currently set at RMB0.90 per m³ with a 10% allowance for upward or downward adjustments for negotiation between suppliers and distribution companies. The pipeline transmission tariffs are determined by reference to the investment costs of the relevant long distance pipeline, depreciation, wear and tear and the distance of delivery. The purification fee is based on the actual purification costs of the suppliers. Both the pipeline transmission tariffs and the purification fee must also be approved by the State Development Planning Commission.

Market-oriented pricing policies are currently being proposed to encourage major energy consumers such as power and chemical plants to use natural gas as their energy source. According to the advice of the State Petroleum and Chemical Administration (國家石油化學工業部), the wellhead price should be negotiated by the supplier and the buyer in line with a pricing formula approved by the PRC Government and the pipeline transportation tariff should be fixed by the relevant authorities, taking into account the operators' costs and profit margin, as well as an inflation factor.

INDUSTRY OVERVIEW

For comparison purposes, the table below sets out the pricing of various energy sources in the PRC in January 2001 on an energy adjusted basis:

| | Price range (RMB) | Price per heat content (RMB per gigajoule) |
|--------------------|------------------------------------|---|
| Natural gas | 0.7 - 3.0 per m³ | 19.3 - 79.5 |
| Coal | 125 - 430 per tonne | 4.9 - 16.9 |
| Coal gas | 0.5 - 11.3 per m ³ | 29.4 - 661.8 |
| LPG | 1,830 - 5,770 per tonne | 40.7 - 128.2 |
| Light oil | 3,350 - 4,697 per tonne | 79.8 - 111.8 |
| Electricity | 0.34 - 0.78 per kilowatt hour | 94.4 - 216.7 |

Source: 重慶價格信息網 (Chongqing Price Net) and 安徽省經貿信息網 the website of Anhui Economic and Trade Committee

On a heat content adjusted basis, the price of natural gas is approximately 34% to 88% cheaper than coal gas, approximately 38% to 52% cheaper than LPG and approximately 63% to 80% cheaper than electricity. The Directors believe that the low price, high heat content and low emission characteristics of natural gas are some of the reasons that have led to the PRC Government's determination to increase its usage.

Distribution companies are required to submit price proposals on connection fees and gas usage charges to the local state price bureau for final approval. Future upward adjustments are also subject to approval of the local state price bureau. For further details, please refer to the paragraph headed "The Group's business – Pricing" in this prospectus.

Regulatory framework for natural gas distribution companies

In the PRC, entities engaged in the gas distribution business must obtain an operational permit from 建設部 (Ministry of Construction) before commencement of business. In addition, a construction permit must be obtained if such gas distribution company also engages in the construction of facilities and pipelines. In both cases, the Ministry of Construction will review the qualifications and experience of the directors and technical staff of the distribution company and consider whether the distribution company is capable of fulfilling the operational and construction standards (as the case may be) required by the Ministry of Construction.

According to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) approved by the State Council on 29 December 1997 and jointly promulgated by the State Development and Planning Commission (國家發展及計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Co-operation (對外貿易經濟合作部) on 31 December 1997, foreign investors are prohibited from ownership and management of complete gas supply networks for cities. As advised by the Company's PRC legal adviser, the Group's business, being the provision of piped gas to residential, commercial and industrial establishments in economic development zones and independent residential districts and counties surrounding a city, is not in contravention of the PRC legislation and regulations. In addition, the Directors believe that as the services provided by the Group contribute to environmental protection, they are consistent with national policy and, therefore, local governments are highly supportive of the business of the Group. This is evidenced by the approvals granted by the relevant local foreign trade and economic co-operation departments, the authority overseeing the implementation of the Catalogue for the Guidance of Foreign Investment Industries in respect of the establishment of the Existing Project Companies and their relevant businesses.

INDUSTRY OVERVIEW

FUTURE DEVELOPMENT OF THE NATURAL GAS INDUSTRY IN THE PRC

In the future, the PRC's average annual gas consumption is estimated to reach 50 and 100 billion cubic metres during the periods 2006 to 2010 and 2011 to 2020, respectively.

The PRC Government has the following plans in relation to the development of the natural gas industry and the promotion of the downstream use of natural gas:

- Completion of the approximately 4,200 km West to East Pipelines by 2003, which is estimated to supply approximately 20 billion cubic metres of gas per annum by 2010.
- Feasibility studies and discussions with the Government of the Russian Federation regarding the importation of gas from Russia. Should the outcome be positive, the supply of gas will commence in 2005. Under the proposed plan, the long distance pipelines are estimated to be approximately 4,000 km in length with 2,400 km located in the PRC. Annual supplies of gas could reach 20 to 25 billion cubic metres.
- Construction of LNG terminals proposed for the cities of Fuzhou, Guangzhou, Qingdao and Shanghai. It is expected that the importation of LNG will reach 3 million tonnes by 2010 and 10 to 15 million tonnes by 2020.

THE GROUP'S BUSINESS

INTRODUCTION

The Company was incorporated in the Cayman Islands on 20 July 2000. Following completion of the Reorganisation, the Company became the holding company of the Group and upon completion of the acquisition of the Acquisition Companies and the establishment of the New Project Companies, the Company will become the holding company of the Enlarged Group. For the details of the Reorganisation, please refer to the section headed "Corporate reorganisation" in Appendix V to this prospectus.

Following the Reorganisation and immediately after completion of the Placing, the Founders will indirectly hold 70% of the enlarged share capital of the Company before the exercise of the Over-allotment Option.

The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. The Group's business activities also consist of the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.

PRINCIPAL STRENGTHS OF THE GROUP

- **The Group is one of the first non state-owned piped gas distributors in the PRC and has an experienced management and operational team.** The Company's management and operational team has extensive experience in numerous aspects of the natural gas industry such as business operations, technical know-how and sales and marketing. The management and operational team also has strong contacts with local and provincial governmental departments and authorities, which can assist in obtaining first hand information on the latest developments of the natural gas industry in the PRC. Each Project Company employs staff who have a thorough understanding of the local business environment. Such local expertise is particularly useful in the Group's business development. The local management teams of the Project Companies, under the supervision of the Group, jointly formulate business development and marketing plans suitable for the relevant Operational Locations.
- **The Group has a clear focus in the piped gas business and benefits from favourable governmental policies, in particular, those encouraging the use of natural gas and promoting environmental protection.** In view of growing environmental concerns in the PRC, the PRC Government is highly supportive of businesses which contribute to environmental protection and is keen to promote the use of natural gas as one of the most environmentally friendly and cheap fuel sources. The Group is, therefore, able to benefit from favorable governmental policies, in particular, those encouraging the use of natural gas such as requiring the installation of gas connections in new buildings and banning the use of other less environmentally friendly fuel products such as coal within a specified period of time.
- **The Group is well positioned to capture a significant share of the expanding piped gas market and to exploit anticipated demographic and economic developments in the Operational Locations.** The Group expects to experience significant growth from both growth in the existing Operational Locations and expansion into new Operational Locations and, in particular, by seeking business opportunities in locations near to its existing Operational Locations and existing and future long distance pipelines. For existing Operational Locations, growth is expected to come primarily from (i) further expansion of its gas pipeline infrastructure within its Operational Locations; (ii) future development of its Operational

THE GROUP'S BUSINESS

Locations; (iii) increase in gas consumption per capita; and (iv) increase in gas consumption by the commercial and industrial customers as a result of economic developments. The Group also expects to take advantage of (i) the natural gas industry in the PRC being in the early stages of development; (ii) the fact that natural gas is not widely available as a source of fuel in the PRC; and (iii) the planned construction of long distance pipelines by the PRC Government. Accordingly, the Directors believe that there is potential for expansion. The Group's ability to capture increased market share, along with a steady income stream from an established customer base, puts the Group in a strong position for growth in the natural gas sector.

- **The Group is able to obtain exclusive rights or rights of first refusal from local governments to supply piped gas in Operational Locations.** The Company has obtained exclusive rights to supply piped gas to all of the existing Operational Locations. In the future, the Group will participate in projects that it can obtain exclusive rights or rights of first refusal. The Group also obtains local governmental support such as tax breaks and other concessions (including exemption or reduction in payment of local governmental fees and levies) when it invests in an Operational Location.
- **The Group has a diversified portfolio of residential, commercial and industrial customers that provides the Group with several sources of revenue and reduces the risk of dependency on any one particular category of customer.** In the early years of operating a new gas project, the Group focuses on maximising connection fees through the development of its customer base, a large proportion of which come from residential users. As a gas project develops, the sources of revenue will become more diversified. Gas usage charges, particularly from commercial and industrial customers which are large consumers of gas, will represent a larger proportion of revenue. The Group is not reliant on any one particular category of customers.
- **Due to the Group's experience in, and strict enforcement of, quality and safety control procedures, the Group has a solid track record of providing safe and reliable gas supply service to its customers.** There have been no major accidents that have resulted in serious human injury or death since the Group began operations in 1993. The Group has earned an excellent reputation for delivering safe service to its customers.

HISTORY AND DEVELOPMENT

The Group was founded by Mr. Wang who has extensive experience and in-depth knowledge of the gas business in the PRC. Mr. Wang first invested in the gas business in 1985 when he began operating a LPG processing station in Bazhou, Hebei Province, the PRC.

Recognising that the use of natural gas would gradually become an important source of fuel because it is clean, inexpensive and safe when compared to other sources of fuel, the Founders formed Langfang Xinao in 1993 to invest in the construction of gas pipeline infrastructure for the sale and distribution of piped natural gas in the Langfang Economic and Technical Development Zone, the first location in the Hebei Province with piped natural gas supply. In 1994, the business of Langfang Xinao was expanded to include the supply of piped natural gas to the Langfang city centre.

THE GROUP'S BUSINESS

In 1998, the PRC Government began to actively promote the use of natural gas as an environmentally friendly, economical and efficient source of fuel and encouraging privately-owned enterprises to participate in gas projects. The Founders believed this to be an excellent opportunity to expand the business and began to actively explore and seek investment opportunities in neighboring locations. Upon completion of the acquisition of the Acquisition Companies and the establishment of the New Project Companies, the Enlarged Group will have obtained relevant approvals to operate in ten locations. As at the Latest Practicable Date, all of the four Existing Project Companies and the three Acquisition Companies were in operation. The Group is also actively exploring new business opportunities.

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following table sets out the active business pursuits of the Group for the Track Record Period:

| | 1998 | 1999 | 2000 |
|--|----------------|----------------|---|
| Existing Project Companies | Langfang Xinao | Langfang Xinao | Langfang Xinao Liaocheng Xinao Beijing Xinao Huludao Xinao |
| Accumulated approval(s) to operate piped gas business | 1 | 1 | 6 ⁽¹⁾ |
| Turnover (RMB'000) | | | |
| Connection fees | | | |
| Residential households | 26,456 | 32,651 | 88,646 |
| Commercial and industrial customers | 5,485 | 5,857 | 12,636 |
| | 31,941 | 38,508 | 101,282 |
| Gas usage charges ⁽²⁾ | | | |
| Residential households | 2,237 | 3,092 | 6,327 |
| Commercial and industrial customers | 6,808 | 11,250 | 14,190 |
| | 9,045 | 14,342 | 20,517 |
| Sale of gas appliances | 123 | 73 | 471 |
| | 41,109 | 52,923 | 122,270 |
| Units of gas sold ('000 m³) | | | |
| Residential households | 2,120 | 2,893 | 5,645 |
| Commercial and industrial customers | 5,791 | 8,890 | 11,259 |
| | 7,911 | 11,783 | 16,904 |

THE GROUP'S BUSINESS

| | 1998 | As at 31 December 1999 | 2000 |
|---|---------------|---------------------------|-----------------------|
| Accumulated contracted number of gas supply locations | | | |
| Residential households | 22,962 | 32,155 | 78,326 |
| Commercial and industrial sites | 136 | 165 | 258 |
| | <u>23,098</u> | <u>32,320</u> | <u>78,584</u> |
| Accumulated number of gas connections made | | | |
| Residential households | 22,823 | 30,607 | 66,253 ⁽³⁾ |
| Commercial and industrial sites | 131 | 165 | 242 ⁽⁴⁾ |
| | <u>22,954</u> | <u>30,772</u> | <u>66,495</u> |
| Accumulated gas pipeline infrastructure and ancillary facilities | | | |
| Pipelines constructed (km) | | | |
| Intermediate pipelines | 55 | 55 | 61 |
| Main pipelines | 56 | 88 | 196 |
| Processing stations | | | |
| In operation | 1 | 2 | 7 |
| Under construction | – | 1 | – |
| Storage tanks | | | |
| In use | – | 1 | 3 |
| Under construction | 1 | – | 1 |
| Designed daily gas supply capacity (m³) | 50,000 | 100,000 | 561,800 |
| Staff (headcount) | | | |
| Management | 4 | 10 | 20 |
| Gas operations (including safety) | 49 | 138 | 203 |
| Engineering | 25 | 88 | 119 |
| Sales and marketing | 10 | 34 | 41 |
| Construction design and research and development | 7 | 25 | 39 |
| Planning and finance | 4 | 16 | 33 |
| Administration | 17 | 46 | 23 |
| Procurement | 3 | 9 | 12 |
| Business development | 4 | 8 | 11 |
| | <u>123</u> | <u>374</u> | <u>501</u> |

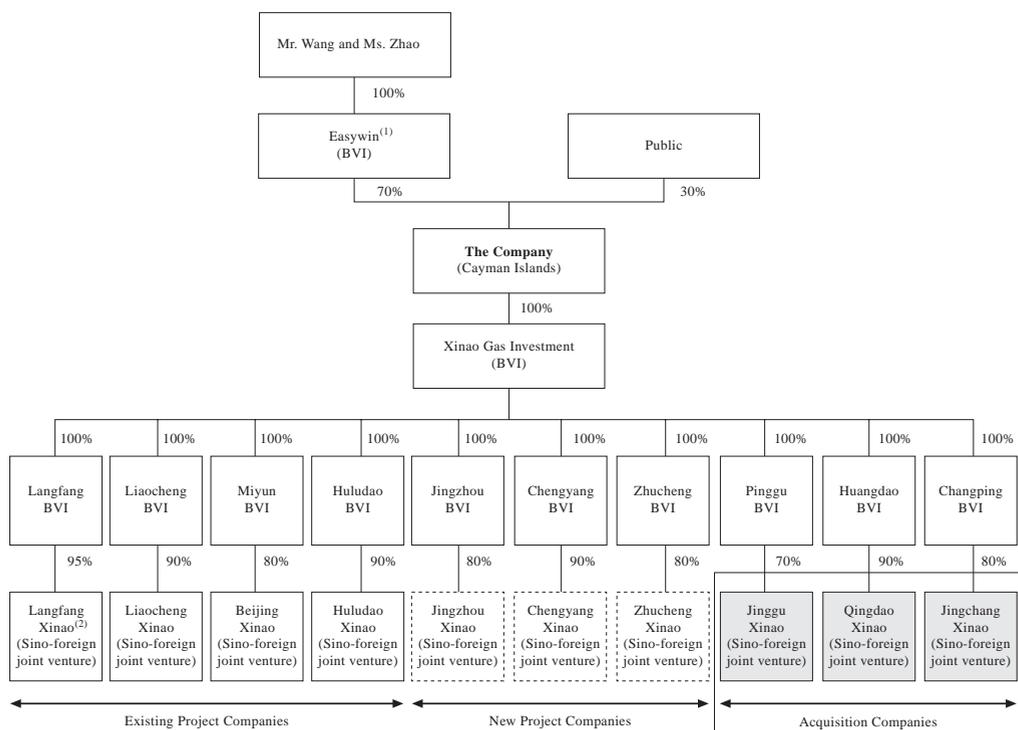
Notes:

- (1) Including exclusive rights to operate piped gas business granted in Chengyang and Zhucheng.
- (2) Net of value added tax.
- (3) Inclusive of a total of 15,802 households acquired as a result of the Reorganisation.
- (4) Inclusive of a total of seven commercial and industrial sites acquired as a result of the Reorganisation.

THE GROUP'S BUSINESS

CORPORATE STRUCTURE

The diagram below illustrates the corporate structure of the Enlarged Group and its controlling entities immediately after completion of (i) the Placing (but before any exercise of the Over-allotment Option), (ii) the acquisition of the Acquisition Companies and (iii) the establishment of the New Project Companies:



 denotes company to be established

 denotes companies to be acquired under the Acquisition Agreements

Notes:

- (1) Easywin is equally owned by Mr. Wang and Ms. Zhao.
- (2) The remaining 5% interest in Langfang Xinao is owned by Langfang City Gas which in turn is approximately 93.2% indirectly owned by Mr. Wang and approximately 6.8% by Ms. Wang Yuping, sister of Mr. Wang.

THE GAS DELIVERY PROCESS

The natural gas delivery process can be broadly categorised into three segments: production, transmission and distribution. A general description of the gas delivery process is set out below.

Production involves underground exploration, drilling, extraction and purification of natural gas. After extraction from a gas well, natural gas is transmitted to nearby refineries for removal of water content and impurities. The natural gas is then transported from the refineries via the long distance pipelines under super high pressure so that natural gas may be supplied to a large number of locations near such pipelines at high speed. The long distance pipelines are owned and operated by PRC oil and gas exploration and production companies or pipeline operators.

THE GROUP'S BUSINESS

Distribution companies (such as the Group) distribute natural gas to the end users and often own the gas pipeline infrastructure of an Operational Location (including the intermediate pipelines, the processing stations, the main pipelines and the branch pipelines). A distribution company purchases natural gas from oil and gas exploration and production companies. The distribution company determines the method of delivering natural gas to its desired destination after taking into account factors such as the distance between the collection and delivery points and the expected demand for gas from the relevant gas supply locations.

The collection of CNG involves the delivery of CNG by CNG truck to a processing station from gas wells or stations located along the relevant long distance pipeline. If an intermediate pipeline is constructed, the intermediate pipeline transports the natural gas under high pressure to a processing station. Such processing station may contain CNG pressure regulating facilities which will depressurise the CNG to natural gas under medium pressure and/or natural gas pressure regulating facilities to reduce the pressure of natural gas from high pressure to medium pressure, before transmitting the natural gas to a main pipeline.

LPG, which is sometimes used as a backup gas supply, is purchased primarily from refineries. Processing stations may also contain LPG air mixing facilities to enable air to be mixed with LPG in the required portion to produce petroleum gas with heat content equivalent to natural gas, which can then be transmitted through the main pipelines. LPG is purchased from refineries and transported to the LPG air mixing facilities located within the processing stations by LPG trucks.

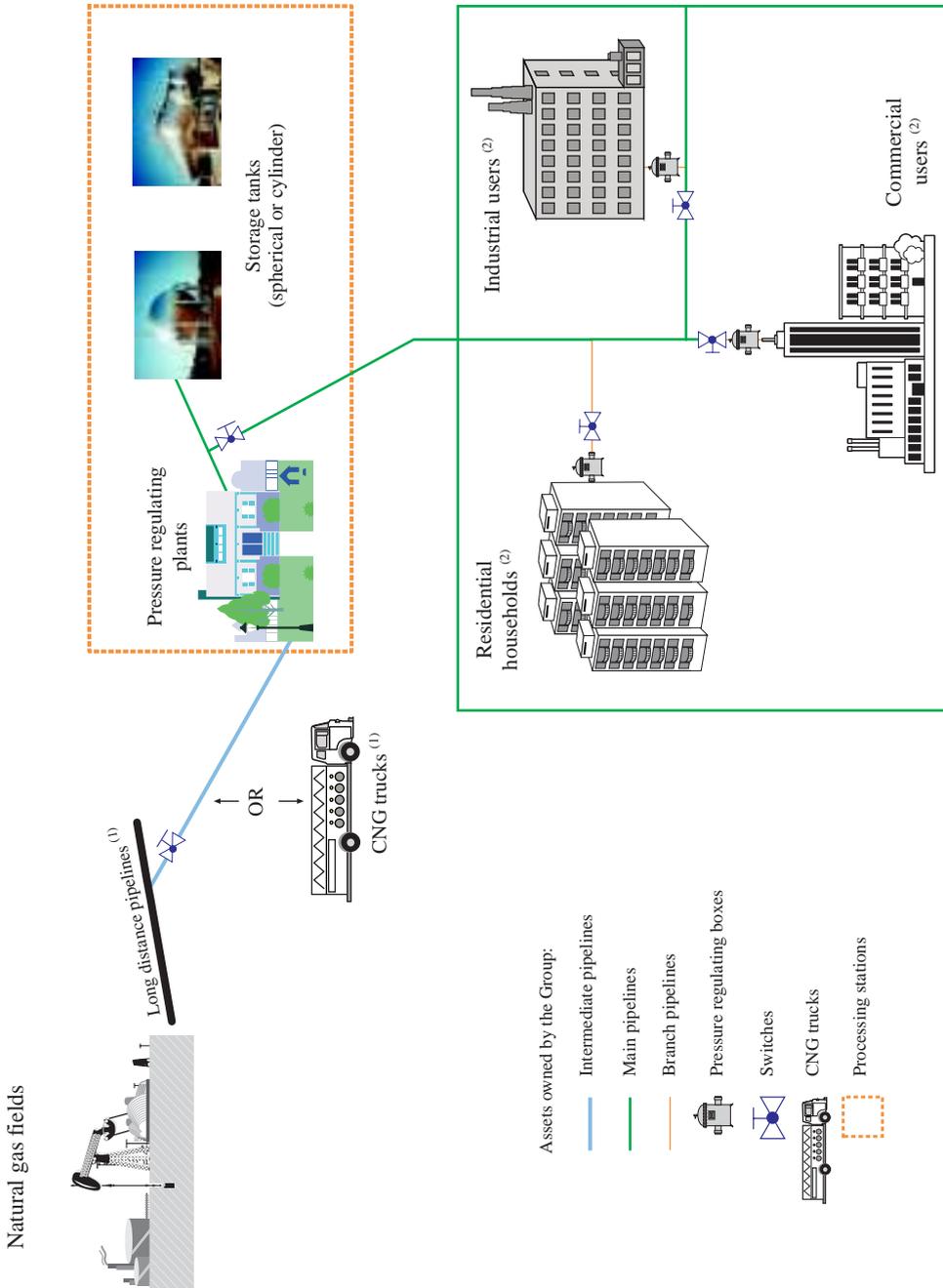
The processing station is usually located on the outskirts of an Operational Location for safety reasons and it provides certain ancillary facilities (i) to add bromine to the gas to enable the detection of leakages when the gas is transmitted through the main pipelines, and (ii) to store gas under high, medium or low pressure to be used as reserves for future unexpected demand. Gas storage tanks for storage of gas under high pressure usually have thicker walls and hence are more expensive to construct than gas storage tanks for storage of gas under medium or low pressure.

After processing, the gas is transmitted under medium pressure to the main pipelines. Main pipelines are laid within an Operational Location and represent the backbone of the gas delivery system. Different sections of the main pipelines operate at slightly different pressures, with computer controlled regulators controlling the flow of natural gas for delivery to end users via the branch pipelines and customers' pipelines.

When there is a demand for a connection of gas to a particular area within a gas supply location, the distribution company will invest in the construction of the branch pipelines to connect the main pipelines to the pressure regulating boxes located in the end-users' buildings or premises. The pressure regulating box reduces the natural gas to a lower pressure before the natural gas is transmitted to the customers' pipelines. Customers' pipelines, which constructions are supervised by the distribution company (on behalf of the customers) and located within the end-users' premises, transmit the natural gas through the pressure regulating box to the end-users. The customers' pipelines are not owned by the distribution company.

THE GROUP'S BUSINESS

The gas delivery process can be illustrated in the diagram set out below:



THE GROUP'S BUSINESS

DESCRIPTION OF THE BUSINESS

The gas pipeline infrastructure owned and operated by the Group is comprised of intermediate pipelines, processing stations, main pipelines, branch pipelines and other ancillary facilities such as gas storage tanks and pressure regulating boxes. The customers' pipelines are owned by the customers. The Group's business activities, from the identification of a project to the supply of gas to end users, can be described as follows:

Identification and securing new Operational Locations

Preliminary review and feasibility studies

The Group's business development team actively explores and identifies suitable investment opportunities by conducting market research on potential locations where the demand for piped gas is apparent. Due to its experience and reputation in the industry, the Group has also received invitations from local governments to bid for new gas projects or to take over existing gas projects. The piped gas supply industry in the PRC is still in its early stages of development with many areas not yet supplied with piped gas notwithstanding their close proximity to gas sources. Due to the capital intensive nature of its projects, the Group is extremely selective in its new investments. The selection of new Operational Locations is arrived at after conducting preliminary evaluation and extensive feasibility studies on the target locations, and after assessing the project's return on investment to the Group. The Group conducted preliminary reviews on approximately 40 cities in 1999 and 2000 out of which the Group has secured exclusive rights or rights of first refusal to supply gas to six Operational Locations. The Group will identify new Operational Locations that it can strategically expand and in which there are existing or anticipated gas sources or long distance pipelines (typically within 200 km of a potential Operational Location).

In order to shortlist potential locations for further investigation, the Group conducts preliminary reviews to assess factors, which include:

- (i) size and concentration of population;
- (ii) extent and concentration of industrial and commercial activities;
- (iii) likely level of connection fees and gas usage charges;
- (iv) extent of the local government's commitment to environmental protection, environmental policies in place, and the local population's awareness of environmental issues;
- (v) whether exclusive operational rights and preferential treatment on tax and governmental fees will be obtained;
- (vi) types of gas supply (natural gas, CNG or LPG) and methods of delivery (whether by way of intermediate pipeline (if the gas source or long distance pipeline is located within 100 km) or by trucks (if the gas source or long distance pipeline is located within 200 km));
- (vii) economic statistics of the relevant locations; and

THE GROUP'S BUSINESS

- (viii) in the case of acquisition of existing gas projects, the cost of acquisition, quality of assets and/or business to be acquired, extent of liabilities of the business and whether the Group is able to resolve problems perceived or encountered in respect of the relevant existing gas projects.

Based on the findings of the feasibility studies which cover the abovementioned factors, the business development team will decide whether to make a recommendation to the board of Directors for approval to proceed with discussions and negotiations on a new project.

Securing a new Operational Location

Once the board of Directors has approved a potential project, the Group will prepare and submit a detailed gas project proposal to the local government and commence negotiations on major issues such as the granting of exclusive rights or rights of first refusal to supply gas to that location, proposed connection fees and gas usage charges and whether any tax and other concessions or favourable policies would be granted by the local government. At around the same time, the Group may also commence negotiations with a potential local joint venture partner who is familiar with the local environment. In instances where the Group takes over an existing gas project (whether acquiring assets or a business), the Group will commence negotiations with the owner(s) of the gas project.

The Group attempts to reach an agreement with the local government on the proposed connection fees and gas usage charges, but such fees and charges are subject to final approval of the local state price bureau.

The Group's marketing team plays an active role in lobbying the relevant government authorities during the negotiation stage. After the formation of a project company, the Group will begin to negotiate gas purchase agreements to purchase gas from oil and gas exploration and production companies.

Investment in the construction of the gas pipeline infrastructure

Design stage

The design of the gas pipeline infrastructure for a gas project (which includes the intermediate pipelines, the processing stations, the main pipelines and other ancillary facilities such as gas storage tanks) is carried out by a government approved design institute in accordance with the requirements of the Group and takes into account the local population size, the development of the economy, the utilisation of energy resources and environmental conditions. At present, the Group has appointed 中國市政工程華北設計研究院 (China Urban Engineering Huabei Design and Research Institute) to design the Group's gas pipeline infrastructure. The design takes into consideration the technical requirements of the Group, the needs of the local population and the environmental conditions of the area covered by the design. The master design is subject to approval by experts appointed by the local city construction department. The design stage normally takes two to three months.

THE GROUP'S BUSINESS

Construction stage

Once the master design is approved, the Group will invite independent qualified contractors to tender for the construction work. The selection criteria for the contractors include their qualifications, experience, expertise, reputation, familiarity with the local environment, prior relationship with the Group and tender price. The Group generally enters into turnkey contracts with independent contractors for construction, installation and maintenance of gas pipes. The Group generally provides a down payment with the remainder to be paid upon completion of a project. In the case of delay or failure on the part of the contractor to complete the project, the Group is entitled to damages or, in some instances, rescission of the contract. At the time of entering into turnkey contracts, the Group will commence the sourcing of raw materials such as pipes, gas regulating equipment and machinery. The Group has strict quality control procedures for the sourcing of supplies for construction purposes.

The Group's internal engineers and independent external inspectors monitor the entire construction process to ensure that each stage of construction meets the Group's quality and safety standards and the relevant legal requirements.

Although the gas pipeline infrastructure is designed to cover the entire Operational Location, the Group's construction programme generally focuses on early gas delivery to areas of concentrated customer demand within an Operational Location, so that gas supply can commence as soon as the essential gas pipeline infrastructure and facilities (such as the processing stations and the intermediate pipelines) are completed. Accordingly, although the utilisation rate of the processing stations (being the total daily gas consumption by customers as a percentage of designed daily capacity of the processing stations) is low at the early stages of development, measures are taken to provide a return on investment as soon as practicable. Construction work in an initial target area will gradually extend to cover the whole Operational Location, which typically takes two to five years.

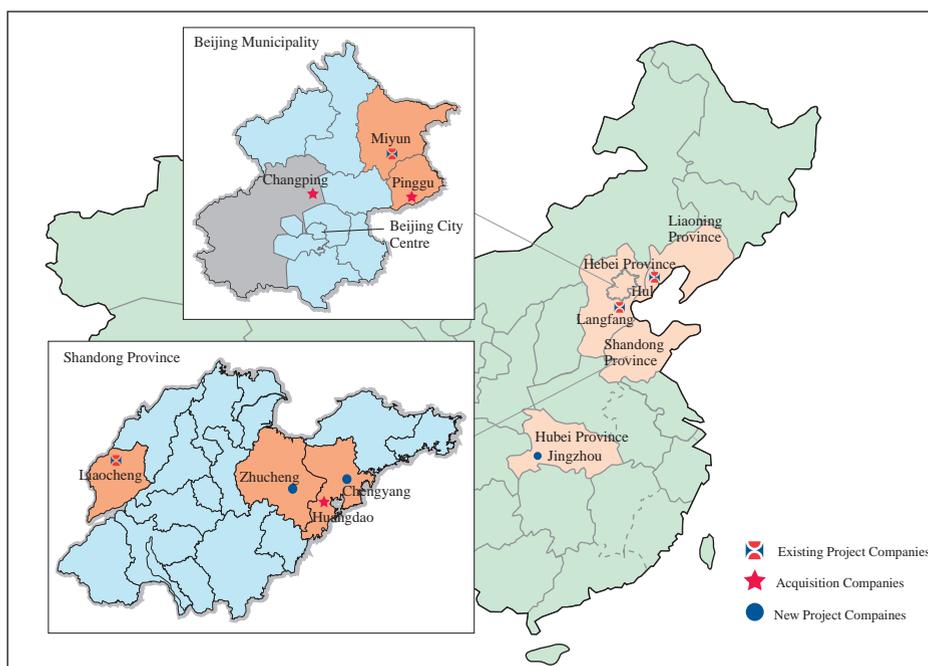
Connection to end users

Once the Group enters into a gas supply contract with a customer, the Group begins the design and construction of the branch pipelines and customers' pipelines. Unless complex designs are involved, the designs of branch pipelines and customers' pipelines are normally prepared by the Group, reviewed by a government approved design institute, and carried out by external contractors.

THE GROUP'S BUSINESS

AREAS OF OPERATIONS

The map below shows the locations in which the Enlarged Group has interests in the provision of piped gas:



As indicated above, the Enlarged Group is interested in three locations in Beijing Municipality (being Miyun, Pinggu and Changping), one location in Hebei Province (being Langfang), one location in Hubei Province (being Jingzhou), one location in Liaoning Province (being Huludao) and four locations in Shandong Province (being Liaocheng, Huangdao (Qingdao City), Chengyang (Qingdao City) and Zhucheng). The population and certain economic statistics of these locations are shown in the table below:

| | Total population ⁽¹⁾ | | Average annual increase (%) | GDP per capita | | Average annual increase (%) | Retail sales of consumer goods | | Average annual increase (%) | Industrial output | | Average annual increase (%) |
|----------------------|---------------------------------|-------------|-----------------------------|----------------|------------|-----------------------------|--------------------------------|--------------------|-----------------------------|----------------------|-----------------------|-----------------------------|
| | 1995 ('000) | 1999 ('000) | | 1995 (RMB) | 1999 (RMB) | | 1995 (RMB million) | 1999 (RMB million) | | 1995 (RMB million) | 1999 (RMB million) | |
| Beijing Municipality | 12,510 | 12,570 | 0.1% | 13,085 | 19,846 | 12.9% | 82,700 | 131,300 | 14.7% | 190,862 | 208,100 | 2.3% |
| Miyun | 423 | 425 | 0.1% | 5,999 | 7,192 | 5.0% | 1,158 | 1,560 | 8.7% | 4,573 | 4,013 | -3.1% |
| Pinggu | 387 | 389 | 0.1% | 7,392 | 7,709 | 1.1% | 1,109 | 1,284 | 3.9% | 3,976 | 4,460 | 3.0% |
| Changping | 418 | 428 | 0.6% | 7,990 | 11,931 | 12.3% | 1,674 | 1,722 | 0.7% | 3,403 | 5,216 | 13.3% |
| Hebei Province | 64,370 | 66,140 | 0.7% | 4,427 | 6,932 | 14.1% | 85,210 | 145,880 | 17.8% | 399,572 | 299,458 | -7.5% |
| Langfang | 3,604 | 3,748 | 1.0% | 5,596 | 8,871 | 14.6% | 4,251 | 7,622 | 19.8% | 27,395 | 51,474 | 22.0% |
| Hubei Province | 57,720 | 59,380 | 0.7% | 4,162 | 6,514 | 14.1% | 93,180 | 161,710 | 18.4% | 410,258 | 283,435 | -7.8% |
| Jingzhou | 6,174 | 6,421 | 1.0% | 2,185 | 4,347 | 24.7% | 10,147 | 15,414 | 13.0% | 30,048 | 51,070 | 17.5% |
| Liaoning | 40,920 | 41,710 | 0.5% | 6,880 | 10,086 | 11.6% | 112,200 | 169,610 | 12.8% | 497,490 | 732,900 | 11.8% |
| Huludao | 2,611 | 2,662 | 0.5% | 4,558 | 5,704 | 6.3% | 4,067 | 5,420 | 8.3% | 19,858 | 24,711 | 6.1% |
| Shandong | 87,050 | 88,830 | 0.5% | 5,747 | 8,673 | 12.7% | 144,270 | 231,010 | 15.0% | 845,632 | 1,119,500 | 8.1% |
| Liaocheng | 5,450 | 5,539 | 0.4% | 3,009 | 4,580 | 13.1% | 3,197 | 4,633 | 11.2% | 24,898 | 32,545 | 7.7% |
| Qingdao | 6,846 | 7,030 | 0.7% | 9,293 | 14,124 | 13.0% | 17,076 | 27,033 | 14.6% | 94,126 | 114,920 | 5.5% |
| Huangdao | 137 | 189 | 9.5% | 16,632 | 34,399 | 26.7% | 3,501 | 6,223 | 19.4% | 634 | 13,416 | 504.0% |
| Chengyang | 413 | 426 | 0.8% | 7,763 | 19,373 | 37.4% | 765 | 1,102 | 11.0% | 6,319 ⁽²⁾ | 19,823 ⁽²⁾ | 53.4% |
| Zhucheng | 1,033 | 1,053 | 0.5% | 6,133 | 7,407 | 5.2% | 1,859 | 2,698 | 11.3% | 9,277 | 15,757 | 17.5% |

Source: Relevant China Statistical Yearbooks for 1995 and 1999.

Notes:

- (1) Population statistics for the Operational Locations and their forecasts for 2010 are set out in the paragraph headed "Description of the Project Companies".
- (2) Real industrial output (values exclude effect of inflation).

THE GROUP'S BUSINESS

Provinces and cities where the Project Companies are located

Beijing Municipality

The Group currently has operations in Miyun and, pursuant to the Acquisition Agreements, has contracted to acquire operations in Pinggu and Changping, which are all located in the suburban areas of Beijing Municipality (“Beijing”).

Beijing is the capital city of the PRC and is one of the most populated cities in the PRC. It is divided into 13 districts and five counties. Beijing, Chongqing, Shanghai and Tianjin are the only four municipalities under the direct central administration of the State Council. Beijing is also the political and cultural centre of the PRC, housing most of the ministries of the PRC Government and their respective departments. In addition, Beijing is an important commercial, industrial and financial centre.

Beijing residents enjoy one of the highest standards of living in the PRC with disposable income also ranking among the highest in the PRC. Since the commencement of economic reforms in the PRC more than 20 years ago, the economy of Beijing has grown significantly. The GDP of Beijing had grown from RMB139 billion in 1995 to RMB217 billion in 1999 (Source: China Statistical Year Book, 1999 and 2000), representing an average rate of increase of 14.0% per year. Due to the rapid development of Beijing in recent years, the quality of air has deteriorated significantly. The Beijing Municipality Government is committed to reduce pollution in Beijing by closely monitoring the pollution in Beijing, setting targets for the improvement of air quality on an annual basis and encouraging the movement of residents from the Beijing city centre to the suburban areas of Beijing.

Hebei Province

The Group currently has operations in Langfang, Hebei Province (“Hebei”).

Hebei is located in the northeastern part of the PRC surrounding both Beijing and Tianjin Municipalities. In terms of population, it is the sixth largest province in the PRC and is divided into 11 cities.

Hebei is the fourth largest agricultural province in the PRC with a gross output value in the farming sector of RMB880 billion in 1999. The GDP of Hebei had grown from RMB285 billion in 1995 to RMB457 billion in 1999 (Source: China Statistical Year Book, 1999 and 2000), representing an average rate of increase of 15.2% per year. Hebei is also rich in natural resources and minerals which include coal, iron and crude oil.

Hubei Province

The Group will have operations in Jingzhou, Hubei Province (“Hubei”) following the establishment of Jingzhou Xinao.

Hubei is located in the central region of the PRC, along the Yangtze River. In terms of population, Hubei is the ninth largest province in the PRC and has 10 cities.

Similar to Hebei, the agricultural industry plays an important role in the overall economy of the province with approximately 70% of the population involved in agriculture. The GDP of Hubei has grown from RMB239 billion in 1995 to RMB386 billion in 1999 (Source: China Statistical Year Book, 1999 and 2000), representing an average rate of increase of 15.4% per year.

THE GROUP'S BUSINESS

Liaoning Province

The Group currently has operations in Huludao, Liaoning Province (“Liaoning”).

Liaoning is located on the northeastern part of the PRC. In terms of population, it is the fourteenth largest province in the PRC and is divided into 14 cities.

Liaoning is the major commercial and industrial centre for the northeastern part of the PRC. It is the sixth largest industrial province and its industrial activities are concentrated in the heavy industrial sector. The GDP of Liaoning had grown from RMB279 billion in 1995 to RMB417 billion in 1999 (Source: China Statistical Year Book, 1999 and 2000), representing an average rate of increase of 12.4% per year. Liaoning is also rich in natural resources and has proven reserves for coal, crude oil and natural gas. The growth in the heavy industrial sector in recent years has caused pollution problems in Liaoning.

Shandong Province

The Group currently has operations in Liaocheng, Shandong Province (“Shandong”). The Group has also obtained approvals to operate in Chengyang (Qingdao City) and Zhucheng. In addition, pursuant to the Acquisition Agreements, the Group has contracted to acquire operations in Huangdao (Qingdao City).

Shandong is located in the northeastern area of the PRC, adjacent to Hebei. In terms of population, it is the second largest province in the PRC and is divided into two districts and 15 cities.

Shandong is rich in natural resources such as gold, crude oil, graphite and coal. The second largest oil field in the PRC, 勝利油田 (Shengli Oil Field) and one of the nation's largest coal reserves, 兗滕礦區 (Yanteng Coal Mine Area) are located in Shandong. The GDP of Shandong had grown from RMB500 billion in 1995 to RMB766 billion in 1999 (Source: China Statistical Year Book, 1999 and 2000), representing an average rate of increase of 13.3% per year. Such increase is mainly the result of strong growth in the industrial sector of Shandong. Shandong is the third largest industrial province in the PRC.

Qingdao City is located on the eastern coast of Shandong and is one of the fastest growing cities in the PRC. Qingdao City has the highest GDP within Shandong, amounting to RMB64 billion and RMB99 billion in 1995 and 1999, respectively, representing an average rate of increase of 13.7% per year. Qingdao City also has the busiest harbour in Shandong with an annual throughput of 73 million tonnes of cargo in 1999.

DESCRIPTION OF THE PROJECT COMPANIES

Upon completion of the acquisition of the Acquisition Companies and the establishment of the New Project Companies and taking into account the Existing Project Companies, the Enlarged Group will have interests in 10 gas projects in the PRC. Details regarding each of the Project Companies are set out below.

Existing Project Companies

The Existing Project Companies are Langfang Xinao, Liaocheng Xinao, Beijing Xinao and Huludao Xinao.

THE GROUP'S BUSINESS

Langfang Xinao

Information on Langfang Xinao

Langfang Xinao was established as a Sino-foreign joint venture on 28 March 1993 in anticipation of the growing trend towards the use of environmentally friendly fuel and to take advantage of the governmental policy encouraging the use of natural gas and the development of untapped natural gas resources in Langfang. The shareholders of Langfang Xinao at the time of its establishment were Langfang City Gas (approximately 67.7%) and Ms. Zhao (approximately 33.3%). In 1993, Langfang Xinao began to supply piped natural gas to Langfang Economic and Technical Development Zone (the "Langfang Development Zone"). In 1994, Langfang Xinao expanded its piped natural gas business to the Langfang city centre. In 1999, Langfang Xinao obtained the exclusive right to supply piped gas to the Langfang city centre (which includes the Langfang Development Zone).

In July 1998, Langfang City Gas (a company owned as to approximately 93.2% by Mr. Wang) transferred approximately 45.1% interest in Langfang Xinao to XGCL (another company owned as to approximately 50.7% by Mr. Wang). After a further subscription of interest in Langfang Xinao in July 1998, Langfang Xinao was beneficially owned as to 50% by XGCL, approximately 30.4% by Ms. Zhao and approximately 19.6% by Langfang City Gas.

As part of the Reorganisation, XGCL, Ms. Zhao and Langfang City Gas transferred their equity interests in Langfang Xinao as to 50%, approximately 30.4% and approximately 14.6%, respectively, to Langfang BVI on 1 August 2000, as a result of which Langfang Xinao is now owned as to 95% by Langfang BVI and 5% by Langfang City Gas. The main terms of the joint venture contract relating to Langfang Xinao are set out in the paragraph headed "Further information about the Company – Particulars of the Existing Project Companies" in Appendix V to this prospectus.

As at 28 February 2001, the piped gas development of Langfang Xinao covered the Langfang city centre (which includes the Langfang Development Zone) and was comprised of approximately 58 km of intermediate pipelines and approximately 99 km of main pipelines with pressure regulating facilities installed in three processing stations located on the northern, southern and eastern outskirts of the Langfang city centre and in one processing station located at the Langfang Development Zone with a current combined designed daily capacity to supply 409,800 m³ of natural gas. The processing station at the Langfang Development Zone is currently equipped with CNG supply facilities, which are capable of loading CNG equivalent to approximately 1,800 m³ of natural gas onto CNG trucks per hour. Currently, the CNG supply facility is primarily intended to supply CNG to Beijing Xinao, Jinggu Xinao and Jingchang Xinao, which will be delivered by way of CNG trucks with each truck capable of carrying CNG equivalent to approximately 4,500 m³ of natural gas.

The supply of natural gas for Langfang Xinao is currently obtained from 華北油田 (Huabei Oil Field), which includes 廊東氣田 (Langdong Gas Well) and 永清氣田 (Yongqing Gas Well). The two processing stations located on the northern outskirts of the Langfang city centre and the Langfang Development Zone obtain natural gas from Yongqing Gas Well by an approximately 27 km long intermediate pipeline connected to 永北長輸管道 (Yongbei long distance pipeline) at 萬庄 (Wangzhuang). The processing station located on the southern outskirts of the Langfang city centre also obtains natural gas from Yongqing Gas Well by an approximately 28 km long intermediate pipeline connected to Yongbei long distance pipeline at 永清 (Yongqing).

Pursuant to a gas purchase agreement dated 17 January 2001 entered into between Langfang Xinao and 中國石油天然氣股份有限公司華北油田分公司運銷部 (PetroChina Company Limited Huabei Oil Field Branch Company Transmission and Sales Office), 26,000,000 m³ of natural gas will be supplied to Langfang Xinao from the Yongbei long distance pipeline for 2001. The processing station located on the eastern outskirts of the Langfang city centre obtains natural gas from

THE GROUP'S BUSINESS

Langdong Gas Well by an approximately 3 km long intermediate pipeline connected directly to such gas well. Langfang Xinao is currently negotiating with PetroChina Company Limited Huabei Oil Field Branch Company Transmission and Sales Office for the purchase of natural gas from Langdong Gas Well.

The 陝甘寧長輸管道 (Shanganning long distance pipeline), which transmits natural gas from gas fields located in 陝西省 (Shanxi Province), 甘肅省 (Gansu Province) and 寧夏自治區 (Ningxia Autonomous Region) to Beijing, is connected to the Yongbei long distance pipeline at Yongqing, and can serve as an additional source of supply of natural gas for the Group via the existing intermediate pipeline, which is connected to the processing station located on the southern outskirts of the Langfang city centre.

The table below summarises the number of supply contracts Langfang Xinao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations | Number of gas connections made | Estimated daily gas consumption ⁽³⁾ (m ³) |
|------------------------------|----------------------------------|--|--|---|
| Residential | 9,457 | 52,088 households ⁽¹⁾ | 46,074 households | 18,430 |
| Commercial and industrial | 221 | 221 sites ⁽²⁾ | 215 sites | 63,760 |
| | <u>9,678</u> | <u>52,088 households and 221 sites</u> | <u>46,074 households and 215 sites</u> | <u>82,190</u> |

Notes:

- (1) Contracted households represent approximately 62.0% of the current estimated residential households of approximately 84,000 in the Langfang city centre (which includes the Langfang Development Zone).
- (2) The commercial and industrial customers of Langfang Xinao include Beijing Xinao, Jinggu Xinao and Jingchang Xinao, fellow subsidiaries of Langfang Xinao. Pursuant to three CNG supply agreements all dated 10 January 2001, Langfang Xinao has agreed to supply and deliver 7,000,000 m³ of natural gas per annum (in the form of CNG) to each of Beijing Xinao, Jinggu Xinao and Jingchang Xinao for a period of three years commencing from 10 January 2001 at a price of RMB1.20 per m³ (during off-peak hours) or RMB1.60 per m³ (during peak hours).
- (3) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 127,519 m³ as at 28 February 2001 for those customers with gas connections made.

Information on Langfang

Langfang is a city in Hebei Province with a total area of 6,429 km² and is located between Beijing and Tianjin and is approximately 50 km to the southeast of the Beijing city centre and approximately 60 km to the northwest of Tianjin. It is well connected to other areas of the PRC by means of expressways and railways. The non-agricultural population and commercial activities of Langfang are concentrated in the Langfang city centre while the industrial activities are concentrated in the Langfang Development Zone. There are over 500 enterprises established in the Langfang Development Zone.

THE GROUP'S BUSINESS

Langfang is rich in natural gas resources with Langdong Gas Well (being part of Huabei Oil Field) located only approximately 3 km from Langfang Xiniao's processing station. In addition, the Shanganning long distance pipeline and Yongbei long distance pipeline, which transport natural gas to Beijing, run nearby Langfang providing additional and stable sources of natural gas for Langfang Xiniao.

The Group's operations in Langfang cover the Langfang city centre (which includes the Langfang Development Zone). It is estimated that the total area of the Langfang city centre will increase from the existing size of 35 km² to 50 km² by 2010, which includes an anticipated increase in the area of the Langfang Development Zone from 10 km² in 1999 to 14 km² by 2010. In 1999, the population of the Langfang city centre was approximately 252,000 (comprising a total of approximately 84,000 households on the basis of the current PRC average household size of approximately three persons per household). The Langfang City People's Government anticipates that the population of the Langfang city centre for 2010 will increase by 98% to approximately 500,000 (comprising a total of approximately 166,000 households on the basis of the aforementioned PRC average household size).

The Langfang City People's Government has demonstrated its commitment to promote a non-polluted environment in Langfang. In September 1999, the Langfang City People's Government and the Langfang Environmental Bureau required that Jinguang Road, the main street of the Langfang city centre, be coal free and that the use of crude coal along such road be replaced by other fuel for all boilers and heaters which meet the national standard in relation to the emission of smoke. In addition, no cooking appliances using coal are allowed in food stalls along Jinguang Road.

With the planned increase in the area of the Langfang city centre and the Langfang Development Zone and the development of 東方大學城 (Oriental University City), which is expected to accommodate 150,000 students, lecturers and staff, the Directors believe that the economic activities and population of Langfang will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

Liaocheng Xiniao

Information of Liaocheng Xiniao

Liaocheng Xiniao was originally established as a PRC joint venture on 11 June 1999 and was owned as to 80% by XGCL, as to 10% by 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited) and as to 10% by 聊城市公用事業管理局 (Liaocheng City Public Utilities Supervisory Bureau). Liaocheng City Public Utilities Supervisory Bureau is independent of the Group. Liaocheng Xiniao is principally engaged in the business of providing piped natural gas to Liaocheng. After successfully competing against a number of competitors, Liaocheng Xiniao was granted the exclusive right on 28 April 1999 to develop and operate piped natural gas supply in the Liaocheng city centre (which includes the Liaocheng Economic and Technical Development Zone (the "Liaocheng Development Zone")).

In July 2000, XGCL increased its shareholding in Liaocheng Xiniao to 90% by acquiring an additional 10% equity interest in Liaocheng Xiniao from Langfang Development Zone Urban Construction Engineering Company Limited and Liaocheng City Public Utilities Supervisory Bureau sold its 10% interest in Liaocheng Xiniao to 聊城市熱力公司 (Liaocheng City Heating Company, a state-owned enterprise engaged in electricity and gas-related business). As part of the Reorganisation, XGCL transferred its entire equity interest in Liaocheng Xiniao to Liaocheng BVI on 7 August 2000 and Liaocheng Xiniao was converted into a Sino-foreign equity joint venture with the joint venture period extended from 20 years to 30 years commencing from 8 August 2000. The main terms of the joint venture contract relating to Liaocheng Xiniao are set out in the paragraph headed "Further information about the Company – Particulars of the Existing Project Companies" in Appendix V to this prospectus.

THE GROUP'S BUSINESS

The initial phase of piped gas development of Liaocheng Xinao covers the Liaocheng city centre and involves the construction of approximately 1 km of intermediate pipeline and 50 km of main pipeline with pressure regulating facilities installed in the processing station located on the northwestern outskirts of the Liaocheng city centre. As at 28 February 2001, a total of approximately 1 km of intermediate pipeline, 40 km of main pipelines and a processing station with a current designed daily capacity to supply 50,000 m³ of natural gas had been constructed and the main pipeline already covers a substantial part of the Liaocheng city centre.

Liaocheng Xinao currently obtains its supply of natural gas from 中原油田 (Zhongyuan Oil Field) through an approximately 1 km long intermediate pipeline constructed by Liaocheng Xinao which connects 中澹長輸管道 (Zhongcang long distance pipeline) with the processing station located on the northwestern outskirts of Liaocheng city centre at which point the pressure of natural gas is reduced to the requisite level before delivery to end users via the main pipelines. Pursuant to a natural gas purchase agreement dated 11 November 2000 entered into between Liaocheng Xinao and 中原油氣高新股份有限公司天然氣產銷廠 (Natural Gas Production and Sales Factory of Zhongyuan Petroleum and Natural Gas High Technology Company Limited), 3,600,000 m³ of natural gas per annum will be supplied to Liaocheng Xinao from the Zhongcang long distance pipeline for the period from 11 November 2000 to 31 December 2001.

In order to secure further gas supply, Liaocheng Xinao also entered into an agreement with 中國石化集團管道儲運公司聊城管理處 (China Petrochemical Group Pipe Storage and Transportation Company Liaocheng Administration Office) on 20 December 2000 pursuant to which Liaocheng Xinao intends to construct a new intermediate pipeline of approximately 1 km in length connecting the 濮臨長輸管道 (Pulin long distance pipeline) with its processing station located on the northwestern outskirts of Liaocheng city centre.

Liaocheng Xinao began to sign supply contracts with its customers in September 1999 and commenced the partial supply of natural gas in December 1999. The table below summarises the number of supply contracts Liaocheng Xinao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations | Number of gas connections made | Estimated daily gas consumption ⁽²⁾ (m ³) |
|------------------------------|----------------------------------|--|--|---|
| Residential | 182 | 6,865 households ⁽¹⁾ | 4,298 households | 1,719 |
| Commercial and industrial | 16 | 16 sites | 14 sites | 3,070 |
| | <u>198</u> | <u>6,865 households and 16 sites</u> | <u>4,298 households and 14 sites</u> | <u>4,789</u> |

Notes:

- (1) Contracted households represent approximately 6.9% of the current estimated residential households of approximately 100,000 in the Liaocheng city centre (which includes the Liaocheng Development Zone).
- (2) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 6,140 m³ as at 28 February 2001 for those customers with gas connections made.

THE GROUP'S BUSINESS

Information on Liaocheng

Liaocheng is a city in Shandong Province with a total area of 8,590 km² and is located approximately 91 km to the west of 濟南 (Jinan). The non-agricultural population and commercial activities of Liaocheng are concentrated in the Liaocheng city centre while the industrial activities are concentrated in the Liaocheng Development Zone within the Liaocheng city centre. With its close proximity to Shanxi, Hebei and Henan Provinces, Liaocheng is a connection point and business hub for provinces in eastern China. Liaocheng is also well connected to other areas of the PRC by means of expressways and railways including 京九鐵路 (Beijing-Kowloon Railway).

The Group's operations in Liaocheng cover the Liaocheng city centre (which includes the Liaocheng Development Zone). The Liaocheng City People's Government has estimated that the total area of Liaocheng city centre will increase from the existing size of 31 km² to 57 km² by 2010. In 1999, the population of Liaocheng city centre was approximately 300,000 (comprising a total of approximately 100,000 households on the basis of the aforementioned PRC average household size). The Liaocheng City People's Government anticipates that the population of Liaocheng city centre for 2010 will increase by 60% to approximately 480,000 (comprising a total of approximately 160,000 households on the basis of the aforementioned PRC average household size).

The Liaocheng City People's Government has demonstrated its commitment to promote a non-polluted environment in Liaocheng. Since 1995, the Liaocheng City People's Government has been encouraging the establishment of low pollution industries and restricting the operations of industries with high pollution in the Liaocheng city centre. In addition, the Liaocheng City People's Government now requires that all new and existing residential developments and all industrial and commercial institutions (including hotels, restaurants, canteens and schools) use natural gas for cooking, air-conditioning, space heating and water heating and has banned the use of coal burning boilers. In addition, all new property developments must be equipped with facilities for natural gas connections before the issuance of construction and sale permits.

With the Liaocheng City People's Government targeting to connect 80% of the residents in the Liaocheng city centre to natural gas, the intended development of the Liaocheng city (which includes the construction of approximately 500,000 m² of residential premises per annum in the next three years), the planned expansion of the Liaocheng city centre and the development of Liaocheng as a tourist attraction, the Directors believe that the economic activities and population of Liaocheng will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

Beijing Xinao

Information on Beijing Xinao

Beijing Xinao was originally established as a PRC joint venture on 10 September 1999 and was owned as to 80% by XGCL and 20% by 北京市密雲化工公司 (Beijing City Miyun Chemicals Company ("Miyun Chemicals")), a state-owned enterprise engaged in gas-related business and the sale of building materials) for the purpose of engaging in the business of providing piped gas to Miyun. Prior to the establishment of Beijing Xinao, Miyun Chemicals and its then joint venture partner (the "Original Miyun JV") supplied LPG to Miyun (the "Miyun LPG Project"). After successfully competing against a number of competitors, Beijing Xinao successfully convinced the Miyun County People's Government to replace the use of LPG with piped natural gas as the main source of fuel for Miyun and was selected to replace the Original Miyun JV. On 10 September 1999, the Miyun County People's Government granted Beijing Xinao the exclusive right to develop and operate piped gas supply for the residential districts in Miyun and has further agreed not to approve other piped gas projects in the Miyun county centre (which includes the Miyun Industrial Development Area). On 25 September 1999, Beijing Xinao formally acquired the assets of the Miyun LPG Project which included approximately 3 km of main pipelines already constructed. After acquiring such assets, Beijing Xinao was able to immediately proceed with the other necessary investment in the gas pipeline infrastructure since the relevant approvals, permits and consents had already been obtained, which provided substantial savings in time and work.

THE GROUP'S BUSINESS

As part of the Reorganisation, XGCL transferred its entire equity interest in Beijing Xinao to Miyun BVI on 30 July 2000 and Beijing Xinao was converted into a Sino-foreign equity joint venture with the joint venture period extended from 10 years to 30 years commencing from 8 August 2000. The main terms of the joint venture contract relating to Beijing Xinao are set out in the paragraph headed "Further information about the Company – Particulars of the Existing Project Companies" in Appendix V to this prospectus.

The initial phase of piped gas development of Beijing Xinao covers the Miyun county centre (which includes the Miyun Industrial Development Area). Such development involves the construction of more than 70 km of main pipelines with CNG pressure regulating facilities and the installation of additional backup LPG air mixing facilities in the processing station located on the western outskirts of Miyun county centre. As at 28 February 2001, a total of approximately 17 km of the main pipelines had been constructed.

Natural gas is currently supplied to Miyun Xinao by transporting CNG using CNG trucks to its processing station. This processing station has a current designed daily capacity to supply 72,000 m³ of natural gas. The pressure of the CNG is reduced to the requisite level at such station before delivery to end users via the main pipelines. Pursuant to a gas purchase agreement dated 10 January 2001 entered into between Beijing Xinao and Langfang Xinao, Langfang Xinao will supply and deliver 7,000,000 m³ of natural gas per annum (in the form of CNG) to Beijing Xinao for a period of three years at a price of RMB1.20 per m³ (during off-peak hours) or RMB1.60 per m³ (during peak hours). The purchase price was determined with reference to the market price and taking into account the transportation and operation costs. In the event of an adjustment to the gas purchase price payable by Langfang Xinao, Beijing Xinao and Langfang Xinao will enter into a supplemental agreement with newly agreed upon prices. In addition, Beijing Xinao has entered into a gas purchase agreement dated 16 November 2000 with 北京天然氣集輸公司北京中油匯園公司 (Beijing Natural Gas Transportation Zhongyou Huiyuan Company), a state-owned enterprise, whereby Beijing Xinao will be supplied with up to 4,500 m³ of natural gas per day during the winter and 3,000 m³ of natural gas per day during the summer for a period of one year commencing from the date of the agreement. Under such agreement, Beijing Xinao is responsible for the collection of natural gas (in the form of CNG) at 衙門口 (Yamenkou) in Beijing, which is located 120 km from the Miyun county centre.

The construction of a new long distance pipeline (being the eastern extension of the 陝甘寧長輸管道 (Shanganning long distance pipeline), is currently being planned by the Beijing Municipality Government. Such long distance pipeline is expected to pass nearby Miyun and will be available to supply natural gas to Miyun in 2006. Beijing Xinao currently intends to construct an intermediate pipeline connecting such new long distance pipeline with a new processing station to be constructed by Beijing Xinao on the outskirts of the Miyun county centre.

Beijing Xinao began to sign supply contracts with its customers in October 1999 and commenced the partial supply of natural gas in January 2000. The table below summarises the number of supply contracts Beijing Xinao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations | Number of gas connections made | Estimated daily gas consumption ⁽²⁾ (m ³) |
|------------------------------|----------------------------------|--|---|---|
| Residential | 182 | 3,437 households ⁽¹⁾ | 2,778 households | 1,111 |
| Commercial and industrial | 8 | 8 sites | 8 sites | 2,551 |
| | <u>190</u> | <u>3,437 households and 8 sites</u> | <u>2,778 households and 8 sites</u> | <u>3,662</u> |

THE GROUP'S BUSINESS

Notes:

- (1) Contracted households represent approximately 10.7% of the current estimated residential households of approximately 32,000 in the Miyun county centre (which includes the Miyun Industrial Development Area).
- (2) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 5,101 m³ as at 28 February 2001 for those customers with gas connections made.

Information on Miyun, Beijing Municipality

Miyun is a county in the suburban area of Beijing Municipality with a total area of 2,226 km² and is located approximately 65 km to the northeast of Beijing city centre. The non-agricultural population and commercial activities of Miyun are concentrated in the Miyun county centre while the industrial activities are concentrated in the Miyun Industrial Development Area within the Miyun county centre. In addition, over ten universities have been established in Miyun. In 1993, Miyun (together with 13 other counties within the Beijing Municipality) was approved by the State Council as a satellite city of Beijing Municipality and developmental policies have been established in order to encourage the movement of population from the Beijing city centre to Miyun.

The Group's operations in Miyun cover the Miyun county centre (which includes the Miyun Industrial Development Area). The Miyun County People's Government has estimated that the total area of Miyun county centre will increase from the existing size of 21 km² to 30 km² by 2010. In 1999, the population of Miyun county centre was approximately 97,000 (comprising a total of approximately 32,000 households on the basis of the aforementioned PRC average household size). The Miyun County People's Government anticipates that the population of Miyun county centre for 2010 will increase by 210% to approximately 300,000 (comprising a total of approximately 100,000 households on the basis of the aforementioned PRC average household size).

The Beijing Municipality Government and the Miyun County People's Government have demonstrated their commitment to promote a non-polluted environment in Miyun. A reservoir which serves as the main source of water supply for the urban area of Beijing city is located in Miyun. Hence, it is particularly important to promote a non-polluted environment in Miyun in order to preserve the quality of water for use by Beijing residents. To further demonstrate its commitment to promote a non-polluted environment in Miyun, the Miyun County People's Government has implemented numerous environmental protection policies. For example, in 1995, the local government targeted a reduction in coal consumption by 3.5% per annum within Miyun county, beginning in 1995. In 1999, the Miyun County People's Government restricted the use of environmentally unfriendly fuel in the Miyun county centre. Furthermore, the Miyun County People's Government required that coal as a source of energy be replaced by other types of cleaner fuel for all boilers located in the Miyun county centre by 2000.

With the rapid development of Beijing, the planned construction of three additional residential districts in Miyun county centre and the construction of new residential premises (with a total gross floor area of approximately 1,700,000 m²) in its existing districts to commence in 2001, along with the aforementioned planned expansion of the Miyun county centre and the commencement of the construction of an expressway from the Beijing city centre to Miyun in fall 2001, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

THE GROUP'S BUSINESS

Huludao Xinao

Information on Huludao Xinao

Huludao Xinao was originally established as a PRC joint venture on 24 December 1999 and was owned as to 90% by XGCL and as to 10% by 葫蘆島市城市建設委員會 (Huludao Construction Committee) which is a party independent of the Group. Prior to the establishment of Huludao Xinao, 葫蘆島市城市建設委員會 (Huludao City Urban Construction Commission) supplied piped natural gas to Huludao City (the “Original Huludao Project”). On 14 December 1999, the Huludao City People’s Government granted Huludao Xinao the exclusive right to supply natural gas to the Huludao city centre (which includes the Huludao Economic and Technical Development Zone (the “Huludao Development Zone”). The Huludao City People’s Government further agreed not to approve the establishment of any LPG supply station within the Operational Location of Huludao Xinao in Huludao. On 24 December 1999, Huludao Xinao formally acquired the assets and liabilities of the Original Huludao Project which included approximately 2 km of intermediate pipeline and approximately 32 km of main pipelines already constructed and covering major parts of Huludao city centre. At that time, a processing station with a designed daily capacity to supply 30,000 m³ of natural gas had already been constructed on the southern outskirts of Huludao city centre with additional LPG air mixing facilities as backup gas supply. After acquiring such assets, Huludao Xinao was able to immediately continue supplying natural gas to existing customers.

As part of the Reorganisation, XGCL transferred its entire equity interest in Huludao Xinao to Huludao BVI on 3 August 2000 and Huludao Xinao was converted into a Sino-foreign equity joint venture with the remaining 10% being owned by 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited, a state-owned enterprise engaged in the investment in, and operation of, infrastructure projects). The main terms of the joint venture contract relating to Huludao Xinao are set out in the paragraph headed “Further information about the Company – Particulars of the Existing Project Companies” in Appendix V to this prospectus.

The initial phase of piped gas development of Huludao Xinao currently in progress covers the Huludao city centre (which includes the Huludao Development Zone). The development involves the construction of more than 208 km of main pipelines. In addition to the existing processing station, a new processing station is to be constructed on the northern outskirts of the Huludao city centre, which is expected to have a designed daily capacity to supply 50,000 m³ of natural gas. Such station will also be equipped with LPG air mixing facilities as backup gas supply. As at 28 February 2001, a total of approximately 40 km of main pipelines had been constructed.

Natural gas for Huludao Xinao is currently being supplied by 渤海油田 (Bohai Gas Wells) at a connection point located to the south of the Huludao city centre. Huludao Xinao’s existing processing station is connected to such connection point by an approximately 2 km long intermediate pipeline. Pursuant to a gas supply agreement dated 31 January 2001 entered into between Huludao Xinao and 中海石油(中國)有限公司 (China National Offshore Oil (PRC) Limited), up to 30,000 m³ of natural gas from Bohai Gas Wells will be supplied per day to Huludao Xinao from 31 January 2001 through 5 November 2012.

THE GROUP'S BUSINESS

Huludao Xiniao began to sign supply contracts with its customers after the acquisition of the assets and liabilities of the Original Huludao Project on 24 December 1999. The table below summarises the number of supply contracts Huludao Xiniao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations ⁽¹⁾ | Number of gas connections made | Estimated daily gas consumption ⁽³⁾ (m ³) |
|------------------------------|----------------------------------|---|--------------------------------------|---|
| Residential | 10,402 | 17,243 households ⁽²⁾ | 14,547 households | 5,819 |
| Commercial and Industrial | 20 | 20 sites | 20 sites | 4,627 |
| | 10,422 | 17,243 households and 20 sites | 14,547 households and 20 sites | 10,446 |

Notes:

- (1) Supply contracts in respect of 10,037 households and two commercial and industrial sites were entered into and gas connections were made to 8,802 households and two commercial and industrial sites when the assets and liabilities of the Original Huludao Project were taken over by Huludao Xiniao on 24 December 1999.
- (2) Contracted households represent approximately 11.3% of the current estimated residential households of approximately 152,000 in Huludao city centre (which includes the Huludao Development Zone).
- (3) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 9,254 m³ as at 28 February 2001 for those customers with gas connections made.

Information on Huludao

Huludao is a city located on the southwestern part of Liaoning Province with a total area of 10,415 km². It is also a seaport and one of the centres for heavy industry in the PRC which includes the petrochemical, mining and shipbuilding industries. The non-agricultural population together with both commercial and industrial activities of Huludao are concentrated in the Huludao city centre.

Huludao is rich in petroleum and gas resources with 渤海油氣田 (Bohai Oil Field) located off the coast of Huludao, which provides a stable, secure source of natural gas for the piped gas supply business of Huludao Xiniao.

The Group's operations in Huludao cover the Huludao city centre (which includes the Huludao Development Zone). The Huludao City People's Government has estimated that the total area of the Huludao city centre will increase from the existing size of 50 km² to 60 km² in 2010. In 1997, the Huludao City People's Government forecasted that the population of Huludao city centre would increase from approximately 340,000 in 1997 to approximately 400,000 in 2000 and approximately 500,000 in 2010. However, by 1999 the population of the Huludao city centre had already reached approximately 456,000 (comprising a total of approximately 152,000 households on the basis of the aforementioned PRC average household size), exceeding the forecast made by the Huludao City People's Government for 2000.

THE GROUP'S BUSINESS

The Huludao City People's Government has demonstrated its commitment to promote a non-polluted environment in Huludao and has required piped gas facilities to be included as a condition for approval of the design and construction of residential property development projects. On 21 August 2000, the Huludao City People's Government announced that effective as at 30 September 2000, all boilers in the Huludao city centre should comply with the emission requirements of the local environmental protection department.

With the planned construction of approximately 10 additional residential districts (with a total gross floor area of approximately 14,540,000 m²) in Huludao city centre during the next five years, and the aforementioned planned expansion of the Huludao city centre, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

Acquisition Companies

Pursuant to the Acquisition Agreements, the Company (through its wholly-owned subsidiaries) will acquire from XGCL its entire equity interests in each of the Acquisition Companies. XGCL is a joint stock limited company established in the PRC and is indirectly owned as to approximately 50.7% by Mr. Wang. The Acquisition Companies are **not** included in the existing structure of the Group as a result of the requirement that the Group must complete the acquisitions by means of foreign currency (which will be funded by the proceeds of the Placing) since such acquisitions, as advised by the Company's PRC legal adviser, could not be effected by way of share swaps and, therefore, must be settled in cash. Each of the Acquisition Agreements is conditional upon, inter alia, approval of the relevant local foreign trade and economic co-operation department being obtained and the satisfaction of the due diligence review on the Acquisition Companies and their assets (including property interests). The Group intends to complete the Acquisition Agreements as soon as practicable after the listing of Shares on GEM using funds raised by way of the Placing.

Jinggu Xiniao

Information on Jinggu Xiniao

Jinggu Xiniao was established as a PRC joint venture on 11 August 2000 and is owned as to 70% by XGCL and 30% by 平谷縣液化石油氣公司 (Pinggu County LPG Company, a state-owned enterprise engaged in gas-related projects) for the purpose of providing piped gas to Pinggu. After successfully competing against a number of competitors, the Pinggu County People's Government granted Jinggu Xiniao the exclusive right to develop and supply piped gas in the Pinggu county centre (which includes the 興谷開發區 (Xinggu Development Zone) and the 濱河開發區 (Binhe Development Zone)) on 18 July 2000.

As part of the Reorganisation, Pinggu BVI entered into a conditional agreement with XGCL on 31 January 2001 to acquire XGCL's entire equity interest in Jinggu Xiniao for a consideration equal to the total amount invested by XGCL in Jinggu Xiniao at the completion of the agreement. As at 28 February 2001, the total amount invested in Jinggu Xiniao by XGCL was RMB6,930,000. Upon completion of the agreement, the legal status of Jinggu Xiniao will be changed from a PRC joint venture to a Sino-foreign joint venture. The main terms of the joint venture contract relating to Jinggu Xiniao are set out in the paragraph headed "Further information about the Company – Particulars of the Acquisition Companies" in Appendix V to this prospectus.

THE GROUP'S BUSINESS

The initial phase of piped gas development of Jinggu Xinao covers the Pinggu county centre (which includes the aforementioned development zones) and involves investment in the construction of more than 40 km of main pipelines with CNG pressure regulating facilities to be installed in a processing station to be located on the northern outskirts of the Pinggu county centre. As at 28 February 2001, a total of approximately 9 km of the main pipelines had been constructed.

Natural gas is currently being supplied to Jinggu Xinao by transporting CNG using CNG trucks to its processing station. This processing station has a current designed daily capacity to supply 72,000 m³ of natural gas. The pressure of the CNG is reduced to the requisite level at such station before delivery to end users via the main pipelines. Pursuant to a gas purchase agreement dated 10 January 2001 made between Jinggu Xinao and Langfang Xinao, Langfang Xinao will supply and deliver 7,000,000 m³ of natural gas per annum (in the form of CNG) to Jinggu Xinao for a period of three years at a price of RMB1.20 per m³ (during off-peak hours) or RMB1.60 per m³ (during peak hours). The purchase price was determined with reference to the market price and taking into account the transportation and operation costs. In the event of an adjustment in the gas purchase price payable by Langfang Xinao, Jinggu Xinao and Langfang Xinao will enter into a supplemental agreement with newly agreed upon prices. In addition, Jinggu Xinao entered into a gas purchase agreement dated 26 December 2000 with 北京天然氣集輸公司北京中油滙園公司 (Beijing Natural Gas Transportation Zhongyou Huiyuan Company) whereby Jinggu Xinao will be supplied with up to 2,000 m³ of natural gas per day during the winter and 1,000 m³ of natural gas per day during the summer for a period of one year commencing from the date of the agreement. Under this agreement, Jinggu Xinao is responsible for the collection of natural gas (in the form of CNG) at Yamenkou in Beijing.

Jinggu Xinao began to sign supply contracts with its customers in September 2000 and commenced the partial supply of natural gas in January 2001. The table below summarises the number of supply contracts Jinggu Xinao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations | Number of gas connections made | Estimated daily gas consumption ⁽²⁾ (m ³) |
|------------------------------|----------------------------------|--|--------------------------------------|---|
| Residential | 69 | 1,282 households ⁽¹⁾ | 135 households | 54 |
| Commercial and industrial | 1 | 1 site | 1 site | 200 |
| | <u>70</u> | <u>1,282 households and 1 site</u> | <u>135 households and 1 site</u> | <u>254</u> |

Notes:

- (1) Contracted households represent approximately 4.1% of the current estimated residential households of approximately 31,000 in the Pinggu county centre (which includes the Xinggu Development Zone and the Binhe Development Zone).
- (2) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 400 m³ as at 28 February 2001 for those customers with gas connections made.

THE GROUP'S BUSINESS

Information on Pinggu, Beijing Municipality

Pinggu is a county in the suburban area of Beijing Municipality with a total area of 1,070 km² and is located approximately 70 km to the northeast of Beijing city centre. Pinggu has numerous tourist attractions. The non-agricultural population and commercial activities of Pinggu are concentrated in the Pinggu county centre while the industrial activities are concentrated in the Xinggu Development Zone and the Binhe Development Zone, which are located within the northern and southern parts of the Pinggu county centre, respectively. In 1993, Pinggu (together with 13 counties within the Beijing Municipality) was approved by the State Council as a satellite city of Beijing Municipality and developmental policies have been established in order to encourage the movement of population from Beijing city centre to Pinggu.

The initial operations of Jinggu Xinao in Pinggu will cover the Pinggu county centre (which includes the aforementioned development zones). The Pinggu County People's Government has estimated that the total area of the Pinggu county centre will increase from the existing size of 19 km² to 24 km² by 2010. In 1999, the population of Pinggu county centre was approximately 93,000 (comprising a total of approximately 31,000 households on the basis of the aforementioned PRC average household size). The Pinggu County People's Government anticipates that the population of the Pinggu county centre for 2010 will increase by 104% to approximately 190,000 (comprising a total of approximately 63,000 households on the basis of the aforementioned PRC average household size).

The Beijing Municipality Government and Pinggu County People's Government have demonstrated their commitment to promote a non-polluted environment in Pinggu by closely monitoring the pollution in Beijing and setting targets for the improvement of air quality on an annual basis. It has also required all satellite cities in Beijing to ban the use of coal burning boilers. In 2000, the Pinggu County People's Government required piped gas facilities to be included in all new property development projects before the design and construction of such property development projects would be approved.

For the purpose of facilitating transportation between Beijing city centre and Pinggu and in order to encourage the migration of residents from the urban area of Beijing Municipality to its suburban area, the Beijing Municipality Government has built a highway, which was completed in 1999, connecting the Beijing city centre with the Pinggu county centre.

With the rapid development of Beijing, the aforementioned planned expansion of the county centre and the completion of the highway from Beijing city centre to Pinggu, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

Qingdao Xinao

Information on Qingdao Xinao

Qingdao Xinao was established as a PRC joint venture on 30 October 2000 and is owned as to 90% by XGCL and 10% by 青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation, a state-owned enterprise engaged principally in the supply of hot water and steam, the production and supply of electricity with steam and residual heat, the installation and maintenance of heating ducts, electrical engineering and urban construction) for the purpose of providing piped gas to Huangdao. On 30 September 2000, Qingdao Xinao was granted a right of first refusal to develop piped gas supply in Huangdao by the Huangdao District People's Government.

THE GROUP'S BUSINESS

As part of the Reorganisation, Huangdao BVI entered into a conditional agreement with XGCL on 31 January 2001 to acquire XGCL's entire equity interest in Qingdao Xinao for a consideration equal to the total amount invested by XGCL in Qingdao Xinao at the completion of the agreement. As at 28 February 2001, the total amount invested in Qingdao Xinao by XGCL was RMB18,000,000. Upon completion of the agreement, the legal status of Qingdao Xinao will be changed from a PRC joint venture to a Sino-foreign joint venture. The main terms of the joint venture contract relating to Qingdao Xinao are set out in the paragraph headed "Further information about the Company – Particulars of the Acquisition Companies" in Appendix V to this prospectus.

The initial phase of the piped gas development of Qingdao Xinao covers four sub-districts of Huangdao and involves investment in the construction of more than 50 km of main pipelines with CNG pressure regulating facilities to be installed at two processing stations, one of which has been constructed on the eastern outskirts (the "Huangdao East Station") and the other to be constructed in the central part of Huangdao district centre (the "Huangdao Central Station"). Additional backup LPG air mixing facilities will also be installed in the Huangdao Central Station. The CNG pressure regulating facilities have the ability to unload approximately 4,500 m³ of natural gas per hour from CNG trucks. As at 28 February 2001, a total of approximately 3 km of the main pipelines were constructed and CNG pressure regulating facilities with a designed daily capacity to supply approximately 12,000 m³ were installed at the Huangdao East Station.

Natural gas is currently being supplied to Qingdao Xinao by transporting CNG using CNG trucks to the Huangdao East Station. The pressure of the CNG is then reduced to the requisite level at such station before delivery to end users via the main pipelines.

The nearest sources of natural gas in Qingdao are the gas wells located in 昌邑 (Changyi), approximately 184 km to the north of Huangdao. Pursuant to a gas purchase agreement dated 4 November 2000 entered into between Qingdao Xinao and 勝利油田勝大集團油氣總公司 (Shengli Oil Field Shengda Group Oil and Gas Corporation), natural gas (in the form of CNG) will be supplied to Qingdao Xinao for a term of 15 years. From 4 November 2000 until the end of 2001, Qingdao Xinao will be supplied with up to 30,000 m³ of natural gas per day. Thereafter, the amount of gas to be supplied will be agreed upon annually. Qingdao Xinao will collect the CNG from Shengli Oil Field's gas station at Changyi.

Qingdao Xinao began to sign supply contracts with its customers in November 2000 and commenced the partial supply of natural gas in December 2000. The table below summarises the number of supply contracts Qingdao Xinao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations | Number of gas connections made | Estimated daily gas consumption ⁽²⁾ (m ³) |
|------------------------------|----------------------------------|--|--------------------------------------|---|
| Residential | 13 | 1,184 households ⁽¹⁾ | 44 households | 18 |
| Commercial and industrial | – | – | – | – |
| | <u>13</u> | <u>1,184 households</u> | <u>44 households</u> | <u>18</u> |

Notes:

- (1) Contracted households represent approximately 1.9% of the current estimated residential households of approximately 63,000 in Huangdao district centre.
- (2) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made.

THE GROUP'S BUSINESS

Information on Huangdao District, Qingdao City

Huangdao is a district of Qingdao City, Shandong Province. It has a total area of 214 km² and is also known as the Qingdao Economic and Technical Development Zone. Huangdao is separated from other districts of Qingdao City by 膠洲灣 (Jiaozhou Bay) and are approximately 5 km apart. Currently, transportation between Huangdao and Qingdao city centre is by ferry or via the 膠洲灣高速公路 (Jiaozhou Bay Expressway). There are five sub-districts in Huangdao with the non-agricultural population and commercial and industrial activities concentrated in four sub-districts around Jiaozhou Bay.

Huangdao, being the Economic and Technical Development Zone for Qingdao, is a centre for high technology industries in Qingdao. In addition, Huangdao is a popular tourist location with numerous attractions. To further develop Huangdao, a cross harbour bridge connecting Huangdao and the Qingdao city centre will commence construction in mid-2001. Upon completion of the bridge, the travelling time between Huangdao and the Qingdao city centre will be substantially reduced from the current time of approximately one hour to approximately five minutes.

The initial operations of Qingdao Xinao in Huangdao will cover four out of five sub-districts around Jiaozhou Bay. The Huangdao District People's Government has estimated that the total area of the Huangdao district centre will increase from the existing size of 27 km² to 54 km² by 2010. In 1999, the population of Huangdao was approximately 189,000 (comprising a total of approximately 63,000 households on the basis of the aforementioned PRC average household size). The Huangdao District People's Government anticipates that the population of Huangdao for 2010 will increase by 217% to approximately 600,000 (comprising a total of approximately 200,000 households on the basis of the aforementioned PRC average household size).

The Qingdao City People's Government and the Huangdao District People's Government have demonstrated their commitment to promote a non-polluted environment in Huangdao. In 1996, the Huangdao District People's Government limited the use of coal in manufacturing and in the production of electricity, and has required gas fuel to replace coal by 2010. In May 2000, the Qingdao City People's Government set a target to connect 90% of the households in Qingdao City with piped gas fuel by 2005.

With the construction of the cross harbour bridge between the Qingdao city centre and Huangdao, the promotion of the use of gas fuel by the government and the further development of Huangdao, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

Jingchang Xinao

Information on Jingchang Xinao

Jingchang Xinao was established as a PRC joint venture on 16 November 2000 and is owned as to 80% by XGCL and 20% by 北京市昌平市政經濟發展總公司 (Beijing City Changping Urban Economic Development Corporation ("Changping Corp"), a state-owned enterprise engaged in civil engineering, tourism and sale of building materials) for the purpose of providing piped gas to Changping. Prior to the establishment of Jingchang Xinao, Changping Corp and its then joint venture partner (the "Original Changping JV") supplied LPG to Changping (the "Changping LPG Project"). After successfully competing against a number of competitors, Jingchang Xinao was selected to replace the Original Changping JV and on 2 November 2000, was granted the exclusive

THE GROUP'S BUSINESS

right to develop and supply piped gas to satellite cities in Changping (which include the Changping district centre). In addition, during 2000, the Changping District People's Government declared that no small size LPG supply station could be built in the Changping district centre and Jingchang Xinao convinced the Changping District People's Government to replace the use of LPG with natural gas as the main source of piped fuel for Changping. The joint venture partner of Jingchang Xinao has contributed assets (including assets of the Changping LPG Project) of value equivalent to RMB1.98 million for its 20% interest in Jingchang Xinao and XGCL has contributed cash of RMB7.92 million for its 80% interest in Jingchang Xinao. On 27 November 2000, Jingchang Xinao formally took over the assets of the Changping LPG Project which includes 16 km main pipeline already constructed. After taking over such assets, Jingchang Xinao was able to immediately proceed with the necessary construction since the relevant approvals, permits and consents had already been obtained, which provided substantial savings of time and work.

As part of the Reorganisation, Changping BVI entered into a conditional agreement with XGCL on 31 January 2001 to acquire XGCL's entire equity interest in Jingchang Xinao for a consideration equal to the total amount invested by XGCL in Jingchang Xinao at the completion of the agreement. As at 28 February 2001, the total amount invested in Jingchang Xinao by XGCL was RMB7,920,000. Upon completion of the agreement, the legal status of Jingchang Xinao will be changed from a PRC joint venture to a Sino-foreign joint venture. The main terms of the joint venture contract relating to Jingchang Xinao are set out in the paragraph headed "Further information about the Company – Particulars of the Acquisition Companies" in Appendix V to this prospectus.

The initial phase of piped gas development of Jingchang Xinao covers the Changping district centre (which includes 中關村科技園區昌平園 (Changping sector of Zhongguangcun Science Park), a branch of Zhongguangcun Science Park, which is a famous district for high technology companies located in the urban area of Beijing, and involves the investment in the construction of more than 40 km of main pipelines with CNG pressure regulating facilities to be installed in the processing station and LPG air mixing facilities previously installed in respect of the Changping LPG Project as backup facilities. Such processing station is to be located on the northern outskirts of the Changping district centre (the "Changping North Station"). As at 28 February 2001, a total of approximately 16 km of the main pipelines had been constructed.

The Directors currently anticipate that the second phase of piped gas development for Jingchang Xinao will cover two satellite cities located within Changping, namely 小湯山鎮 (Xiaotangshan Town) located on the southeastern part of Changping and 沙河鎮 (Shahe Town) located to the south of the Changping district centre.

Natural gas is currently being supplied to Jingchang Xinao by transporting CNG using CNG trucks to the Changping North Station. This station has a current designed daily capacity to supply 72,000 m³ of natural gas. The pressure of the CNG is reduced to the requisite level at such station before delivery to end users via the main pipelines. Pursuant to a gas purchase agreement dated 10 January 2001 entered into between Jingchang Xinao and Langfang Xinao, Langfang Xinao will supply and deliver 7,000,000 m³ of natural gas per annum (in the form of CNG) to Jingchang Xinao for a period of three years at a price of RMB1.20 per m³ (during off-peak hours) or RMB1.60 per m³ (during peak hours). The purchase price was determined with reference to the market price and taking into account the transportation and operation costs. In the event of an adjustment to the gas purchase price payable by Langfang Xinao, Jingchang Xinao and Langfang Xinao will enter into a supplemental agreement with newly agreed upon prices. In addition, Jingchang Xinao entered into a gas purchase agreement dated 26 December 2000 with 北京天然氣集輸公司北京中油滙園公司 (Beijing Natural Gas Transportation Zhongyou Huiyuan Company)

THE GROUP'S BUSINESS

whereby Jingchang Xinao will be supplied with up to 4,500 m³ of natural gas per day during the winter and 2,000 m³ of natural gas per day during the summer for a period of one year commencing from the date of the agreement. Under this agreement, Jingchang Xinao is responsible for the collection of natural gas (in the form of CNG) at 衙門口 (Yamenkou) in Beijing.

The construction of two new long distance pipelines (both being the western extensions of the 陝甘寧長輸管道 (Shanganning long distance pipeline)) is currently being planned by the Beijing Municipality Government. The pipelines, being the 北湯綫 (the "Beitang Extension"), which connects the Shanganning long distance pipeline at 北苑 (Beiyuan) with Xiaotangshan Town, and the 回南綫 (the "Huinan Extension"), which connects the Shanganning long distance pipeline at 回龍觀 (Huilongguan) with 南口鎮 (Nankou Town) in Changping, pass nearby the Changping district centre and Shahe Town. It is currently expected that the Huinan Extension will be able to supply natural gas to Shahe Town by the end of 2001. Jingchang Xinao currently intends to construct an intermediate pipeline connecting the Huinan Extension with a new processing station to be located on the southern outskirts of the Changping district centre.

Jingchang Xinao began to sign supply contracts with its customers in November 2000 and commenced the partial supply of natural gas in December 2000. The table below summarises the number of supply contracts Jingchang Xinao has entered into since its establishment and up to 28 February 2001:

| | Number of supply contracts | Contracted number of gas supply locations | Number of gas connections made | Estimated daily gas consumption ⁽²⁾ (m ³) |
|---------------------------|----------------------------|---|--------------------------------|---|
| Residential | 10 | 1,248 households ⁽¹⁾ | 284 households | 114 |
| Commercial and industrial | 1 | 1 site | 1 site | 250 |
| | 11 | 1,248 households and 1 site | 284 households and 1 site | 364 |

Notes:

- (1) Contracted households represent approximately 4.0% of the current estimated residential households of 31,000 in Changping.
- (2) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 500 m³ as at 28 February 2001 for those customers with gas connections made.

Information on Changping, Beijing Municipality

Changping, being known as one of the back gardens of Beijing Municipality, is a district in the suburban area of Beijing Municipality with a total area of 1,352 km² and is located approximately 30 km to the northwest of Beijing city centre. The non-agricultural population and commercial activities of Changping are both concentrated in the Changping district centre with industrial activities concentrated in the Changping Science Park. In 1993, Changping (together with 13 counties within Beijing Municipality) was approved by the State Council as a satellite city of Beijing Municipality and developmental policies have been established in order to encourage movement of the population from Beijing city centre to Changping.

THE GROUP'S BUSINESS

The initial operations of Jingchang Xinao in Changping will cover the Changping district centre. The Beijing Municipality Government has estimated that the total area of the Changping district centre will increase from the existing size of 10 km² to 19 km² in 2010. In 1999, the population of Changping district centre was approximately 94,000 (comprising a total of approximately 31,000 households on the basis of the aforementioned PRC average household size). The Changping District People's Government anticipates that the population of Changping district centre for 2010 will increase by 76% to approximately 165,000 (comprising a total of approximately 55,000 households on the basis of the aforementioned PRC average household size).

The Beijing Municipality Government and the Changping District People's Government have demonstrated their commitment to promote a non-polluted environment in Changping due to Changping's close proximity to the urban area of Beijing and its status as a tourist attraction in Beijing. The Changping District People's Government has restricted the use of environmentally unfriendly fuel in its district centre since 2000 and has required piped gas facilities to be included as a condition for approval of the design and construction of property development projects.

In order to facilitate access between Changping and Beijing city centre and to promote migration of the population from the urban area of Beijing Municipality to its suburban area, the 八達嶺高速公路 (Badaling Expressway) was completed in 1998 connecting Beijing city centre with Changping district centre.

With the rapid development of Beijing and the aforementioned planned expansion of Changping district centre, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

New Projects

The New Projects are Project Jingzhou, Project Chengyang and Project Zhucheng which envisage the establishment of Jingzhou Xinao, Chengyang Xinao and Zhucheng Xinao. **As at the Latest Practicable Date, the New Project Companies have not been established.**

Project Jingzhou

Information on Jingzhou Xinao

Jingzhou BVI entered into a Sino-foreign joint venture contract with 荊州市城市建設投資開發公司 (Jingzhou City Urban Construction Investment Development Company ("Jingzhou Investment"), a state-owned enterprise engaged in city construction investment) on 23 March 2001 relating to the establishment of Jingzhou Xinao. Jingzhou Xinao will be owned as to 80% by Jingzhou BVI and 20% by Jingzhou Investment for the purpose of providing piped gas to Jingzhou, which was previously undertaken by 荊州市燃氣總公司 (Jingzhou City Gas Corporation) in connection with the supply of coal gas to Jingzhou (the "Jingzhou Coal Gas Project").

The establishment of Jingzhou Xinao is subject only to approval of the relevant foreign trade and economic co-operation department in Jingzhou. Jingzhou BVI is in the course of applying, for the granting of the exclusive right to operate piped gas in Jingzhou district centre (which includes the Jingzhou Economic and Technical Development Zone (the "Jingzhou Development Zone")) to be issued in the name of Jingzhou Xinao. The main terms of the Sino-foreign joint venture contract are set out in the paragraph headed "Further information about the Company – Particulars of the New Project Companies" in Appendix V to this prospectus.

THE GROUP'S BUSINESS

Pursuant to the Sino-foreign joint venture contract, Jingzhou Investment has agreed to inject assets of a value equivalent to RMB12 million (including assets of the Jingzhou Coal Gas Project such as approximately 30 km of main pipelines and a processing station located on the eastern outskirts of the Jingzhou city centre with a designed daily capacity to supply 700,000 m³ of coal gas into Jingzhou Xinao) as a capital contribution for its 20% interest in Jingzhou Xinao. The approximately 23,000 existing residential customers of the Jingzhou Coal Gas Project will also be transferred to Jingzhou Xinao and it is expected that Jingzhou Xinao will continue to supply piped coal gas to these customers after the transfer. The supply of coal gas will be replaced by the supply of natural gas at a later date as described below.

The initial phase of piped gas development of Jingzhou Xinao covers the Jingzhou district centre and involves the investment in the construction of more than 2 km of intermediate pipeline and 110 km of main pipelines with pressure regulating facilities to be installed in a new processing station to be located on the northern outskirts of the Jingzhou city centre. The new processing station has a designed daily capacity to supply 300,000 m³ of natural gas and is expected to be supported by LPG air mixing facilities as backup gas supply and will replace the coal gas facilities located in the existing processing station.

As mentioned in the PRC's tenth five-year plan for the period 2001 to 2005, one of the PRC Government's pillar projects is to construct various long distance pipelines connecting the natural gas rich western provinces to the more affluent eastern provinces. One of these pipelines will connect the gas fields in 四川 (Sichuan) to 武漢 (Wuhan) which passes nearby Jingzhou. Construction of this long distance pipeline began in mid-2000 and is expected to be completed in 2002. Jingzhou will be one of the first cities to be supplied with natural gas by this long distance pipeline. It is currently intended that Jingzhou Xinao will construct an intermediate pipeline connecting the new long distance pipeline with the aforementioned new processing station.

Prior to the completion of the new processing station and the availability of natural gas supply via the long distance pipeline to Jingzhou, it is expected that Jingzhou Xinao will continue to supply coal gas utilising the existing pipeline and coal gas facilities located in the existing processing station. Coal gas will be purchased under an agreement entered into by the existing operator. Thereafter, the supply of piped coal gas in Jingzhou will be replaced by natural gas. The natural gas will be supplied through the intermediate pipeline to the new processing station at which point the pressure of the natural gas will be reduced to the requisite level before delivery to end users via the main pipelines. A gas purchase agreement will be entered into after Jingzhou Xinao is established to take over the operations.

Information on Jingzhou

Jingzhou is the second largest city in Hubei Province (based on population) with a total area of 12,000 km² and is located approximately 220 km west of Wuhan. The non-agricultural population together with both commercial and industrial activities of Jingzhou are concentrated in the Jingzhou city centre. Jingzhou is well connected to other parts of the PRC by means of roads, railways, waterways and air transportation. Jingzhou is also a popular historical city with numerous tourist attractions.

The initial operations of Jingzhou Xinao will cover the Jingzhou district centre (including the Jingzhou Development Zone). It is currently envisaged that the total area of the Jingzhou city centre will increase from the existing size of 54 km² to 75 km² by 2010. In 1999, the population of Jingzhou city centre was approximately 602,000 (comprising a total of approximately 201,000 households on the basis of the aforementioned PRC average household size). The Jingzhou City

THE GROUP'S BUSINESS

People's Government anticipates that the population of the Jingzhou city centre for 2010 will increase by 33% to approximately 800,000 (comprising a total of approximately 267,000 households on the basis of the aforementioned PRC average household size). In addition, the Jingzhou City People's Government forecasted that the natural gas usage for Jingzhou will increase to approximately 85 million cubic metres per annum in 2005 and 191 million cubic metres per annum in 2010.

The Jingzhou City People's Government has demonstrated its commitment to promote a non-polluted environment in Jingzhou. In order to reduce air pollution in the Jingzhou city centre, the Jingzhou People's Government plans to encourage the use of dual-fuel vehicles. The Jingzhou City People's Government also plans to require manufacturers with high energy consumption such as fertiliser manufacturers and neon light producers to use natural gas as fuel in their production process. In addition, the Jingzhou City People's Government has required piped gas facilities to be included as a condition for approval of the design and construction of property development projects.

With the development and planned expansion of the Jingzhou city centre, which includes the Jingzhou Development Zone, the Directors believe that economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

Project Chengyang

Information in Chengyang Xinao

Chengyang BVI entered into a Sino-foreign joint venture contract with 青島市城陽區建設工程監理處 (Qingdao City Chengyang District Construction Engineering Supervisory Office ("Chengyang Construction"), a state-owned enterprise engaged in the supervision of utility projects) on 31 January 2001 relating to the establishment of Chengyang Xinao. Chengyang Xinao will be owned as to 90% by Chengyang BVI (a wholly-owned subsidiary of Xinao Gas Investment) and 10% by Chengyang Construction for the purpose of providing piped gas to Chengyang.

The Chengyang District People's Government has approved the operation of piped gas in Chengyang district centre (which includes the Qingdao Round Sea Economical and Technical Development Zone (the "Chengyang Development Zone")) by Xinao Gas Investment or its subsidiary and has granted it the exclusive right to develop and supply piped gas to the Chengyang district centre for a period of 30 years. The establishment of Chengyang Xinao is subject only to the approval of the relevant foreign trade and economic co-operation department in Qingdao City. The main terms of the Sino-foreign joint venture contract are set out in the paragraph headed "Further information about the Company – Particulars of the New Project Companies" in Appendix V to this prospectus.

The initial phase of piped gas development of Chengyang Xinao is currently intended to cover the Chengyang district centre which will involve the construction of more than 30 km of main pipelines with pressure regulating facilities to be installed in the processing station located on the northwestern outskirts of the Chengyang district centre. Such station has a designed daily capacity to supply 30,000 m³ of natural gas and is supported by LPG air mixing facilities as backup gas supply.

Natural gas will be supplied to Chengyang by transporting CNG via CNG trucks to the processing station. The pressure of the CNG will be reduced to the requisite level at such station before delivery to end users via the main pipelines.

THE GROUP'S BUSINESS

The nearest source of natural gas in Qingdao are the gas wells located in 昌邑 (Changyi), approximately 100 km northwest of Chengyang. The Group is currently negotiating a gas purchase agreement with 勝利油田勝大集團油氣總公司 (Shengli Oil Field Shengda Group Oil Corporation) on terms similar to the gas purchase agreement already entered into by XGCL in respect of Qingdao Xinao with such corporation. It is expected that a gas purchase agreement will be signed after Chengyang Xinao is established.

Information on Chengyang District, Qingdao City

Chengyang is a district within Qingdao City with a total area of 553 km² and is located approximately 35 km to the north of the Qingdao city centre. The non-agricultural population together with both commercial and industrial activities of Chengyang are concentrated in the Chengyang district centre. Chengyang is well connected to other parts of the PRC by air, sea and road transportation. The Qingdao International Airport, Qingdao Harbour, railway and numerous expressways support the district.

Furthermore, the Qingdao City People's Government is currently constructing an underground railway connecting Qingdao city centre and Chengyang district centre for the purpose of facilitating access to the city centre of Qingdao and promoting migration of the population from the city centre of Qingdao to Chengyang. Upon completion, the travelling time between the Chengyang district centre and the Qingdao city centre will be reduced from 50 minutes to 20 minutes.

The initial operations of Chengyang Xinao in Chengyang are currently intended to cover the Chengyang district centre (which includes the Chengyang Development Zone). The Chengyang District People's Government has estimated that the total area of Chengyang district centre will increase from the existing size of 7 km² to 22 km² by 2010. In 1999, the population of Chengyang district centre was approximately 50,000 (comprising a total of approximately 17,000 households on the basis of the aforementioned PRC average household size). The Chengyang District People's Government anticipates that the population of Chengyang district centre for 2010 will increase by 220% to approximately 160,000 (comprising a total of approximately 53,000 households on the basis of the aforementioned PRC average household size).

The Qingdao City People's Government and the Chengyang District People's Government have demonstrated their commitment to promote a non-polluted environment for Chengyang. The Chengyang District People's Government has required piped gas facilities to be included as a condition for approval of the design and construction of property development projects. In May 2000, the Qingdao City People's Government set a target to connect 90% of the households in Qingdao City with piped gas fuel by 2005.

With the planned construction of the underground railway and the aforementioned planned expansion of the Chengyang district centre, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

THE GROUP'S BUSINESS

Project Zhucheng

Information on Zhucheng Xinao

Zhucheng BVI entered into a Sino-foreign joint venture contract with 諸城市燃氣熱力總公司 (Zhucheng City Gas and Heating Corporation (“Zhucheng Gas”), a state-owned enterprise engaged in the sale of LPG and gas-related business) on 31 January 2001, relating to the establishment of Zhucheng Xinao. Zhucheng Xinao will be owned as to 80% by Zhucheng BVI and 20% by Zhucheng Gas for the purpose of providing piped gas to Zhucheng. Prior to the establishment of Zhucheng Xinao, Zhucheng Gas supplied LPG to Zhucheng (the “Zhucheng LPG Project”).

The Zhucheng City People's Government has approved in-principle the operation of piped gas in the Zhucheng district centre (which includes the Zhucheng Eastern Economic and Technical Development Zone (the “Zhucheng Development Zone”)) by Zhucheng Xinao and has granted Zhucheng Xinao the exclusive right to develop and operate piped gas supply for the Zhucheng city centre (including Zhucheng Development Zone) for a period of 30 years. The establishment of Zhucheng Xinao is subject only to the approval of the relevant foreign trade and economic co-operation department in Zhucheng City. The main terms of the Sino-foreign joint venture contract are set out in the paragraph headed “Further information about the Company – Particulars of the New Project Companies” in Appendix V to this prospectus.

Pursuant to the Sino-foreign joint venture contract, Zhucheng Gas has agreed to inject assets of a value equivalent to US\$600,000 (including assets of the Zhucheng LPG Project) into Zhucheng Xinao as capital contribution for its 20% interest in Zhucheng Xinao. The assets consist mainly of LPG installed storage facilities and customers' pipelines constructed separately at each of the existing residential LPG supply locations in the Zhucheng city centre.

The initial phase of piped gas development of Zhucheng Xinao is currently intended to cover the Zhucheng city centre (including the Zhucheng Development Zone) and will involve investment in the construction of more than 60 km of main pipelines with pressure regulating facilities to be installed in the processing station located on the northern outskirts of the Zhucheng city centre. Such station will have a planned daily capacity to supply 40,000 m³ of natural gas to its Operational Location and will be supported by LPG air mixing facilities as backup gas supply. Regarding the existing customers of the Zhucheng LPG Project, it is expected that Zhucheng Xinao will continue to supply LPG to such customers to be replaced with natural gas by connecting main pipelines to the relevant customers' pipelines. The LPG storage tanks currently located at such existing supply locations will be relocated to the aforementioned processing station.

Natural gas will be supplied to Zhucheng by transporting CNG via CNG trucks to the processing station where the pressure of the CNG will be reduced to the requisite level at such station before delivery to end users via main pipelines.

The nearest source of natural gas from Zhucheng is the gas wells located in 昌邑 (Changyi), approximately 100 km northwest of the Zhucheng city centre. The Group is currently negotiating a gas purchase agreement with 勝利油田勝大集團油氣總公司 (Shengli Oil Field Shengda Group Oil Corporation) on terms similar to the gas purchase agreement already entered into by Qingdao Xinao with such corporation. It is expected that a gas purchase agreement will be signed after Zhucheng Xinao is established.

THE GROUP'S BUSINESS

The PRC Government is currently considering the feasibility of constructing a long distance pipeline for obtaining natural gas from the Russian Federation to日照 (Rizhao) (located approximately 50 km from Zhucheng), which will pass nearby Zhucheng. Such long distance pipeline could provide additional natural gas supply to Zhucheng Xinao if the PRC Government decides to proceed with such construction.

Information on Zhucheng

Zhucheng is a city situated at the southeastern part of Shandong Province with a total area of 2,183 km². The non-agricultural population together with both industrial and commercial activities of Zhucheng are concentrated in the Zhucheng city centre. Zhucheng is also an important transportation interchange for the coastal and inland area for Shandong.

The initial operations in Zhucheng are currently intended to cover the Zhucheng city centre (which includes the Zhucheng Development Zone). The Zhucheng City People's Government has estimated that the total area of Zhucheng city centre will increase from the existing size of 16 km² to 34 km² by 2010. In 1999, the population of Zhucheng city centre was approximately 110,000 (comprising a total of approximately 37,000 households on the basis of the aforementioned PRC average household size). The Zhucheng City People's Government anticipates that the population of Zhucheng city centre for 2010 will increase by 173% to approximately 300,000 (comprising a total of approximately 100,000 households on the basis of the aforementioned PRC average household size).

The Zhucheng City People's Government has demonstrated its commitment to promote a non-polluted environment for Zhucheng and has implemented restrictions on emissions for the Zhucheng city centre. In addition, approval is required from the environmental protection department for any extension or construction of any coal burning boilers in the Zhucheng city centre.

With the planned construction of new residential premises in Zhucheng city centre (having a total gross floor area of approximately 2,700,000 m²) in the next five years and the planned expansion of the Zhucheng city centre, the Directors believe that the economic activities and population will continue to grow thereby facilitating the growth in demand for connection and usage of natural gas.

SALES AND MARKETING

The Group's head office will be responsible for structuring the Group's overall sales and marketing strategies. The individual sales and marketing team of each Project Company will work together with the head office team to structure an appropriate plan with reference to a specific Operational Location's situation and needs. The sales and marketing team is responsible for company imaging and brand building as well as promoting the advantages and concept of using natural gas as a necessary part of modern day life. Shortly after a Project Company is established, the Group will implement a series of promotional campaigns (which may include joint promotional campaigns with the local government) to increase public awareness of piped gas in an Operational Location. At around the same period, the Group will also commence active marketing negotiations on the terms of supply contracts with target customers with the aim of entering into supply contracts with potential customers as soon as possible. The Group's customers can be classified into two broad categories, namely (i) residential customers and (ii) commercial and industrial customers. Different marketing strategies are adopted for different customer groups.

THE GROUP'S BUSINESS

As at 28 February 2001, the Group has made gas connections to a total of 67,697 households and 257 commercial and industrial sites (connected to gas appliance facilities with a total installed designed daily capacity of approximately 148,014 m³). For each of the three financial years ended 31 December 2000, the Group's largest customer accounted for approximately 5.7%, 7.6% and 11.0% of the Group's total turnover, respectively. For the same period, the Group's five largest customers accounted in aggregate for approximately 20.3%, 22.3% and 30.3% of the Group's total turnover, respectively.

For the purpose of the GEM Listing Rules, save for Langfang Xincheng Property Development Company Limited, none of these five largest customers are associated with any of the Directors, chief executives, management Shareholders or substantial Shareholders or any of their respective associates.

Residential customers

Gas is primarily used by residential owners for cooking and water and space heating. The Group focuses on marketing to property developers, government departments and organisations and state-owned enterprises as these entities enter into master supply contracts with the Group for the connection of gas to all the units within a residential development (new or existing, owned by such entities or their respective employees). These entities are responsible for, or coordinate, the advance payment of connection fees to the Group, while gas usage charges are paid by the individual households.

In respect of new residential developments, connection fees are collected in advance by installment based on the percentage-of-completion of the pipeline construction work. The Group receives full payment of connection fees once construction is completed irrespective of whether the units are sold or occupied. The actual supply of gas will, however, only commence after the unit is occupied.

The Group also markets to owners' committees of existing buildings without piped gas supply. Representatives of the owners' committees will consult individual households as to whether they wish to have piped gas supply and coordinate the collection of connection fees from the households on the Group's behalf. Both connection fees and gas usage charges are payable in advance by the individual households.

Commercial and industrial customers

Commercial customers use natural gas primarily for heating, air conditioning, water heating and cooking purposes. These customers include owners of hotels, restaurants, office buildings, shopping centres, hospitals, educational establishments, sports and leisure facilities and exhibition halls. Natural gas has a wide variety of applications for industrial customers such as fueling industrial boilers, furnaces, ovens, incinerators, foundries and steamers as well as water and space heating in staff canteens and dormitories within the industrial customers' premises. The Group enters into supply contracts with these customers for the connection of gas to their premises, and both connection fees (payable in advance) and gas usage charges (payable monthly in arrears) are borne by such customers.

Although the existing number of commercial and industrial customers are less than the number of residential customers, these customers are equally important to the Group as they are high volume gas users. The Directors are confident that with adequate sales and marketing efforts, the number of commercial and industrial customers will gradually increase in the future.

THE GROUP'S BUSINESS

PRICING

Connection fees are determined after a detailed analysis of factors such as estimated capital expenditure, number of users, growth in penetration rates, income levels and affordability of local residents. The Group arrives at the gas usage charges after taking into consideration the wholesale price of gas, operating costs, the price of substitute products and the purchasing power of local residents. As mentioned in the sub-paragraph headed "Securing a new Operational Location" above, connection fees and gas usage fees are subject to the approval of the local state price bureau. Future price increases are also subject to the same approval process. In considering applications for an increase in gas usage charges, the local state price bureau may consider factors such as increases in the wholesale price of gas or operating expenses, inflation, additional capital expenditure, and whether the profit margin remains fair and reasonable.

For each of the three financial years ended 31 December 2000, connection fees accounted for approximately 77.7%, 72.8% and 82.8% of the Group's total turnover, respectively. Gas usage charges accounted for approximately 22.0%, 27.1% and 16.8% of the Group's total turnover for each of the three years ended 31 December 2000, respectively. Connection fees and gas usage charges are usually settled by bank drafts denominated in Renminbi. During the Track Record Period, the Group recorded an insignificant amount of bad debts.

Connection fees

The Group charges residential customers a flat connection fee for connections made in respect of each type of gas appliance, namely cooking stoves, water heaters and boilers, the latter of which provides both space and water heating. The level of connection fees and whether such fees are inclusive of a particular gas appliance varies among Operational Locations and are approved by the relevant local state price bureau. In the event supply contracts are entered into for the connection of gas to a large number of households within a residential development, discounts of up to 10% of the approved fee payable may be offered, the extent of which will be subject to negotiation and agreement between the contract parties.

For commercial and industrial customers, the connection fee is determined based on the designed capacity of the gas appliance facilities (on a per cubic metre per day basis) installed at the customers' premises. Should additional appliances be installed subsequently, these customers are required to pay additional connection fees to reflect the additional capacity installed. Generally, if gas usage volume is expected to be large, discounts of 5% to 25% of the approved fee payable may be offered, the extent of which will be subject to negotiation and agreement between the contract parties.

The table below sets out the approved connection fees for each Existing Project Company as at 28 February 2001:

| Name of Existing Project Companies | Residential users | | | Commercial & industrial users (RMB/day/m ³) |
|------------------------------------|----------------------------------|---------------------------------|---------------------------|--|
| | Cooking stove (RMB/household) | Water heater (RMB/household) | Boiler (RMB/household) | |
| Langfang Xinao | 3,200 <i>(Note)</i> | 2,200 | 2,500 | 1,200 |
| Liaocheng Xinao | 2,400 | 740 | n.a. | 680 |
| Beijing Xinao | 3,300 <i>(Note)</i> | 1,800 | 2,500 | 600 |
| Huludao Xinao | 2,350 | n.a. | 4,000 | 900 |

Note: Inclusive of relevant gas appliance.

THE GROUP'S BUSINESS

Gas usage charges

Gas usage charges are based on actual usage on a per cubic metre basis. The gas usage charges per cubic metre vary between Operational Locations, and the payment mechanism between different categories of customers is different.

Since September 1996, residential customers of Langfang Xinao have purchased gas units in cash at the Group's sales outlet with details of the prepaid gas units stored electronically in a stored value card. The stored value card is inserted into a stored value card gas metre installed at the user's premises to activate the gas supply. Units of gas used are deducted from the stored value card. When the level of prepaid gas units drops to a certain level (currently pre-set at 3 m³), the gas metre will produce a sound signal to remind the customer to replenish the value stored in the stored value card. Since the Group will not be able to raise the gas usage charges for the gas units sold, the Group has imposed a limit on the maximum amount of gas units that can be stored in the stored value cards to prevent excess prepayment by residential customers in anticipation of future price increases. The Group has set the maximum stored value at 100 m³, and for households with boilers, a maximum stored value of 500 m³. The same payment mechanism is used by the other Existing Project Companies and will be used by the Acquisition Companies and the New Project Companies.

For those residential customers without a stored valued card gas metre installed (amounting to 17,424 households) and for commercial and industrial customers, payment for gas usage charges are made in arrears. Gas metres that record actual gas consumption are installed at the users' premises and metre readings are taken physically by the Group every month. Monthly bills based on the prior month's actual usage are then sent to customers and are immediately payable. In general, settlements are received by the Group about one week from the date of billing. In respect of commercial users with large gas usage volume, the Group may offer discounts of 14% to 30% of the approved charges, the extent of which will be subject to negotiation and agreement between the parties.

The table below sets out the approved gas usage charges (inclusive of value added tax of 13%) for each Existing Project Company as at 28 February 2001:

| Name of Existing Project Companies | Residential users (RMB per m ³) | Commercial & industrial users (RMB per m ³) |
|------------------------------------|--|---|
| Langfang Xinao | 1.2 | 1.4 ^(Note) |
| Liaocheng Xinao | 1.8 | 2.0 |
| Beijing Xinao | 2.5 | 2.9 |
| Huludao Xinao | 2.1 | 3.0 |

Note: Pursuant to the approval granted, the approved gas usage charges for schools, old aged homes and hospitals is RMB1.2 per m³.

PURCHASES

The main categories of purchases made by the Group are gas, pipes, machinery, equipment and gas appliances. Save for the purchase of CNG by Beijing Xinao from Langfang Xinao, all of the materials purchased by the Group were acquired from independent third parties during the Track Record Period.

THE GROUP'S BUSINESS

For each of the three financial years ended 31 December 2000, the Group's largest supplier accounted for approximately 34.4%, 35.5% and 23.1% of the Group's total purchases, respectively, and the Group's five largest suppliers accounted for approximately 79.2%, 75.9% and 59.8% of the Group's total purchases, respectively. For the purpose of the GEM Listing Rules, none of these five largest suppliers are connected with any of the Directors, chief executives, management Shareholders or substantial Shareholders or any of their respective associates.

The Group has established firm business relationships with its major suppliers for long periods (ranging from two to eight years). The Directors believe that the Group has good relationships with its suppliers and the Group has not experienced any difficulty in the sourcing of natural gas or other major supplies.

Gas

The Group has entered into gas purchase agreements to purchase natural gas (the terms of which range from one to 15 years). The wholesale price of natural gas is agreed between the suppliers and the Group with reference to the wellhead price, distance of transportation of gas, purification fees and the supplier's operating costs. The wellhead price of natural gas, which is determined by the State Development and Planning Commission with approval from the State Council, is currently set at RMB0.90 per m³ with a 10% allowance for upward or downward adjustments as a result of negotiations between suppliers and distribution companies. Since 1993, the wellhead price has increased only twice, but such increase was absorbed by Langfang Xinao and was not passed on to its customers in order to develop the market. LPG (currently used as a backup gas source) is purchased when appropriate at the prevailing market price.

The quantity of natural gas to be supplied to the Group by its suppliers is usually stated in the gas purchase agreements. The Group is only required to pay the actual quantity purchased and there is no penalty to the Group should the Group purchase less than the stated amount. The Directors are satisfied that the stated quantities of natural gas as set out in the relevant existing gas purchase agreements are sufficient for the potential demand of gas by the respective Project Companies.

Payment for natural gas by the Group to its suppliers is made monthly in advance and is based on the estimated purchase submitted quarterly by the Group. Any surplus will be carried forward as part of the pre-payment for the next calendar month and is recorded by a metre installed at the point where the Group's intermediate pipelines connect with the suppliers' long distance pipelines. Payment for gas purchased is made by the Group by bank drafts denominated in Renminbi in accordance with the gas supply agreements.

Pipes, machinery and equipment

The Group purchases pipes of various diametres and thicknesses for installation in different segments of the gas pipeline infrastructure (the specifications of which must comply with PRC standards and regulations). The Group also purchases machinery and equipment, both domestically and abroad.

Pipes are purchased domestically and payments are settled in Renminbi with credit terms ranging from 30 to 90 days. Machinery and equipment are sourced domestically and externally from the United States and Italy. Payments for equipment and machinery purchased are primarily settled in Renminbi (in the case of domestic purchases) and US dollars (in the case of overseas

THE GROUP'S BUSINESS

purchases) by letters of credit or telegraphic transfer with credit terms ranging from 30 to 90 days. Payments settled in Renminbi represented approximately 100%, 81.8% and 100% of the total pipes, machinery and equipment purchases for each of the three financial years ended 31 December 2000.

Gas appliances

As residential customers often require the Group to provide gas appliances, the Group purchases gas appliances in bulk directly from manufacturers in the PRC and holds a limited amount of stock. The Group will provide customers repair and maintenance services to the gas appliance facilities it has supplied. Payments are usually settled by bank drafts denominated in Renminbi one month after receipt of goods. The Directors believe that the Group has good relationships with its suppliers.

SAFETY AND QUALITY CONTROL

Safety

The Group places great emphasis on safety control and has, accordingly, adopted a safety administrative system and set up a safety department to oversee safety issues for the Project Companies. The Group carries out, through the Project Companies, routine inspection of the branch pipelines, customers' pipelines, gas metres and gas appliances at the customers' premises twice a year. These semi-annual inspections are free unless major repairs are required in which case the Group charges the customers for labour, replacement parts and other materials used for the repairs.

The Group believes in educating users about safety procedures. Accordingly, before gas is actually supplied, the Group will give a thorough explanation of safety procedures to users, and will arrange regular seminars or distribute brochures and booklets on safety for end users. A 24-hour hotline for enquiries and emergency repairs is also in operation at each Operational Location.

In order for the Group to monitor the operations of the pipelines, in particular, gas usage, gas leakages, or any other irregularities, the Group collects information about the temperature, pressure and volume of gas from key points along the main pipelines. The information is collated in the control centre located in the head office of each Operational Location for analysis. In Langfang, a computerised system known as Supervisory Control and Data Acquisition system ("SCADA") is used whereby a number of small detectors are installed along the main pipelines to collect such information and send it back to the control centre electronically. In other locations, the information collection is currently carried out manually by the Operational Location's own personnel. The Group plans to install the SCADA system in other Operational Locations when the customer base reaches a sizeable level. Each Project Company conducts a major inspection of its pipelines, processing station and other equipment at least once a year. Should gas leakages or any other irregularities be detected, the Group will take remedial action immediately.

Due to the Group's strict implementation of safety control procedures, there have been no major accidents which have resulted in serious injury or death since the Group began operations in 1993.

THE GROUP'S BUSINESS

Quality control

Quality control begins in the design and construction phase of the gas supply infrastructure. The quality control team is comprised of a team of five engineers who regularly make inspection visits and conduct tests to ensure that construction work meets the Group's required standards.

The Group also has strict quality control procedures for the sourcing of raw materials. As such, the Group only purchases from its approved list of qualified suppliers.

In order to monitor the quality of gas purchased by the Group, the Group obtains gas composition reports regularly from its gas suppliers with details on the heat content and composition of impurities. The Group also conducts tests on the gas purchased in order to verify the quality.

RESEARCH AND DEVELOPMENT

As at 28 February 2001, the Group had an in-house research and development team of approximately 40 employees, a majority of whom specialise in the fields of energy, mechanical and electronic engineering. Areas under research and development include:

- methods to increase operating efficiency and safety standards;
- expansion of the applications of natural gas, such as gas fuelled air conditioners, washing machines and dryers, and use of CNG in motor vehicles; and
- improvement of gas storage and transportation methods.

Furthermore, to closely track gas-related developments overseas, representatives from the research and development department regularly attend international gas conferences and have exchange programmes with overseas gas companies.

There were no research and development expenses for the two financial years ended 31 December 1999. Research and development expenses for the financial year ended 31 December 2000 amounted to approximately RMB762,000.

COMPETITION

Due to the nature of the piped gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, it is not economically or practically feasible for more than one distribution company to operate in one location. Therefore, the local government will normally grant exclusive rights or rights of first refusal to a selected distributor to operate in a location. Once the Group has identified a potential Operational Location, it will negotiate with the local government to obtain an exclusive right or right of first refusal to supply gas to that Operational Location, which might cover the whole or the most densely populated areas of such Operational Location. In the process of securing such exclusive rights or rights of first refusal, the Group may face competition from other distribution companies which include stated-owned companies and non state-owned enterprises. Once the Group has successfully obtained an exclusive right or right of first refusal, that Operational Location is considered to be secure and the Group will not face competition from another piped gas distribution company. Due to the Group's extensive experience and sound track record of safe and reliable piped gas supply to end-users, the Directors believe that the Group will be able to successfully obtain exclusive rights or

THE GROUP'S BUSINESS

rights of first refusal to supply gas to new Operational Locations notwithstanding inevitable strong competition from other companies. As at the Latest Practicable Date, the Existing Project Companies have obtained exclusive rights to supply gas to their respective Operational Locations and the Acquisition Companies have obtained exclusive rights or rights of first refusal to supply gas to their respective Operational Locations.

After the Group secures an Operational Location, the Group faces competition from existing providers of other fuel substitutes such as bottled LPG, coal and to a lesser extent electricity, as electricity for heating purposes is more expensive than gas and less popular for cooking purposes. The Directors believe that with the PRC Government's planned phasing out of the use of coal as a result of its environmental policies, and the comparative advantages of natural gas over coal and LPG as a safer, cleaner and more convenient form of fuel, competition from other fuel substitutes does not represent a serious threat to the Group's business. From a cost perspective and on an energy adjusted per unit basis, natural gas is more economical than bottled LPG and electricity.

Each of the Initial Management Shareholders and XGCL has entered into a non-competition deed (conditional upon the listing of, and commencement of dealing in, the Shares on GEM) on 28 March 2001. Under the non-competition deeds, the Initial Management Shareholders and XGCL have irrevocably undertaken and covenanted with the Company that they will not and will procure that their respective associates shall not, directly or indirectly, during the period from the date on which the non-competition deed shall take effect and until the date on which the non-competition deed is terminated in accordance with the terms therein, carry on for their own accounts or for any other persons, firm or organisation any business which is or may be in competition with (i) the business currently carried on by the Group; or (ii) the business relating to gas supply (including but not limited to investment in, and the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas) in the PRC (the "Restricted Business").

The non-competition deed given by each of the Initial Management Shareholders and XGCL does not apply to the following:

- (i) the holding of shares or other securities by each of the Initial Management Shareholders and XGCL and their associates issued by the Company or any of its subsidiaries;
- (ii) the holding of shares or other securities by each of the Initial Management Shareholders and XGCL and their associates in any company whose securities are listed on a stock exchange and the total securities beneficially held by each of the Initial Management Shareholders and XGCL and (as the case may be) their associates (other than members of the Group) whether taken together as a whole or singly do not amount to more than 5% of the issued shares or other securities of the company in question; and
- (iii) the holding of equity interest or other securities by each of the Initial Management Shareholders and XGCL and their associates in any of the Acquisition Companies prior to completion of the respective Acquisition Agreements.

The non-competition deed given by each of the Initial Management Shareholders and XGCL will remain effective until (i) the Initial Management Shareholders and XGCL and their associates (individually or taken as a whole) cease to be a controlling shareholder and the single largest shareholder of the Company; or (ii) the securities of the Company cease to be listed on GEM, whichever occurs earlier.

THE GROUP'S BUSINESS

TRANSACTIONS WITH CONNECTED PERSONS

Completed connected transactions

The Group entered into the following significant arrangements with certain associates of Mr. Wang during the Track Record Period, which would constitute connected transactions under the GEM Listing Rules should the Shares be listed on GEM:

- (i) the provision of gas connection service to 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited (“Langfang Xincheng”)), 廊坊新奧酒店管理有限公司 (Langfang Xinao Hotel Management Company Limited (“Langfang Xinao Hotel Management”)) and 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited (“Langfang Xinao Property Management”)), all being associates of Mr. Wang, for aggregate connection fees of approximately RMB16,838,000, RMB453,000 and RMB82,000, respectively, during the Track Record Period, in accordance with rates agreed to by reference to the Group's similar transactions with independent third parties;
- (ii) the supply of piped gas to Langfang Xinao Property Management, XGCL, 新奧集團太陽能有限公司 (Xinao Group Solar Energy Company Limited (“Xinao Solar Energy”)) and Langfang Xinao Hotel Management Company for aggregate gas usage charges of approximately RMB11,056,000, RMB1,271,000, RMB158,000 and RMB125,000, respectively, during the Track Record Period, in accordance with rates agreed to between the Group and the related parties by reference to the Group's similar transactions with independent third parties;
- (iii) acquisition of land and buildings from Langfang City Gas, XGCL and Langfang Xinao Property Management, at considerations determined based on negotiations or by reference to the then market value of the land and buildings:
 - (a) the acquisition by Langfang Xinao from Langfang City Gas of the gas processing station buildings (with a total area of 658.16 m²) on the northern outskirts of Langfang City, Hebei Province, the PRC at a cash consideration of RMB1,000,000 pursuant to an agreement dated 3 July 1999;
 - (b) the acquisition by Langfang Xinao from Langfang City Gas of a parcel of land (with a total site area of 20,000 m²) at Heping Road, Langfang City, Hebei Province, the PRC at a cash consideration of RMB4,251,600 pursuant to an agreement dated 12 July 1999;
 - (c) the acquisition by Langfang Xinao from Langfang City Gas of a parcel of land (with a total site area of 19,999.91 m²) at Yaohua Road, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC at a cash consideration of RMB3,600,000 pursuant to an agreement dated 10 July 1999;
 - (d) the acquisition by Langfang Xinao from Langfang City Gas of a parcel of land (with a total site area of 13,067.40 m²) at Langzhuo Road, Langfang City, Hebei Province, the PRC at a cash consideration of RMB2,300,000 pursuant to an agreement dated 20 July 1999;

THE GROUP'S BUSINESS

- (e) the acquisition by Langfang Xinao from Langfang City Gas of the gas processing station buildings (with a total area of 323.10 m²) on the southern outskirts of Langfang City, Hebei Province, the PRC at a cash consideration of RMB540,000 pursuant to an agreement dated 3 July 2000;
 - (f) the acquisition by Langfang Xinao from XGCL of the office building (with a total gross floor area of 10,605.17 m²) erected at the site situated at the junction of Huaxiang Road and Hongrun Road, Langfang Economic & Technical Development Zone, Langfang City, Hebei Province, the PRC at a cash consideration of RMB47,900,000 (which was arrived at by reference to valuation made by an independent valuer) pursuant to an agreement dated 30 September 2000; and
 - (g) the acquisition by Langfang Xinao from Langfang Xincheng, a subsidiary of XGCL, of the office building (with a total gross floor area of 4,368.63 m²) erected at the site situated at Jinguang Road, Langfang City, Hebei Province, the PRC, at a cash consideration of RMB7,600,000 (which was arrived at by reference to valuation made by an independent valuer) pursuant to an agreement dated 30 September 2000; and
- (iv) acquisition of pipelines and related facilities by Langfang Xinao from Langfang City Gas during the financial year ended 31 December 2000 at an aggregate cash consideration of RMB27,431,000, which was determined by reference to valuations made by an independent valuer.

Connected transactions to be completed

For the purpose of the listing of Shares on GEM, the Group has entered into Acquisition Agreements (referred to as material contracts numbered (19) to (21) in the paragraph headed "Further information about the business – Summary of material contracts" in Appendix V to this prospectus) with XGCL in relation to the acquisition of XGCL's entire interests in the registered capital of Jinggu Xinao, Qingdao Xinao and Jingchang Xinao, at a consideration equal to the investment by XGCL in these Acquisition Companies at the date of completion. As at 28 February 2001, the aggregate amount of investment made by XGCL in the Acquisition Companies was RMB32,850,000. XGCL has given a written undertaking to the Group that it will not increase or vary the registered capital of the Acquisition Companies and that its nominated directors on the respective boards of directors of these companies will not permit any increase or variation of registered capital of these companies until the completion of the Acquisition Agreements.

Each of the Acquisition Agreements is conditional on all necessary approvals being obtained in relation to the transfer of the relevant equity interest and the conversion of the relevant Acquisition Companies into Sino-foreign equity joint ventures (including the approval from the relevant local foreign trade and economic co-operation departments). Following the completion of the Acquisition Agreements, an announcement in accordance with Rule 20.35 of the GEM Listing Rules will be made by the Company describing the final terms of the transactions.

A portion of the proceeds raised through the Placing will be applied to the acquisition of the Acquisition Companies. It is expected that the acquisitions will be completed shortly after the listing of Shares on GEM.

THE GROUP'S BUSINESS

Exempt continuing connected transactions

The following transaction will continue after the listing of Shares on GEM and will constitute exempt continuing connected transaction under Rule 20.25(1) of the GEM Listing Rules:

- (i) the supply of piped gas to connected persons of the Company (including certain Directors), XGCL, Langfang Xinao Property Management, Langfang Xinao Hotel Management and Xinao Solar Energy for their own consumption with gas usage charges which will not be more favourable than those charged by Langfang Xinao to independent third parties.

The following transactions will continue after the listing of Shares on GEM and will constitute exempt continuing connected transactions under Rule 20.25(3) of the GEM Listing Rules:

- (i) the leasing by Langfang Xinao to Langfang Xinao Property Management of certain staff quarters at Yinhe Main Street, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC (with a total gross floor area of 1,373.38 m²) at an annual rental of RMB329,611 for a term of three years commencing from 1 January 2001;
- (ii) the leasing by XGCL to Langfang Xinao of warehousing units at Changfu Road, Anzi District, Langfang City, Hebei Province, the PRC (in respect of a site with a total gross floor area of 7,907 m² and a covered warehousing space with a gross floor area of 343 m²) for an aggregate annual rental of RMB136,044 for a term of three years commencing from 1 January 2001;
- (iii) the granting by XGCL to Xinao Gas Investment (for itself, the Company and its subsidiaries) of (a) a licence to the exclusive use of registered "XINAO" trademarks and logos in relation to gas related businesses, and (b) pre-emptive rights for a licence to the exclusive use of any "XINAO" trademarks registered in the future in relation to the business of the Group with nil consideration; and an undertaking by XGCL to the Company that it will arrange for registration of such class of the "XINAO" trademarks in the PRC as may be required for the registered use by the Company and its subsidiaries of the "XINAO" trademarks and logos for a period of 10 years from 1 January 2001 pursuant to an agreement dated 1 January 2001; and
- (iv) the leasing by Langfang Xinao to XGCL of certain staff quarters at Yingchun Road, Langfang City, Hebei Province, the PRC (with a total gross floor area of 2,017.70 m²) for an annual rental of RMB435,823 for a term of three years commencing from 1 January 2001.

The following transactions will constitute connected transactions exempted from shareholders' approval requirements under Rule 20.24 of the GEM Listing Rules but are subject to reporting and announcement requirements:

- (i) the provision of property management services by Langfang Xinao Property Management, to Langfang Xinao in relation to the management of (a) the premises of the office building erected at the site situated at the junction of Huaxiang Road East and Hongrun Road North, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC, and (b) the office building erected at the site situated at Jinguang Road, Langfang City, Hebei Province, the PRC for an aggregate annual management fee of RMB1,056,146 for a term of three years commencing from 1 January 2001; and

THE GROUP'S BUSINESS

- (ii) the leasing by Langfang Xinao to XGCL of the ground floor of the office building erected at the site situated at the junction of Huaxiang Road East and Hongyun Road North, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC (with a total gross floor area of 3,299 m²) for an annual rental of RMB1,039,185 plus a reimbursement of management fee on the basis of RMB80 per m² per annum (the aggregate amount being RMB1,303,105 per annum) for a term of three years commencing from 1 January 2001.

The following transaction will constitute a connected transaction and will be subject to the reporting and announcement requirements under Rule 20.53(b)(i) of the GEM Listing Rules:

- (i) the guarantee provided on a several basis (not on a joint and several basis) by Langfang BVI and Langfang City Gas to a bank in proportion to their respective equity interests in Langfang Xinao, being 95% and 5%, respectively, for loans in the aggregate amount of approximately RMB32,000,000 granted by the bank to Langfang Xinao.

Non-exempt continuing connected transactions

The following transactions will constitute non-exempt continuing connected transactions of the Group:

- (i) the provision and delivery of natural gas (in the form of CNG) by Langfang Xinao to each of Beijing Xinao, Jinggu Xinao and Jingchang Xinao for a period of three years commencing 10 January 2001 at a price of RMB1.20 per m³ (during off-peak hours at between 20:00 and 08:00) or RMB1.60 per m³ (during peak hours at between 08:00 and 20:00) of natural gas with an annual contracted supply of 7,000,000 m³. The purchase price was determined with reference to the market price and taking into account the transportation and operation costs. In the event of an adjustment to the gas purchase price payable by Langfang Xinao, the parties will enter into supplemental agreements with newly agreed upon prices. Pursuant to the gas purchase agreements (the form of which is standard for all customers of Langfang Xinao), each of Beijing Xinao, Jinggu Xinao and Jingchang Xinao are required to provide estimated gas requirements in respect of the coming year to Langfang Xinao in September of each year. In the event more CNG is required by any of Beijing Xinao, Jinggu Xinao and Jingchang Xinao, a new contract will be entered into by the relevant parties and the relevant requirements under the GEM Listing Rules will be complied with. The Directors, based on their experience with Langfang Xinao and economic statistics of these locations, estimate that the annual cap for the purchase of CNG from Langfang Xinao by each of Beijing Xinao, Jinggu Xinao and Jingchang Xinao will not exceed RMB6.5 million, RMB4.5 million and RMB14.0 million, respectively, for each of the three financial years ending 31 December 2003; and
- (ii) the provision of gas connection services for certain property developments to Langfang Xincheng by Langfang Xinao for a period of three years commencing 1 January 2001 at connection fees which will not be more favourable than those charged by Langfang Xinao to other independent third parties. The terms of the master supply contract are substantially the same as those master supply contracts entered into with independent third parties and have been arrived at after arm's length negotiations. For the three financial years ended 31 December 2000, the turnover derived by the Group from Langfang Xincheng for the provision of gas connection services was approximately

THE GROUP'S BUSINESS

RMB2.0 million, RMB3.4 million and RMB11.4 million, respectively. The Directors estimate that the annual maximum turnover derived from Langfang Xincheng will not exceed RMB12.0 million for the three financial years ending 31 December 2003 based on the expected increase in property development activities in Langfang City, Heibei Province, the PRC.

As these transactions will be conducted on a regular basis and the property development cycle in the PRC is relatively short, the Directors believe that it would not be practicable to make disclosure or, if necessary, obtain Shareholders' approval on each occasion when every such transaction arises. Accordingly, an application has been made to the Stock Exchange to grant a waiver from strict compliance with the maximum aggregate annual requirement under Rule 20.26(2) of the GEM Listing Rules and the corresponding announcement and shareholders' approval requirements under Rules 20.35 and 20.36 of the GEM Listing Rules. The Stock Exchange has granted a waiver on the conditions as set out in the paragraph headed "Waiver from compliance with the GEM Listing Rules – Connected transactions" in this prospectus.

Sponsor's opinion

Having reviewed the information and documents in respect of all the transactions described in the sub-paragraph headed "Non-exempt continuing connected transactions" above provided by the Company and in reliance upon representations from the Directors, Rothschild is of the view that the transactions described above, which are subsisting and are of a commercial nature, have been entered into in the ordinary course of business of the Group on normal commercial terms and are fair and reasonable as far as the Shareholders taken as whole are concerned. In reaching its views with respect to the connected transactions described above, Rothschild has placed significant reliance upon the information, documents and representations provided by the Company and the Directors.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. Wang Yusuo, aged 36, is the co-founder and chairman of the Company and an executive Director. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 15 years of experience in the investment in, and management of, the gas business in the PRC. He graduated from 中國人民大學 (the People's University) in 1994 and is currently studying for a master's degree in Management at the 天津財經學院 (Tianjin College of Finance and Economics). Mr. Wang was a committee member of the 中國土木工程學會城市煤氣分會第七屆理事會 (Seventh Towngas Committee of the China Civil Engineering Society) in 1999 and is currently a member of the 第九屆全國人民政治協商會議 (Ninth National People's Political Consultative Conference) and a member of the 全國工商聯第八屆執行委員會 (Eighth National Industrial and Commercial Conference). He has won various awards including 河北省十大傑出青年 (Hebei's Top 10 Young and Successful Person) and 中國優秀民營企業家 (Outstanding Entrepreneur in China). Mr. Wang is the spouse of Ms. Zhao.

Mr. Yang Yu, aged 43, is an executive Director and the general manager of the Company responsible for managing and implementing the Group's investment in the PRC, ensuring the safety of the Group's projects, securing gas supply and exploring further gas investments and markets in the PRC. Prior to joining the Group in 1998, he worked with the 中國石油天然氣管道局 (China Petroleum and Natural Gas Pipelines Bureau) and was an executive director, deputy general manager and chief engineer of 中油龍昌 (集團) 股份有限公司 (Petroleum Long Champ (Group) Company Limited), a company listed in the PRC, a director of 塔里木輸油氣有限責任公司 (Talimu Petroleum and Gas Transportation Company Limited) and 青島勝青輸油有限公司 (Qingdao Shengqing Petroleum Transportation Company Limited). He graduated from the 石油工業部管道局職工學院 (Petroleum and Industrial Ministry Pipeline Bureau Technical Institute) in 1985. He holds a master's degree in banking from 中國人民大學 (Renmin University of China) in 1999. Mr. Yang has over 15 years of experience in the PRC gas industry.

Mr. Zhao Jinfeng, aged 33, is an executive Director and a deputy general manager of the Company. He is the head of the business development division and is responsible for assisting the general manager in managing and implementing the Group's investment projects in the PRC, supervising the safety of the Group's projects, securing gas supply and exploring the piped gas market in the PRC. He graduated from the 農業部鄉鎮企業管理幹部學院 (Management Institute of the Ministry of Agriculture). Prior to joining the Group in 1993, Mr. Zhao worked for 廊坊市機電公司 (Langfang City Electrical Company) as a 物資經濟管理經濟員 (economist for resources management). Mr. Zhao has over eight years of experience in the PRC gas industry. Mr. Zhao is a brother of Ms. Zhao.

Mr. Qiao Limin, aged 42, is an executive Director and a deputy general manager of the Company responsible for the safety and operational matters of the Group. Prior to joining the Group in 1993, he worked at 包頭市師範專科學校 (Baotou Education College) and was an assistant lecturer at 廊坊市衛生學校 (Langfang City Health College). He graduated from Baotou Education College in 1984. Mr. Qiao has over eight years of experience in managing gas projects and supervising gas supply operations and safety.

Mr. Jin Yongsheng, aged 37, is an executive Director and deputy general manager of the Company responsible for overseeing legal matters of the Group. He graduated from the Tianjin College of Finance and Economics in 1986, specialising in finance. Prior to joining the Group in

DIRECTORS, SENIOR MANAGEMENT AND STAFF

1996, he was an assistant professor in 農業部鄉鎮企業管理幹部學院 (Management Institute of the Ministry of Agriculture). Mr. Jin is a qualified practising lawyer in the PRC and has over 10 years of experience in legal practice.

Mr. Yu Jianchao, aged 32, is the Finance Director of the Company. He joined the Group in January 1998. He graduated from the 河北財經學院 (Hebei Economics and Finance College) in 1993. Prior to joining the Group, Mr. Yu had worked as the chief accountant for a number of foreign enterprises including 全興工業廊坊有限公司 (GSK Industry (China) Co., Ltd.) and 日清中糧食品有限公司 (Nissin COFCO Foods Co., Ltd.). Mr. Yu has 12 years of experience in accounting and finance.

Non-executive Director

Madam Zhao Baoju, aged 35, is the co-founder and a non-executive Director. She has over eight years of experience in investing in gas fuel projects in the PRC. She graduated from the 河北醫學院護士學校 (Hebei Medical College Nursing School) in 1987 and the Chinese Language Faculty of 首都師範大學 (Capital Education University) in 1998. Ms. Zhao is the spouse of Mr. Wang.

Independent non-executive Directors

Mr. Wang Guangtian, aged 37, is an independent non-executive Director appointed by the Company in March 2001. He holds a master's degree in World Economics from Hebei University and has over 20 years of experience in financial management and administrative management. He was the head of the Financial Bureau of Haixin County of Hebei Province and deputy head of the Financial Bureau of Cangzhou City of Hebei Province. He is currently the deputy general manager of Hebei Enterprises Limited (a company incorporated in Hong Kong) which is the window company for the Hebei Provincial Government in Hong Kong. He is also the general manager of Overseas Way (China) Limited (a company incorporated in Hong Kong).

Mr. Xu Liang, aged 60, is an independent non-executive Director appointed by the Company in March 2001. He studied coal gas engineering in 哈爾濱建築工程學院 (Harbin Architecture and Engineering College). He worked in the 中國市政工程華北設計研究院 (China Urban Engineering Huabei Design and Research Institute) for 36 years in research and design of urban gas supply and is now their consultant and chief engineer. He was also the Secretary of 中國土木工程學會城市煤氣學會第七屆理事會 (Seventh Towngas Committee of the China Civil Engineering Society) and a committee member of 中國天津市土木工程學會第六屆理事會 (Sixth Committee of the Tianjin Civil Engineering Society). He is currently also a committee member of the 中國消防協會第三屆建築防火專業委員會 (Third Construction and Fire Prevention Committee of the PRC Fire Prevention Society).

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group.

The audit committee comprises three members, namely Messrs. Wang Guangtian, Xu Liang and Yu Jianchao.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT

Mr. Yang Junjie, aged 29, is the Chief Engineer of the Group. Mr. Yang joined the Group in September 1996 and is responsible for the Group's technical research and development. Mr. Yang has extensive experience and technical expertise in the gas fuel area. He holds a bachelor's degree in engineering from 重慶建築大學 (Chongqing Construction University) and a master's degree in engineering from 上海同濟大學 (Shanghai Tongji University).

Mr. Jiang Yongxin, aged 38, is the head of the technology, quality and safety department. He graduated from 華東石油學院 (Huadong Petroleum Institute) in 1985 with a bachelor's degree in engineering and is also a specialist in storage and transportation of petroleum and holds a master's degree in engineering in the storage and transportation of petroleum awarded by the 石油大學 (China Petroleum University). Prior to joining the Group in August 2000, he had worked in the 中國石油天然氣管道科學研究院 (Petroleum and Natural Gas Pipelines Research Institute in the PRC), 北京天然氣集輸公司 (Beijing Natural Gas Transportation Company), and 中國石油天然氣管道工程有限公司 (China Petroleum and Natural Gas Pipelines Engineering Company) as senior engineer. He has received the Award for Advancement in technical know-how from 中國石油天然氣管道局 (China Petroleum and Natural Gas Pipelines Bureau). Mr. Jiang has over 12 years of experience in the gas fuel industry in the PRC.

Mr. Wang Dongzhi, aged 32, is the head of the finance department. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from 北京化工學院 (Beijing Chemical College) (now known as 北京化工大學 (Beijing Chemicals University)). In 1996, Mr. Wang obtained a bachelor's degree in Economics, and qualified as a PRC Certified Accountant through self study. Before joining the Group in August 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company, and has extensive experience in treasury and cost management.

Mr. Mark Osman, aged 38, is the head of the customer service department. Before joining the Group in November 2000, Mr. Osman was the managing director of InTelMark. He has over 10 years of experience in the areas of customer service, regional sales and marketing. Mr. Osman graduated from North London University (formerly known as Polytechnic of North London) with a bachelor's degree in Science and later completed a senior management programme. He is a founder member of the Institute of Direct Marketing.

Ms. Li Xiufen, aged 39, is the general manager of Langfang Xinao. She joined the Group in October 1999. She graduated from 哈爾濱工業大學 (Harbin Industrial University) in 1984 from the Faculty of Engineering. Prior to joining the Group in October 1999, she worked in 牡丹江儀表機械有限責任公司 (Mudanjiang Metre Mechanics Company Limited) and was a deputy general manager and the assistant to the general manager of that company and was responsible for technology management and introduction of technology. Ms. Li has over 15 years of experience in technology management.

Mr. Ju Xilin, aged 43, is the general manager of Beijing Xinao. He graduated in 1987 from 牡丹江市委黨校 (Mudanjiang City Communist Institute) specialising in Political Science. Prior to joining the Group in January 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises and was the manager of an industrial and trading company, general manager and party secretary of a tire company and has been the party secretary and vice factory manager of 牡丹江紡織廠團委 (Mudanjiang Textile Factory). Mr. Ju has over 20 years of experience in operational management.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Han Jishen, aged 36, is the general manager of Huludao Xinao. He graduated from 保定職工學校 (Baoding Staff College) in 1990. Mr. Han joined the Group at the end of 1993 and is responsible for management and operations. He had been the general manager of Langfang Xinao and is the general manager of Huludao Xinao. Mr. Han has over seven years of experience in the gas fuel industry in the PRC.

Mr. Cheung Yip Sang, aged 34, is the general manager of Liaocheng Xinao. He holds a bachelor's degree in Legal Studies awarded by 中國人民武裝警察部隊學院 (The Chinese People's Armed Police Force Academy). Prior to joining the Group in February 1998, he was the sales manager of Eastern Guangdong Region of 汕頭加丹啤酒有限公司 (Shantou Jiadan Beer Company Limited). Mr. Cheung is experienced in marketing and sales.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Cheng Chak Ngok, aged 30, is the qualified accountant and secretary of the Company. Prior to joining the Group in November 2000, he worked in an international accounting firm and a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honour bachelor's degree in accounting and finance. He is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants in England, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.

STAFF

As at 28 February 2001, the Group had a total of 501 staff of which 499 are based in the PRC and two are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

| | PRC | Hong Kong | Total |
|---|-----|-----------|-------|
| Management | 20 | – | 20 |
| Gas operations (including safety) | 203 | – | 203 |
| Engineering | 119 | – | 119 |
| Sales and marketing | 41 | – | 41 |
| Construction design and research and development | 39 | – | 39 |
| Planning and finance | 32 | 1 | 33 |
| Administration | 22 | 1 | 23 |
| Procurement | 12 | – | 12 |
| Business development | 11 | – | 11 |
| | 499 | 2 | 501 |
| | 499 | 2 | 501 |

Relationship with staff

The Group recognises the importance of training its staff. Apart from on-the-job training, the Group regularly provides internal and external training for its staff to enhance their technical or product knowledge.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The Group has not experienced any significant problems with its employees or disruption in its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

Pension scheme

Currently, the Group's PRC employees have all enrolled in the mandatory central provision scheme operated by the PRC Government.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group contributes a monthly amount to a professionally managed fund equivalent to 5% of the total salary of its full time employees (up to a maximum of HK\$1,000 for each employee). Each employee in Hong Kong is required to contribute 5% of his or her total salary to the scheme and may elect to make voluntary contributions.

Housing benefits

In accordance with the relevant housing reserve fund laws and regulations in the PRC, the Group contributes a monthly amount to a designated account managed by the Group equivalent to 5% of the total salary of its employees. Such funds are to be used by these employees for their future purchase or rental of residential properties for their own occupation. For the three financial years ended 31 December 2000, the Group's contributions to the employees' housing scheme were RMB42,640, RMB41,280 and RMB42,000, respectively. The Group's only housing benefit obligation is the Group's contribution to this housing scheme.

Share Option Scheme

The Company has conditionally adopted a Share Option Scheme whereby employees of the Group, including executive Directors, may be granted options to acquire Shares. The Directors believe that the Share Option Scheme will assist in the recruitment and retention of high calibre executives and employees. The principal terms of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing (but without taking into account any Shares which may be issued pursuant to the Over-allotment Option), the only persons directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company will be as follows:

| Name | Number of Shares | Percentage of voting power (%) |
|----------|------------------|--------------------------------|
| Easywin | 420,000,000 | 70 |
| Mr. Wang | 420,000,000 | 70 |
| Ms. Zhao | 420,000,000 | 70 |

Note: The three references to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

RESTRICTION ON DISPOSAL OF SHARES BY INITIAL MANAGEMENT SHAREHOLDERS

Pursuant to Rule 13.16 of the GEM Listing Rules, the Company is required to procure that every Initial Management Shareholder (i) places in escrow, with an escrow agent acceptable to the Stock Exchange, the Relevant Shares for a period of two years from the Listing Date, on terms acceptable to the Stock Exchange; and (ii) undertakes to the Company and the Stock Exchange that, for a period of two years from the Listing Date, the Initial Management Shareholders will not, save under certain specified circumstances set out in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into agreements to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of their direct or indirect interest in the Relevant Shares.

An application has been made to the Stock Exchange for the granting of a waiver to the Initial Management Shareholders from strict compliance with the moratorium requirements under Rule 13.16 of the GEM Listing Rules. The Stock Exchange has granted a waiver on the following conditions:

(i) Six-month lock-up period (from 10 May 2001 to 9 November 2001)⁽¹⁾

| | Percentage shareholding held immediately after the Placing (%) |
|----------|--|
| Easywin | 70 ⁽²⁾ |
| Mr. Wang | 70 ⁽²⁾ |
| Ms. Zhao | 70 ⁽²⁾ |

Notes:

- (1) All the dates shown in this table assume that dealing of the Shares commences on 10 May 2001. The figures and percentages in this table are prepared on the basis that the Over-allotment Option is not exercised.
- (2) The shareholding relates to the same block of Shares. Such Shares are held by Easywin which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao.
- (3) Each of Easywin, Mr. Wang and Ms. Zhao has undertaken to the Stock Exchange and the Sponsor that it, he or she will not dispose of any of its, his or her respective direct or indirect interests in the 420,000,000 Shares during the first six months after listing of Shares on GEM.

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

(ii) Six-month lock-up period (from 10 November 2001 to 9 May 2002)

Each of Easywin, Mr. Wang and Ms. Zhao has undertaken to the Stock Exchange and the Sponsor that it, he or she will not dispose of any of its, his or her respective direct or indirect interests in its, his or her Relevant Shares during the second six months after listing of the Shares on GEM commencing from 10 November 2001 such that they would after such disposal cease to have control over an aggregate of 35% of the issued share capital of the Company.

SHARE CAPITAL

SHARE CAPITAL

The following table is prepared on the basis that the Placing becomes unconditional. This table does not take into account Shares which may be issued under the Over-allotment Option, or upon exercise of any option granted under the Share Option Scheme, or under the general mandate to issue Shares (see “General mandate to issue Shares” below), or which may be repurchased by the Company (see “General mandate to repurchase Shares” below).

| | | |
|---|--|--------------------------|
| <i>Authorised share capital:</i> | | <i>HK\$</i> |
| 3,000,000,000 | Shares | 300,000,000 |
| <i>Shares in issue or to be issued, paid-up or credited as fully paid</i> | | <i>HK\$</i> |
| 194,000,000 | Shares in issue | 19,400,000 |
| 226,000,000 | Shares to be issued pursuant to the Capitalisation Issue | 22,600,000 |
| <u>180,000,000</u> | Shares to be issued under the Placing | <u>18,000,000</u> |
| <u><u>600,000,000</u></u> | Shares | <u><u>60,000,000</u></u> |

Ranking

The Placing Shares will rank the same in all respects with all Shares in issue and, in particular, will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to the executive Directors and full-time employees of the Group provided that the aggregate nominal value of the Shares in respect of which options may be granted under the Share Option Scheme shall not exceed, when aggregated with Shares subject to any other share option schemes of the Company, 30% of the aggregate nominal value of all the issued Shares from time to time (excluding Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme).

GENERAL MANDATE TO ISSUE SHARES

A general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of Shares in issue and to be issued (as set out in the above table, plus such number of Shares as may be issued upon the exercise of the Over-allotment Option); and

SHARE CAPITAL

- (ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

This mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or Shares to be issued upon the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the end of the Company’s next annual general meeting; or
- (ii) at the end of the period within which the Company is required by any applicable laws or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the paragraph headed “Further information about the Company – Repurchase by the Company of its own securities” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate has been granted to the Directors to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of up to 10% of the aggregate nominal amount of the Shares in issue and to be issued (as set out in the above table on share capital plus such number of Shares as may be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on GEM, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Further information about the Company - Repurchase by the Company of its own securities” in Appendix V to this prospectus.

This mandate will expire:

- (i) at the end of the Company’s next annual general meeting; or
- (ii) at the end of the period within which the company is required by any applicable laws or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the paragraph headed “Further information about the Company – Repurchase by the Company of its own securities” in Appendix V to this prospectus.

FINANCIAL INFORMATION

TRADING RECORD

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

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

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

During the Track Record Period, the Group's results were substantially attributable to Langfang Xinao. For each of the two financial years ended 31 December 1999, the Group's entire results were attributable to Langfang Xinao. Results from each of Liaocheng Xinao, Beijing Xinao and Huludao Xinao have been combined with the Group's results since their respective dates of acquisition following the acquisition by the Group of interests in these companies. For the financial

FINANCIAL INFORMATION

year ended 31 December 2000, Langfang Xinao remained the major contributor to the Group's profits. For Liaocheng Xinao, Beijing Xinao and Huludao Xinao, approximately five months of the results of these companies were included in the Group's results, and in total contributed to less than 20% of the Group's net profits for the year.

Connection fees represented the Group's major source of revenue during the Track Record Period, followed by gas usage charges and sale of gas appliances. The Group maintained a stable gross profit margin during the Track Record Period of between approximately 52.3% to 55.6%. Cost of sales was the Group's major expense accounting for approximately 44.4% to 47.7% of its turnover during the Track Record Period. For the three financial years ended 31 December 2000, the Group recorded net profit margins of approximately 22.7%, 28.5% and 30.6% respectively. The higher net profit margin achieved in 1999 was due to improved operating performance and refund of sales tax of approximately RMB2.7 million under PRC tax legislations. Pursuant to tax incentives granted by the local government, the Group received an income tax refund of approximately RMB5.2 million in January 2001 for taxes paid for the two financial years ended 31 December 1999. The Group's net profit margin for 2000 increased compared to 1999 primarily because the Group's interest in Langfang Xinao has increased from approximately 69% to 95% in 2000.

Turnover

The table below shows the Group's turnover during the Track Record Period:

| | 1998 | | 1999 | | 2000 | |
|-------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Connection fees | 31,941 | 77.7 | 38,508 | 72.8 | 101,282 | 82.8 |
| Gas usage charges | 9,045 | 22.0 | 14,342 | 27.1 | 20,517 | 16.8 |
| Sales of gas appliances | 123 | 0.3 | 73 | 0.1 | 471 | 0.4 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | <u>41,109</u> | <u>100.0</u> | <u>52,923</u> | <u>100.0</u> | <u>122,270</u> | <u>100.0</u> |

Connection fees represent the Group's major source of revenue during the Track Record Period. The Group experienced particularly strong growth for the financial year ended 31 December 2000, as a result of both strong growth in new connections for Langfang Xinao and contributions from Liaocheng Xinao, Beijing Xinao and Huludao Xinao for the period between their respective dates of acquisition and 31 December 2000.

The Group's results are subject to seasonal factors. Most of the Group's connection works were completed in the second half of the year. This is because in the northern parts of the PRC, which is where the Group's business operations are located, bad weather conditions preclude construction work from taking place in the coldest months (being January to March), thus most connections are completed by December of each year. Also, demand for gas connections for heating facilities is highest in the few months immediately preceding winter in preparation for the coldest months. Gas consumption is also at its highest between mid-November and mid-March of each year.

FINANCIAL INFORMATION

Connection fees

The following table summarises the connection fees of each of the Existing Project Companies for the Track Record Period:

| | 1998 <i>RMB'000</i> | 1999 <i>RMB'000</i> | 2000 <i>RMB'000</i> |
|-----------------|------------------------|------------------------|------------------------|
| Langfang Xinao | 31,941 | 38,508 | 79,161 |
| Liaocheng Xinao | – | – | 6,939 |
| Beijing Xinao | – | – | 4,308 |
| Huludao Xinao | – | – | 10,874 |
| | – | – | – |
| Total | 31,941 | 38,508 | 101,282 |

Residential customers represent the major contributor to the Group's connection fees, accounting for approximately 82.8% to 87.5% during the Track Record Period.

As Liaocheng Xinao, Beijing Xinao and Huludao Xinao are still in their early stages of operation and were only acquired by the Company in July or August 2000, the amount of connection fees contributed by these companies to the Group for the period between their respective dates of acquisition and 31 December 2000 were substantially lower than that of Langfang Xinao. The Directors expect the contribution to connection fees from these companies to account for a significant percentage of the Group's operating results as full year's results from operations are taken into account in the future.

Gas usage charges

The following table summarises the gas usage charges of each of the Existing Project Companies for the Track Record Period:

| | 1998 <i>RMB'000</i> | 1999 <i>RMB'000</i> | 2000 <i>RMB'000</i> |
|-----------------|------------------------|------------------------|------------------------|
| Langfang Xinao | 9,045 | 14,342 | 17,961 |
| Liaocheng Xinao | – | – | 786 |
| Beijing Xinao | – | – | 162 |
| Huludao Xinao | – | – | 1,608 |
| | – | – | – |
| Total | 9,045 | 14,342 | 20,517 |

For the Track Record Period, approximately 69.2% to 78.4% of gas usage charges were derived from commercial and industrial customers.

FINANCIAL INFORMATION

Gross profit margin

The following table summarises the gross profit margin of the Group for the Track Record Period.

| | 1998 <i>RMB'000</i> | 1999 <i>RMB'000</i> | 2000 <i>RMB'000</i> |
|-------------------------|------------------------|------------------------|------------------------|
| Turnover | 41,109 | 52,923 | 122,270 |
| Less: Cost of sales | <u>(18,327)</u> | <u>(23,492)</u> | <u>(58,362)</u> |
| Gross profit | <u><u>22,782</u></u> | <u><u>29,431</u></u> | <u><u>63,908</u></u> |
| Gross profit margin (%) | 55.4% | 55.6% | 52.3% |

During the Track Record Period, the Group maintained a stable gross profit margin of over 50% as the major expense items (including purchase cost of gas and depreciation of pipeline infrastructure and ancillary facilities) of the Group's cost of sales have been stable relative to turnover.

Year ended 31 December 1998

For the financial year ended 31 December 1998, the Group recorded a turnover of approximately RMB41.1 million, which were all derived from Langfang Xinao. Connection fees of approximately RMB31.9 million (representing approximately 77.7% of the Group's turnover) were derived from 6,209 new households and 27 new commercial and industrial customers. Approximately 22.0% of turnover was represented by gas usage charges, derived from the supply of a total of approximately 2.12 million cubic metres of gas to residential customers and the supply of approximately 5.79 million cubic metres of gas to commercial and industrial customers. The remaining approximately 0.3% of turnover was derived from sale of gas appliances.

As at 31 December 1998, the Group had made gas connections to a total of 22,823 households and 131 commercial and industrial sites.

The cost of sales for the year, primarily comprised of purchase cost of gas, depreciation of pipeline infrastructure and ancillary facilities, and labour and material costs for the construction of customers' pipelines, amounted to approximately RMB18.3 million. Gross profit amounted to approximately RMB22.8 million, or a gross profit margin of approximately 55.4%.

Administrative expenses amounted to approximately RMB3.4 million, or approximately 8.4% of turnover. The administrative expenses for the year are comprised of salaries, staff benefits, depreciation and amortisation, travelling, insurance, office expenses and utilities. Interest expenses totalled approximately RMB3.0 million for the year and represent primarily interest expenses paid on two Renminbi-denominated loans from the Agricultural Bank of China and the Industrial and Commercial Bank of China and a US-dollar denominated loan from Nanyang Commercial Bank. These loans were utilised by Langfang Xinao as working capital and for capital expenditures. During the year, the Group incurred other operating expenses of approximately RMB656,000, which were primarily comprised of loss on disposal of fixed assets. The remaining amounts were made up of bank charges and foreign exchange losses.

FINANCIAL INFORMATION

The Group recorded a profit before minority interests of approximately RMB13.4 million. Net profit attributable to Shareholders was approximately RMB9.3 million, and net profit margin was approximately 22.7%.

Year ended 31 December 1999

For the financial year ended 31 December 1999, Langfang Xinao was the only contributor to the Group's results. The Group recorded a turnover of approximately RMB52.9 million, representing a growth of approximately 28.7% over the previous year. Such growth was fueled by both an increase in connection fees from expansion in the customer base and an increase in gas usage charges due to higher gas consumption by its customers. The Group also received a sales tax refund of approximately RMB2.7 million, being the refund of sales tax in accordance with PRC tax legislations.

During the year, the Group's connection fees reached approximately RMB38.5 million, an increase of approximately 20.6% over the previous year. Connection fees accounted for approximately 72.8% of the Group's turnover and remained the Group's major source of revenue. Approximately 15.2% of the connection fees were derived from commercial and industrial customers. During the year, the number of commercial and industrial customers increased substantially as a result of the adoption of an environmental policy by the Langfang local government which imposed a fine on commercial and industrial entities that use coal as fuel. Thus a large number of these entities converted to the use of natural gas. As at the end of the year, the Group had made gas connections to a total of 30,607 households and 165 commercial and industrial sites.

In relation to gas usage charges, the Group supplied approximately 11.8 million cubic metres of gas during the year and generated gas usage charges of approximately RMB14.3 million, representing a growth of approximately 58.6% over the previous year. Gas usage charges represented approximately 27.1% of total turnover. The strong growth in gas usage charges came primarily from growth in commercial and industrial users which are large consumers of gas. Commercial and industrial customers contributed to a total of approximately 78.4% of gas usage fees during the year.

After deducting the cost of sales for the year of approximately RMB23.5 million, the Group recorded a gross profit of approximately RMB29.4 million, representing an increase of approximately 29.2% over the previous year. The gross profit margin remained stable at approximately 55.6% when compared with that of 1998.

During the year, the Group's other revenues increased from approximately RMB324,000 in 1998 to approximately RMB793,000 in 1999. This is primarily due to an increase in pipeline transportation fees and project income. The Group charges oil and gas exploration and production companies a pipeline transportation fee for the transmission of gas from gas fields to their affiliated companies via the Group's pipelines. Project income is derived from revenue received by the Group from customers for additional miscellaneous construction work associated with the construction of pipelines, which are normally non-recurrent and small-scale in nature.

FINANCIAL INFORMATION

Administrative expenses incurred for the year increased slightly to approximately RMB3.7 million. When expressed as a percentage of turnover, administrative expenses decreased from approximately 8.4% in 1998 to approximately 7.0% in 1999. Interest expenses also increased slightly from approximately RMB3.0 million in 1998 to approximately RMB3.3 million in 1999, as a result of an increase in bank loans for the purpose of financing asset acquisitions. During the year, the Group's other operating expenses, comprised of bank charges and foreign exchange losses, were approximately RMB45,000.

The Group's profit before minority interests was approximately RMB21.7 million. Net profit attributable to Shareholders was approximately RMB15.1 million, representing an increase of approximately 61.6% over the previous year and representing a net profit margin of approximately 28.5% or approximately 23.5% if the one-off sales tax refund is excluded. The substantial growth in net profit attributable to Shareholders was primarily due to improvement in operating performance resulting from increases of approximately 34.1% in the number of gas connections and approximately 48.9% in the volume of gas supplied as well as the receipt of a sales tax refund.

Year ended 31 December 2000

The Group's turnover for the financial year ended 31 December 2000 was approximately RMB122.3 million, of which approximately RMB97.3 million or approximately 79.6% was attributable to Langfang Xinao. The remainder of approximately RMB25.0 million, or approximately 20.4% of turnover was derived from Liaocheng Xinao, Beijing Xinao and Huludao Xinao, which were acquired by the Group in July or August 2000. These companies made only a small contribution to the Group's results as they are still in their initial stages of operations and approximately five months' results of these Project Companies were included in the Group's results. The Group's gross profit margin decreased slightly to approximately 52.3% when compared to the financial year ended 31 December 1999. This was attributable to a lower gross profit margin for the three companies acquired in 2000. These companies have less than two years of operating history and are in the process of building their customer base, whilst making continuous investments in the gas pipeline infrastructure. Furthermore, these companies incurred relatively higher operating, selling and other fixed costs as the optimal operating efficiency and economics of scale have not yet been reached. The Group's net profit margin increased to approximately 30.6% as a result of the increase in the Group's interest in Langfang Xinao from approximately 69% to 95% during the year.

In terms of revenue mix for the period, connection fees and gas usage charges represented approximately 82.8% and 16.8% of total turnover, respectively. The percentage of turnover from connection fees which increased from approximately 72.8% for the financial year ended 31 December 1999 to approximately 82.8% for the financial year ended 31 December 2000 was the result of strong growth in new connections for Langfang Xinao, and also contributions from Liaocheng Xinao, Beijing Xinao and Huludao Xinao, the new members of the Group, which are in their early stage of operations and connection fees represented their major source of income. In relation to gas usage, the Group supplied approximately 16.9 million cubic metres of gas during the year.

For the financial year ended 31 December 2000, other revenues increased as a result of increases in interest income on cash deposits and pipeline transportation fees. During the same year, the Group's selling expenses increased substantially as a result of marketing and advertising expenses incurred by the three companies acquired by the Group in July or August 2000. As these companies are in their early stages of operations, substantial selling expenses, and in particular, advertising and marketing expenses were incurred in order to build up customers' base and to increase the companies' profile and public awareness. In line with the Group's business expansion and taking into account the addition of three companies, administration expenses increased

FINANCIAL INFORMATION

substantially from approximately RMB3.7 million in the financial year 1999 to approximately RMB9.2 million in the financial year 2000. When expressed as a percentage of the Group's revenues, however, administration expenses only increased slightly from approximately 7.0% for the financial year ended 31 December 1999 to approximately 7.5% for the financial year ended 31 December 2000. The Group's other operating expenses for this period were higher than the financial year ended 31 December 1999. This was primarily attributable to higher bank charges and foreign exchange losses. The Group's interest expenses also increased during the period which represented interest expenses on additional bank loans taken out by Langfang Xinao to finance capital expenditure and a bank loan taken over as part of the business acquisition of Huludao Xinao.

For the financial year ended 31 December 2000, Langfang Xinao remained the main contributor to the Group's results. During this period, Langfang Xinao recorded a turnover of approximately RMB97.3 million and a gross profit of approximately RMB51.5 million. Approximately 91.3% and 29.3% of Langfang Xinao's connection fees and gas usage charges, respectively, were derived from residential customers. The balance was derived from commercial and industrial customers. As at 31 December 2000, Langfang Xinao had made gas connections to a total of 44,900 households and 208 commercial and industrial sites. Interest expense was incurred by Langfang Xinao in connection with financing additions to fixed assets. During this period, Langfang Xinao made a contribution of approximately RMB31.4 million to the Group's net profit attributable to Shareholders, representing a growth of approximately 108.3% over the previous year. This result included a refund of income tax paid in prior years of approximately RMB5.2 million, attributable to tax incentives granted by the local government.

Liaocheng Xinao was established in June 1999 and after a few months of preparatory work including the construction of essential pipeline infrastructure and ancillary facilities, the supply of gas commenced in January 2000. 90% of the equity interest in Liaocheng Xinao was acquired from XGCL by the Group in August 2000. As at 31 December 2000, Liaocheng Xinao had made gas connections to a total of 4,154 households and 10 commercial and industrial sites. For the period between the date of acquisition and 31 December 2000, Liaocheng Xinao made a contribution of approximately RMB3.6 million to the Group's net profit attributable to Shareholders.

Beijing Xinao was established in September 1999 and the supply of gas commenced in January 2000. Its construction period was shorter than that of Liaocheng Xinao as CNG trucks are used to supply gas whilst Liaocheng Xinao uses intermediate pipelines, which take longer to construct. 80% of the equity interest in Beijing Xinao was acquired from XGCL by the Group in July 2000. As at 31 December 2000, Beijing Xinao had made gas connections to a total of 2,688 households and five commercial and industrial sites. For the period between the date of acquisition and 31 December 2000, Beijing Xinao made a contribution of approximately RMB1.2 million to the Group's net profit attributable to Shareholders.

Huludao Xinao was established in December 1999 to take over the existing piped gas supply business previously operated by the local city government. 90% of the equity interest in Huludao Xinao was acquired from XGCL by the Group in August 2000. As at 31 December 2000, Huludao Xinao had made gas connections to a total of 14,511 households and 19 commercial and industrial sites. For the period between the date of acquisition and 31 December 2000, Huludao Xinao made a contribution of approximately RMB1.9 million to the Group's net profit attributable to Shareholders.

FINANCIAL INFORMATION

The table below sets out the unaudited financial results of each of Liaocheng Xinao, Beijing Xinao and Huludao Xinao for the financial year ended 31 December 2000, as extracted from the individual management accounts of Liaocheng Xinao, Beijing Xinao and Huludao Xinao:

| | Liaocheng Xinao <i>(RMB'000)</i> | Beijing Xinao <i>(RMB'000)</i> | Huludao Xinao <i>(RMB'000)</i> |
|---------------------|--|--|--|
| Turnover | 12,887 | 9,107 | 18,440 |
| Gross profit | 7,231 | 5,199 | 6,719 |
| Profit for the year | 5,227 | 3,119 | 1,905 |

Taxation

In accordance with the relevant tax legislations and rules in the PRC, Sino-foreign joint ventures are liable to pay income tax on net profits at the rate of 30%. Depending on the nature of the joint venture's business, it may qualify for tax concessions, which include tax exemption for two years from the first profit making year (after recoupement of retained losses if any), and 50% reduction for the three years thereafter (i.e. income tax rate of 15%). All of the Existing Project Companies qualify for this tax concession. In addition to income tax, value added tax ("VAT") is payable on gas usage charges and sales of gas appliances in the PRC. The net VAT payable is calculated as 13% of revenue from sales of piped natural gas and 17% of revenue from sales of gas appliances after deducting input credit VAT (i.e. VAT paid on cost of goods sold). For the provision of services in the PRC, a business tax of 3% or 5% on revenue is payable.

Langfang Xinao was exempted from income tax for the two financial years ended 31 December 1997 and was taxable at 50% tax reduction (i.e. 15% of net profits) for the three financial years ended 31 December 2000. From the financial year beginning 1 January 2001, Langfang Xinao will pay income tax at the normal rate of 30%. For the financial year ended 31 December 2000, the Group's results include approximately five months of results from Liaocheng Xinao, Beijing Xinao and Huludao Xinao, beginning from their respective dates of acquisition. Liaocheng Xinao, Beijing Xinao and Huludao Xinao became Sino-foreign joint ventures in August 2000 and will enjoy the aforementioned tax concessions from the first financial year when the respective company becomes profit making. In the case where the joint venture only operates for less than six months in its first profit making financial year, it can elect for the tax concession to commence from its first full year of profit making. Liaocheng Xinao and Huludao Xinao have elected for the tax concession to commence for the financial year ended 31 December 2000 and Beijing Xinao will be tax exempted for its first two full profit making years. Therefore, the Group's effective tax rate for the financial year ended 31 December 2000 was less than 15%.

INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2001, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this prospectus, the Enlarged Group had outstanding bank borrowings of approximately RMB122,149,000 which are repayable within one year, approximately RMB20,235,000 which are repayable between one to two years and approximately RMB722,000 which are repayable between two and five years. The bank borrowings comprised of secured bank loans of approximately RMB52,146,000 and unsecured bank loans of approximately RMB90,960,000.

FINANCIAL INFORMATION

As at 28 February 2001, the Enlarged Group had amounts due to related companies amounting to RMB9,321,000, which were unsecured and interest free. Other than the amounts due to the minority shareholders of the Company's subsidiaries and of the Acquisition Companies, the remaining balances were fully repaid subsequent to 28 February 2001.

As at 28 February 2001, the Enlarged Group had an amount due to ultimate holding company amounting to approximately RMB81,374,000, which was unsecured, interest free and fully capitalised subsequent to 28 February 2001. Details of the capitalisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus.

Securities and guarantees

As at 28 February 2001, the Enlarged Group's banking facilities were secured by the following:

- (i) the Group's property, plant and equipment with a net book value of approximately RMB132,614,000;
- (ii) assets owned by related companies; and
- (iii) guarantees provided by related companies.

Contingent liabilities

As at 28 February 2001, the Enlarged Group had no material contingent liabilities.

Release of related companies from securities and guarantees

The Group has been in the process of negotiation with its bankers to release the securities and guarantees provided by the related companies following the listing of Shares on GEM. As at 28 February 2001, the relevant banks which granted the banking facilities secured by the assets owned and guarantees provided by the related companies had agreed in principle that such securities would be released upon, amongst other terms, the listing of Shares on GEM and the replacement of such securities by corporate guarantees provided by the Company or in the case of Langfang Xinao, the guarantee provided to Langfang Xinao by a related company will be released by the bank and replaced by corporate guarantees from its respective shareholders in proportion to their ownership. Save as aforesaid, the relevant banks of the Group have not indicated any other changes in the amounts and terms of the relevant facilities as a result of such release.

Disclaimers

As at 28 February 2001, save as aforesaid or otherwise disclosed in this prospectus, and apart from intra-group liabilities, the Enlarged Group did not have:

- (i) any debt securities issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed or unguaranteed, secured (whether the security is provided by the Company or by third parties) or unsecured;
- (ii) any other borrowings or indebtedness including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed or unguaranteed, and whether secured or unsecured;
- (iii) any mortgage or charge; or
- (iv) any material contingent liabilities or guarantees.

FINANCIAL INFORMATION

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness, commitments or contingent liabilities of the companies comprising the Enlarged Group since 28 February 2001.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under rules 17.15 to 17.21 of the GEM Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current liabilities

As at 28 February 2001, the Group had net current liabilities of approximately RMB156,916,000. The current assets comprised bank balances and cash of approximately RMB13,696,000, inventories of approximately RMB17,937,000, trade and other receivables of approximately RMB32,057,000, amounts due from customers for contract work of approximately RMB18,586,000, amount due from ultimate holding company of approximately RMB5,150,000 and amounts due from related companies of approximately RMB46,842,000. The current liabilities comprised trade and other payables of approximately RMB57,951,000, amounts due to customers for contract work of approximately RMB16,680,000, amounts due to related companies of approximately RMB6,808,000, amounts due to ultimate holding company of approximately RMB81,374,000, taxes payable of approximately RMB6,247,000 and current portion of bank loans of approximately RMB122,124,000.

Borrowings and banking facilities

The Group generally finances its operations with internally generated cash flow and by banking facilities.

As at 28 February 2001, the Group had available aggregate banking facilities of approximately RMB163,040,000 of which approximately RMB143,040,000 was utilised. Of the utilised facilities, approximately RMB122,124,000 are repayable within one year, approximately RMB20,211,000 are repayable within one to two years and approximately RMB705,000 are repayable within two to five years.

As at 28 February 2001, the Group's banking facilities were secured by the Group's property, plant and equipment and assets owned and guarantees provided by related companies.

As at 28 February 2001, the Group had amounts due to related companies amounting to RMB6,808,000, which were unsecured and interest free. Other than the amounts due to the minority shareholders of the Company's subsidiaries and the amounts due to the Acquisition Companies, the remaining balances were fully settled subsequent to 28 February 2001.

As at 28 February 2001, the Group had an amount due to ultimate holding company amounting to approximately RMB81,374,000, which was unsecured, interest free and fully capitalised subsequent to 28 February 2001. Details of the capitalisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to the prospectus.

The short term debts of the Group were in the form of bank loans. The Group also had long term debts in the form of bank loans.

FINANCIAL INFORMATION

Capital commitments

As at 28 February 2001, the Group had capital commitments of RMB3,308,000 in respect of property, plant and equipment which are contracted for but not provided in the financial information.

In addition, the Group has entered into Acquisition Agreements with XGCL in relation to the acquisition of XGCL's entire interests in the registered capital of Jinggu Xinao, Qingdao Xinao and Jingchang Xinao at consideration equal to the investment by XGCL in these Acquisition Companies at the date of completion. As at 28 February 2001, the aggregate amount of investment by XGCL was RMB32,850,000. Part of the proceeds raised through the Placing will be applied to the acquisition of the Acquisition Companies. It is expected that the acquisitions will be completed shortly after listing of Shares on GEM.

Save as disclosed above, there are no capital commitments as at 28 February 2001.

Directors' opinion of the working capital

The Directors are of the opinion that, taking into consideration the financial resources and banking facilities available to the Group including its internally generated funds and the estimated net proceeds of the Placing, the Enlarged Group has sufficient working capital for its present requirements.

Foreign exchange liabilities

The Group derived most of its income during the Track Record Period in Renminbi, and most of the assets and liabilities of the Group as of 31 December 2000 were also denominated in Renminbi. As the Group purchases some of the equipment in relation to the piped gas business in foreign currency, a devaluation of Renminbi may have some negative impact on the Group's operations. Given that most of the Group's expenditures are denominated in Renminbi, the Directors do not believe that the Group is significantly exposed to any substantial foreign currency exchange risk and the Group will have sufficient foreign exchange to meet its foreign exchange liabilities as they become due. The Group does not engage in any financial contract or other arrangement to hedge its foreign currency exposure.

PROPERTY INTERESTS

Hong Kong

As at 31 January 2001, the Company leased office premises at Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, with a gross floor area of 33.5 m² from an independent third party for a term of three years from 1 January 2001 to 31 December 2003.

FINANCIAL INFORMATION

The PRC

As at 31 January 2001, the Group owned interests in the following properties:

- land and two buildings located in Langfang, Hebei Province with total gross floor area of approximately 14,973.8 m²;
- two residential buildings located in Langfang, Hebei Province used as staff quarters with a total gross floor area of approximately 3,391.1 m²;
- five processing stations located in Langfang, Hebei Province; Huludao, Liaoning Province with a total site area and a gross floor area of approximately 87,692.9 m² and 7,847.3 m², respectively;
- 13 residential units in Huludao, Liaoning Province used as staff quarters with a total gross floor area of approximately 1,238.9 m²;
- land above gas pipelines located in Langfang, Hebei Province with a total area of approximately 15,960.9 m²; and
- a parcel of land located in Langfang, Hebei Province with a total area of 10,869.3 m².

In addition, as at 31 January 2001, the Group owns interests in three processing stations under construction located in Liaocheng, Shandong Province; and Miyun County, Beijing Municipality in the PRC, with a total site area of 45,941.1 m² and a total gross floor area of approximately 2,899.0 m² on completion of construction.

As at 31 January 2001, the Group leased the following properties:

- sales and commercial offices in Langfang, Hebei Province with a total gross floor area of approximately 384.4 m²;
- buildings for storage proposes in Langfang, Hebei Province with a total gross floor area of approximately 8,250.0 m²;
- sales and commercial offices in Liaocheng, Shandong Province with a total gross floor area of approximately 996.0 m²;
- sales and commercial offices in Miyun County, Beijing Municipality with a total gross floor area of approximately 445.0 m²;
- residential units in Miyun County, Beijing Municipality with a total gross floor area of approximately 387.8 m²; and
- sales and commercial offices in Huludao, Liaoning Province with a total gross floor area of approximately 218.0 m².

The property interests attributable to the Group have been valued at HK\$98.8 million as at 31 January 2001 by Chesterton Petty Limited, an independent property valuer. The texts of the letter with a summary of valuation and a valuation certificate of these property interests prepared by Chesterton Petty Limited are set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the Track Record Period, Langfang Xinao declared a dividend of RMB44 million to its then shareholders of which approximately RMB30.6 million was attributable to the Group. The payment of dividends by Langfang Xinao was funded by its internal resources.

Given the nature of the Group and the early stage of its development, the Directors do not expect to pay dividends for the foreseeable future. The Directors anticipate that all earnings in the foreseeable future will be retained to finance the continuing development of the Group's business. However, future dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among other things, the Group's operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board may deem relevant. Dividends may only be distributed by the Company after it has made allowance for recovery of losses (if any) and there is no assurance that similar dividend payouts (in terms of amount and rate) will be distributed in the future.

DISTRIBUTABLE RESERVES

As at 31 December 2000, there were no reserves available for distribution to the Shareholders.

The amount which the Group's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to the profits as reflected in their PRC statutory financial statements which are prepared in accordance with accounting principles and financial regulations applicable to PRC joint ventures ("PRC GAAP"). These profits differ from those that are reflected in the accountants' report set out in Appendix I to this prospectus, which are prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP").

Upon listing of the Shares on GEM, it is the Directors' current intention to distribute dividends based on the lower of the Group's profit determined under PRC GAAP and HK GAAP.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 December 2000 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, adjusted as follows:

| | <i>RMB'000</i> | <i>HK\$'000</i> |
|---|----------------|-----------------|
| Audited combined net tangible assets of the Group as at 31 December 2000 | 69,830 | 65,877 |
| Profit after taxation and minority interests for the period from 1 January 2001 to 31 March 2001 based on the Group's unaudited management accounts | 4,310 | 4,066 |
| Surplus arising on revaluation of the Group's property interests as at 31 January 2001 (<i>Note 1</i>) | 12,044 | 11,362 |
| Capitalisation of amount due to ultimate holding company (<i>Note 2</i>) | 81,374 | 76,768 |
| Estimated net proceeds of the Placing (<i>Note 3</i>) | 184,440 | 174,000 |
| Consideration for the acquisition of equity interests in the Acquisition Companies | (32,850) | (30,991) |
| Net asset values of the Acquisition Companies as at 31 December 2000 shared by the Group (<i>Note 4</i>) | 30,943 | 29,192 |
| Adjusted net tangible assets | 350,091 | 330,274 |
| Adjusted net tangible asset value per Share (<i>Note 5</i>) | RMB0.58 | HK\$0.55 |

Notes:

- (1) The Group's property interests were valued by Chesterton Petty Ltd., an independent valuer, as at 31 January 2001 as set out in "Property valuation" in Appendix III to this prospectus. The surplus arising on the revaluation of the Group's interests in properties will be incorporated into the Group's financial statements for the financial year ending 31 December 2001.
- (2) The amount due to Easywin, the ultimate holding company of the Group, was capitalised subsequent to 31 December 2000, details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus.
- (3) The estimated net proceeds from the Placing is based on the minimum Placing Price of HK\$1.15 per Share and does not take into account any Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the Placing will be approximately HK\$204 million.
- (4) This represents the aggregate amount of the net asset values of the Acquisition Companies as at 31 December 2000 shared by the Group based on the respective percentages of the equity interests of the Acquisition Companies to be acquired by the Group.
- (5) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis of 600,000,000 Shares in issue immediately following the Placing and before the exercise of any Over-allotment Option.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December 2000 (being the date at which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position of the Group.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

BUSINESS OBJECTIVES AND STRATEGIES

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

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

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

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

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

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

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

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

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

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

Implementation targets

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

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

* These relate to the Project Companies

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

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

BASES AND ASSUMPTIONS

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

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

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

USE OF PROCEEDS

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

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

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

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

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

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

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

PLACING STRUCTURE AND EXPENSES

THE PLACING

The Company is offering 180,000,000 Placing Shares at the Placing Price for subscription by way of the Placing. The 180,000,000 Placing Shares offered in the Placing will represent 30% of the issued share capital of the Company immediately following completion of the Placing (assuming the Over-allotment Option is not exercised).

In connection with the Placing, ICEA may over-allocate Shares and may cover such over-allocations by exercising the Over-allotment Option no later than 30 days after the date of this prospectus, stock borrowing or making open market purchases in the secondary market. ICEA may also effect transactions which stabilise or maintain the market price of the Shares. Any such over-allocation, stock borrowing, purchase or transaction will be made in compliance with all applicable laws and regulatory requirements.

Over-allotment Option

The Company has granted to the Underwriters the Over-allotment Option exercisable by ICEA (in its sole discretion) at any time within 30 days from the date of this prospectus. The Over-allotment Option requires the Company to allot and issue up to an aggregate of 27,000,000 additional Shares, representing 15% of the Placing Shares initially offered in the Placing, at the Placing Price to cover over-allocations in the Placing, if any. The number of Shares over-allocated will not be greater than the number of Shares which may be issued upon exercise of the Over-allotment Option.

If the Over-allotment Option is exercised in full, the aggregate number of Shares offered in the Placing will represent approximately 33.0% of the enlarged share capital of the Company immediately following completion of the Placing and the exercise of the Over-allotment Option.

Stock borrowing arrangement

In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement has been entered into between Easywin and ICEA.

Pursuant to this arrangement, Easywin has agreed that, if so requested by ICEA, Easywin will lend to ICEA up to 27,000,000 Shares on the following terms:

- (i) the borrowed Shares will only be used to settle over-allocations in the Placing; and
- (ii) the same number of Shares must be returned to Easywin no later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised in full, and (b) the day on which the Over-allotment Option is exercised in full, and the returned Shares will be redeposited with the escrow agent.

Stabilisation

Stabilisation is a practice used by securities practitioners in some markets to facilitate the distribution of securities. To stabilise, the securities practitioners may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to delay and, if possible, prevent a decline in the initial public offering price of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulatory requirements.

PLACING STRUCTURE AND EXPENSES

In Hong Kong, stabilisation activities on the Stock Exchange are restricted to cases where securities practitioners genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an offering. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the over-allocations of Shares, they will be effected in the absolute discretion of ICEA (on behalf of the Underwriters). The prices of the Shares being purchased in the secondary market shall not exceed the Placing Price. The provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

Basis of allocation

Allocation of the Placing Shares to investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or to hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares or the establishment of a broad shareholder base to the benefit of the Company and the Shareholders as a whole.

EXPENSES

The Underwriters will receive an underwriting commission of 3.5% on the Placing Price of all the Placing Shares.

The underwriting commissions, listing fees, Stock Exchange transaction levy, legal and printing and other professional fees and other expenses relating to the Placing are estimated to amount to a total of approximately HK\$33 million (assuming the Over-allotment Option is not exercised) and are payable by the Company.

FIXING OF THE PLACING PRICE

The Placing Price will not be more than HK\$1.25 and is expected to be not less than HK\$1.15 per Placing Share. The Placing Price will be determined by the Company and ICEA (on behalf of the Underwriters) at or prior to 5:00 p.m. on 7 May 2001, or such later date and time as may be agreed by the Company and ICEA (on behalf of the Underwriters) but in any event not later than 9:00 a.m. on 23 May 2001. The Company and ICEA (on behalf of the Underwriters) may agree to a Placing Price of less than HK\$1.15 per Placing Share at any time prior to the relevant price determination time if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. In such case, notice of the reduction in the indicative Placing Price will be published on the GEM website on the business day after such determination.

If, for any reason, the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001, the expected timetable will be postponed, but in any event, the commencement of dealings in the Shares on GEM will not be later than 25 May 2001. In the event the expected timetable is required to be postponed as a result of the Placing Price not being determined at or prior to 5:00 p.m. on 7 May 2001, an announcement will be published on the GEM website at “www.hkgem.com” on 8 May 2001.

PLACING STRUCTURE AND EXPENSES

If, for any reason, the Placing Price is not agreed between the Company and ICEA (on behalf of the Underwriters) at or prior to 9:00 a.m. on 23 May 2001, the Placing will not proceed.

PRICE PAYABLE ON APPLICATION

The Placing Price plus a 1% brokerage fee and a 0.01% transaction levy (subject to adjustment) constitute the total price payable on subscription. As at the Latest Practicable Date, the transaction levy was 0.01%. Pursuant to Revenue (No. 3) Bill 2001 (the effective date when it comes into operation will be appointed by the Secretary for the Treasury by notice published in the Hong Kong Government Gazette), the transaction levy will be 0.007% and the Stock Exchange will no longer have any sharing of the transaction levy. In addition, the Stock Exchange has announced by way of news release that a trading fee of 0.005% per side of the consideration of a transaction would take effect upon removal of the Stock Exchange's portion of the transaction levy.

CONDITIONS OF THE PLACING

The Placing is conditional upon:

1. Listing

The GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the existing Shares, the Placing Shares (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme).

2. Placing Agreement

The obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, following the waiver of any conditions by ICEA) and not being terminated at or prior to 9:00 a.m. on 10 May 2001 in accordance with the terms of that agreement or otherwise.

3. Determination of the Placing Price

The Placing Price being determined and the Price Determination Agreement being entered into by the Company and ICEA (on behalf of the Underwriters) at or prior to 5:00 p.m. on 7 May 2001 or such later date and time as may be agreed by the Company and ICEA (on behalf of the Underwriters) but in any event not later than 9:00 a.m. on 23 May 2001.

If these conditions are not fulfilled at the respective time as stated, or such later date and time as may be agreed by the Company and ICEA (on behalf of the Underwriters) (in case the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001), but in any event not later than 9:00 a.m. on 25 May 2001, the Placing will not proceed.

Pursuant to section 342(B) of the Companies Ordinance, it shall not be lawful for any person to issue, circulate or distribute in Hong Kong this prospectus if it does not have the effect,

PLACING STRUCTURE AND EXPENSES

where an application is made in pursuance thereof, of rendering all persons concerned bound by all the provisions of sections 44A and 44B of the Companies Ordinance so far as applicable. Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application in pursuance of this prospectus will be void if permission for listing of, and dealing in, the Shares on GEM has been refused before the expiration of three weeks from the date of the closing of the subscription lists or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

According to the timetable set out in the section headed “Expected timetable” in this prospectus, no allotment of Shares shall be made before 7 May 2001.

PLACING AGREEMENT

The Company has entered into the Placing Agreement with, inter alia, the Underwriters. The Underwriters have agreed to procure subscribers to subscribe, or failing which to subscribe, for the Placing Shares (subject to adjustment as described herein), on the terms and conditions as set out in the Placing Agreement.

Pursuant to the Placing Agreement, the Underwriters has been granted the Over-allotment Option, exercisable by ICEA (on behalf of the Underwriters) for a period of 30 days from the date of this prospectus.

Undertakings by the Initial Management Shareholders and the Company

Each of the Initial Management Shareholders have undertaken to the Company and the Underwriters under the Placing Agreement that:

- (i) for an initial period of six months from the date on which dealings in the Shares first commence on GEM, (a) it, he or she will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into agreements to dispose of) nor permit the registered holder to dispose of (or enter into agreements to dispose of) any of its, his or her Relevant Shares; (b) it, he or she will place (or, in the case of Mr. Wang and Ms. Zhao, procure to be placed) in escrow, with an escrow agent acceptable to the Stock Exchange and ICEA, its his or her Relevant Shares; and (c) it, he or she will comply with the requirements under Rule 13.20 of the GEM Listing Rules;
- (ii) during the second six-month period after the date on which the Shares are listed on the GEM, (a) it, he or she will not dispose of its, his or her Relevant Shares if such disposal would result in it, he or she (together with other Initial Management Shareholders) ceasing to have control over 35% of the voting power at general meetings of the Company; and (b) it, he or she will also place (or in the case of Mr. Wang and Ms. Zhao, procure to be placed) in escrow, with an escrow agent acceptable to the Stock Exchange and ICEA its, his or her Relevant Shares.

The Company has undertaken to the Sponsor that it will not issue, agree to issue or grant options to issue any Shares, or issue or agree to issue or grant options to issue any securities convertible into equity securities of the Company (whether or not of a class already listed) within the first six-month period of the date on which Shares first commence dealing on GEM, save in respect of any capitalisation issue or any consolidation, sub-division or capital reduction of Shares.

PLACING STRUCTURE AND EXPENSES

Grounds for termination

The obligations of the Underwriters under the Placing Agreement to procure subscribers for the Placing Shares are subject to termination if certain events, including force majeure, shall occur at any time prior to 9:00 a.m. (Hong Kong time) on 10 May 2001 or such later time or date as may be agreed by the Company and ICEA (on behalf of the Underwriters) (in case the Placing Price is not determined at or prior to 5:00 p.m. on 7 May 2001), but in any event not later than 9:00 a.m. (Hong Kong time) on 25 May 2001. ICEA (on behalf of the Underwriters) has the right to terminate its obligations under the Placing Agreement in its sole and absolute discretion if it sees fit upon the occurrence of, but not limited to, any of the following events:

- (i) in the reasonable opinion of ICEA (on behalf of the Underwriters), the success of the Placing would or might be materially and adversely affected by:
 - (a) the introduction of any new law and regulation or any change in existing laws or regulations or change in the interpretation or application thereof or other occurrence of any nature whatsoever which may in the reasonable opinion of ICEA (on behalf of the Underwriters) materially and adversely affect the business or financial prospects of the Group taken as a whole; or
 - (b) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Placing Agreement and including an event of change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic, or other nature, whether or not sui generis with any of the foregoing, resulting in a material adverse change in, or which will likely result in a material adverse change in political, economic or stock market conditions and is likely to materially and adversely affect the success of the Placing; or
 - (c) any adverse change in the business or in the financial and/or trading position of the Group which is material in the context of the Placing; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (e) a change or development involving a prospective change in taxation in Hong Kong, the Cayman Islands, the British Virgin Islands or the PRC or the implementation of exchange controls which shall or would materially and adversely affect the Company or its present or prospective shareholders in their capacity as such; or
- (ii) any change or deterioration in the conditions of local, national or international securities markets occurs which, in the reasonable opinion of ICEA, (on behalf of the Underwriters) is likely to materially and adversely affect the success of, or makes it inexpedient or inadvisable to proceed with, the Placing; or

PLACING STRUCTURE AND EXPENSES

- (iii) there comes to the notice of any of the Underwriters any information, matter or event showing any of the representations and warranties contained in the Placing Agreement to be untrue or inaccurate in any material respect considered by ICEA (on behalf of the Underwriters) in its reasonable opinion to be material and adverse in the context of the Placing; or
- (iv) any of the executive Directors, Initial Management Shareholders and/or the Company commits any material breach of, or omits to observe in any material respect, any of their obligations or undertakings under the Placing Agreement; or
- (v) there comes to the notice of any of the Underwriters any information, matter or event which, in the reasonable opinion of ICEA (on behalf of the Underwriters) may lead to a material adverse change in the business or in the financial or trading position of the Group taken as a whole.

SPONSOR'S INTEREST

ENTITLEMENT OF BENEFITS

Upon the Listing of the Shares on GEM, the Sponsor will receive, monthly advisory fees under a sponsor's agreement dated 10 May 2001 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules.

For the purpose of Rule 6.36 of the GEM Listing Rules, the Sponsor confirms that, save as disclosed above:

- (i) neither itself nor its associates (as defined in the GEM Listing Rules) have or may have, as a result of the listing, any interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe such securities);
- (ii) no director or employee of the Sponsor who is involved in providing advice to the Company has or may have, as a result of the listing, any interest in any class of securities of the Company or any other company within the Group (including options or rights to subscribe such securities);
- (iii) neither itself nor its associates expect to have accrued any material benefit as a result of the successful outcome of the listing, including the repayment of material outstanding indebtedness; and
- (iv) no director or employee of the Sponsor has a directorship in the Company or any other company within the Group.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, from the auditors and reporting accountants of Xinao Gas Holdings Limited, Deloitte Touche Tohmatsu.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

27 April 2001

The Directors
Xinao Gas Holdings Limited
N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information regarding Xinao Gas Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2000 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 27 April 2001 (the “prospectus”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands on 20 July 2000. Through a group reorganisation, as more fully explained in the paragraph headed “Corporate reorganisation” in Appendix V of the prospectus (the “Group Reorganisation”), the Company has since 28 March 2001 become the holding company of the Group which is principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped natural gas in the People’s Republic of China (the “PRC”).

As at the date of this report, the particulars of the Company’s subsidiaries, all of which are indirectly held by the Company except for Xinao Gas Investment Group Limited, which is directly held by the Company, are as follows:

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|---|--|---|---|--|
| 北京新奧燃氣有限公司 (“Beijing Xinao Gas Company Limited”) (Note a) | The PRC 10 September 1999 | Registered capital US\$1,195,600 | 80% | Investment in gas pipeline infrastructure and provision of piped natural gas |

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|---|--|---|---|--|
| 葫蘆島新奧燃氣有限公司 ("Huludao Xinao Gas Company Limited") (Note b) | The PRC 24 December 1999 | Registered capital US\$1,207,700 | 90% | Investment in gas pipeline infrastructure and provision of piped natural gas |
| 廊坊新奧燃氣有限公司 ("Langfang Xinao Gas Company Limited") | The PRC 28 March 1993 | Registered capital US\$9,333,900 | 95% | Investment in gas pipeline infrastructure and provision of piped natural gas |
| 聊城新奧燃氣有限公司 ("Liaocheng Xinao Gas Company Limited") (Note a) | The PRC 11 June 1999 | Registered capital RMB16,000,000 | 90% | Investment in gas pipeline infrastructure and provision of piped natural gas |
| Xinao Changping Investment Limited | British Virgin Islands 19 December 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Chengyang Investment Limited | British Virgin Islands 15 August 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Gas Investment Group Limited | British Virgin Islands 4 January 2000 | Share capital US\$1,000 | 100% | Investment holding |
| Xinao Huangdao Investment Limited | British Virgin Islands 19 December 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Huludao Investment Limited | British Virgin Islands 25 May 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Jingzhou Investment Limited | British Virgin Islands 15 August 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Langfang Investment Limited | British Virgin Islands 21 February 2000 | Share capital US\$1,000 | 100% | Investment holding |
| Xinao Liaocheng Investment Limited | British Virgin Islands 26 April 2000 | Share capital US\$1 | 100% | Investment holding |

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|-----------------------------------|--|---|---|----------------------|
| Xinao Miyun Investment Limited | British Virgin Islands 26 April 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Pinggu Investment Limited | British Virgin Islands 19 December 2000 | Share capital US\$1 | 100% | Investment holding |
| Xinao Zhucheng Investment Limited | British Virgin Islands 10 August 2000 | Share capital US\$1 | 100% | Investment holding |

Notes:

- (a) Beijing Xinao Gas Company Limited and Liaocheng Xinao Gas Company Limited were converted into Sino-foreign equity joint ventures on 8 August 2000 with terms of 30 years.
- (b) Huludao Xinao Gas Company Limited was converted into a Sino-foreign equity joint venture on 7 August 2000 with a term of 30 years.

Langfang Xinao Gas Company Limited is a Sino-foreign equity joint venture established in the PRC on 28 March 1993. Prior to the Group Reorganisation, it was owned as to approximately 19.63 per cent. by 廊坊市天然氣有限公司 (“Langfang City Natural Gas Company Limited”), approximately 30.37 per cent. by Newstar Australia Pty. Ltd. and 50 per cent. by 新奧集團股份有限公司 (“Xinao Group Company Limited”), all of which are companies controlled by Mr. Wang Yusuo (“Mr. Wang”) or Ms. Zhao Baoju (“Ms. Zhao”). Since Mr. Wang indirectly owned an approximate 93.2 per cent. and an approximate 50.7 per cent. equity interests in Langfang City Natural Gas Company Limited and Xinao Group Company Limited respectively and Ms. Zhao owned the entire equity interest in Newstar Australia Pty. Ltd., Mr. Wang and Ms. Zhao jointly owned an approximate 74 per cent. effective equity interest in Langfang Xinao Gas Company Limited. Upon completion of the Group Reorganisation, Langfang Xinao Gas Company Limited became a 95 per cent. owned subsidiary of the Company, of which an approximate 69 per cent. effective equity interest was contributed by Mr. Wang and Ms. Zhao and the balance of an approximate 26 per cent. equity interest was acquired by the Group.

On 30 July 2000, the Group acquired an 80 per cent. equity interest in Beijing Xinao Gas Company Limited from Xinao Group Company Limited. On 3 August 2000, the Group acquired a 90 per cent. equity interest in Huludao Xinao Gas Company Limited from Xinao Group Company Limited. On 7 August 2000, the Group acquired a 90 per cent. equity interest in Liaocheng Xinao Company Limited from Xinao Group Company Limited.

The Company, Xinao Changping Investment Limited, Xinao Chengyang Investment Limited, Xinao Huangdao Investment Limited, Xinao Jingzhou Investment Limited, Xinao Pinggu Investment Limited and Xinao Zhucheng Investment Limited have not produced any audited financial statements since their respective dates of incorporation as these companies have not carried on any business, except for the transactions relating to the Group Reorganisation.

For the companies registered and operating in the PRC, statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory auditors of Langfang Xinao Gas Company Limited are 廊坊會計師事務所 for the year ended 31 December 1998 and 廊坊益華會計師事務所有限公司 for the years ended 31 December 1999 and 2000. The statutory auditors of Beijing Xinao Gas Company Limited, Huludao Xinao Gas Company Limited and Liaocheng Xinao Gas Company Limited are 北京達州會計師事務所, 葫蘆島渤海會計師事務所 and 聊城正坤有限責任會計師事務所 for the year ended 31 December 2000, respectively. For all other companies incorporated in the British Virgin Islands, they were not required to have their financial statements audited by independent auditors. For the purpose of this report, we have undertaken our own independent audit of the management accounts of these companies for each of the three years ended 31 December 2000 (the "Relevant Periods"), or since their respective dates of incorporation/establishment where this is a shorter period, which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and we have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Periods and of the combined net tangible assets of the Group as at 31 December 2000 (the "Summaries") set out in this report have been prepared based on the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group, on the basis set out in section 1 below. The directors of the respective companies of the Group are responsible for the preparation of these financial statements and management accounts which give a true and fair view.

The directors of the Company are responsible for the contents of the prospectus in which this report is included. It is our responsibility to form an independent opinion on the Summaries and to report our opinion to you.

In our opinion, on the basis of presentation set out in section 1 below, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results of the Group for each of the three years ended 31 December 2000 and of the combined net tangible assets of the Group as at 31 December 2000.

1. BASIS OF PRESENTATION

The summary of the combined results of the Group for each of the three years ended 31 December 2000 includes the results of the companies comprising the Group for the periods under review as if the Group's equity interest in Langfang Xinao Gas Company Limited contributed by Mr. Wang and Ms. Zhao had been in existence since 1 January 1998 and throughout the Relevant Periods. Although the transfer of the 69 per cent. interest in Langfang Xinao Gas Company Limited indirectly owned by Mr. Wang and Ms. Zhao involved cash consideration, the consideration was funded by an advance from a company owned by Mr. Wang and Ms. Zhao and subsequently the advance was capitalised for shares of the Company. Accordingly, the transfer is in substance a share for share exchange. For the additional approximate 26 per cent. equity interest in Langfang Xinao Gas Company Limited and the equity interests in Beijing Xinao Gas Company Limited, Huludao Xinao Gas Company Limited and Liaocheng Xinao Gas Company Limited acquired by the Group during the Relevant Periods, these acquisitions have been accounted for using the acquisition method of accounting and their results are included from the effective dates of acquisition.

The summary of the combined net tangible assets of the Group as at 31 December 2000 has been prepared to present the assets and liabilities of the Group at that date.

The financial information is based on the audited financial statements and management accounts of each company in the Group.

The financial information has been prepared on a going concern basis as an amount due to Easywin Enterprises Limited, the Company's ultimate holding company, of RMB81,374,000 had been fully capitalised and the Group had obtained confirmations from certain of its bankers for the renewal of its existing banking facilities amounting to RMB74,800,000 subsequent to 31 December 2000. Details of the capitalisation are set out in section 9 below.

All significant intra-group transactions and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The financial information set out in this report has been prepared under the historical cost convention. The principal accounting policies adopted, which are in accordance with accounting principles generally accepted in Hong Kong, are as follows:

Goodwill

Goodwill arising on acquisition of a subsidiary or business which represents the excess of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary or business is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the Group's share of the fair value ascribed to the separable net assets at the date of acquisition over the purchase consideration, is credited to reserves.

On disposal of a subsidiary or business, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or business.

Revenue recognition

Gas connection revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Sales of piped natural gas and gas appliances are recognised when goods are delivered and title has been passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the

expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of each asset other than construction in progress, over its estimated useful life, and after taking into account its estimated residual value, using the straight line method, as follows:

| | |
|-------------------------|---|
| Land use rights | Over the shorter of the term of the lease or the operation period of the relevant company |
| Buildings | Over the shorter of 30 years or the operation period of the relevant company |
| Pipelines | Over the shorter of 30 years or the operation period of the relevant company |
| Machinery and equipment | 10 years |
| Motor vehicles | 6 years |
| Office equipment | 6 years |

Construction in progress

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of those assets which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the assets. Capitalisation of such borrowing costs ceases when these qualifying assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories, including construction materials, gas appliances and piped natural gas for sales, consumables and spare parts are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition is calculated using the weighted average method. Net realisable value is based on estimated selling prices in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Research and development costs

Research costs are recognised as an expense in the year in which they are incurred. Expenditure on development is charged to the income statement in the year in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will generate future economic benefits. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operations.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

The subsidiaries in the PRC and the British Virgin Islands maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by The People's Bank of China ("PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into RMB at the applicable PBOC rates in effect at the year end dates. Gains and losses arising on exchange are dealt with in the income statement.

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the income statement represents the Group's contribution payable to the retirement funds scheme managed by the local social security bureau in accordance with the PRC Government regulations.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

3. RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods prepared on the basis set out in section 1 above:

| | <i>Notes</i> | 1998 <i>RMB'000</i> | 1999 <i>RMB'000</i> | 2000 <i>RMB'000</i> |
|----------------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| Turnover | (a) | 41,109 | 52,923 | 122,270 |
| Cost of sales | | <u>(18,327)</u> | <u>(23,492)</u> | <u>(58,362)</u> |
| Gross profit | | 22,782 | 29,431 | 63,908 |
| Other revenues | | 324 | 793 | 945 |
| Tax refund | (b) | – | 2,656 | 5,180 |
| Selling expenses | | (222) | (273) | (2,041) |
| Administrative expenses | | (3,449) | (3,690) | (9,153) |
| Other operating expenses | | <u>(656)</u> | <u>(45)</u> | <u>(357)</u> |
| Profit from operations | (c) | 18,779 | 28,872 | 58,482 |
| Interest expense | (d) | <u>(2,957)</u> | <u>(3,300)</u> | <u>(8,112)</u> |
| Profit before taxation | | 15,822 | 25,572 | 50,370 |
| Taxation | (e) | <u>(2,373)</u> | <u>(3,836)</u> | <u>(6,976)</u> |
| Profit before minority interests | | 13,449 | 21,736 | 43,394 |
| Minority interests | | <u>(4,117)</u> | <u>(6,653)</u> | <u>(6,018)</u> |
| Profit for the year | | <u>9,332</u> | <u>15,083</u> | <u>37,376</u> |
| Dividends | (f) | <u>–</u> | <u>–</u> | <u>30,529</u> |

Notes:

(a) Turnover

Turnover comprises the following:

| | 1998 RMB'000 | 1999 RMB'000 | 2000 RMB'000 |
|----------------------------|-----------------|-----------------|-----------------|
| Gas connection fees | 31,941 | 38,508 | 101,282 |
| Sales of piped natural gas | 9,045 | 14,342 | 20,517 |
| Sales of gas appliances | 123 | 73 | 471 |
| | <u>41,109</u> | <u>52,923</u> | <u>122,270</u> |

(b) Tax refund

The amount for the year ended 31 December 1999 represented a refund of sales tax. On 1 January 1994, the PRC Government abolished the Commercial and Industrial Consolidated Tax ("CICT") and introduced a new system of indirect taxes including value-added tax, business tax and consumption tax. Pursuant to relevant tax regulations, foreign enterprises established before 31 December 1993 may, upon approval by tax authorities, be entitled to a refund of the excess sales tax paid under the new tax legislation over the amount calculated under CICT rules for a period of five years from 1 January 1994 to 31 December 1998 (the "Eligible Periods"). Under the new tax legislation, Langfang Xinao Gas Company Limited, a subsidiary of the Company, was subject to higher net sales tax payable when compared with sales tax calculated under CICT rules for the Eligible Periods. The tax refunds obtained by Langfang Xinao Gas Company Limited of the excess sales tax paid over the CICT that would otherwise be payable under the relevant tax rules were recorded in the year when the approval by tax authorities was obtained.

During the year ended 31 December 2000, Langfang Xinao Gas Company Limited applied for a refund of part of the income tax paid for the two years ended 31 December 1999 as an incentive for investment in Langfang, amounting to approximately RMB5,180,000. The application was approved by 廊坊經濟技術開發區財政局 ("Finance Department of Langfang Economic and Technical Development Zone") in December 2000 and was recorded in the year when the approval was obtained. The amount of refund was received in January 2001. In the opinion of the directors, this refund was non-recurring and the amount was determined on a negotiation basis.

(c) Profit from operations

| | 1998 RMB'000 | 1999 RMB'000 | 2000 RMB'000 |
|--|-----------------|-----------------|-----------------|
| Profit from operations has been arrived at after charging: | | | |
| Auditors' remuneration | 10 | 20 | 15 |
| Depreciation and amortisation of property, plant and equipment | 2,932 | 3,977 | 10,367 |
| Loss on disposal of property, plant and equipment | 542 | 34 | 2,159 |
| Operating lease rentals in respect of land and buildings | 107 | 93 | 481 |
| Research and development expenses | - | - | 762 |
| Retirement benefits scheme contributions | 149 | 275 | 377 |
| Other staff costs | 919 | 1,676 | 4,880 |
| | <u>1,068</u> | <u>1,951</u> | <u>5,257</u> |
| Total staff costs | 1,068 | 1,951 | 5,257 |
| Less: Amount capitalised under construction in progress | <u>-</u> | <u>(490)</u> | <u>(451)</u> |
| | <u>1,068</u> | <u>1,461</u> | <u>4,806</u> |
| and after crediting: | | | |
| Interest income | <u>36</u> | <u>28</u> | <u>202</u> |

(d) Interest expense

| | 1998 <i>RMB'000</i> | 1999 <i>RMB'000</i> | 2000 <i>RMB'000</i> |
|--|-------------------------------|-------------------------------|-------------------------------|
| Interest on bank loans wholly repayable within five years | 3,033 | 3,358 | 8,386 |
| <i>Less: Amount capitalised under construction in progress</i> | <u>(76)</u> | <u>(58)</u> | <u>(274)</u> |
| | <u><u>2,957</u></u> | <u><u>3,300</u></u> | <u><u>8,112</u></u> |

The annual capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation are 7.42 per cent., 9.40 per cent. and 6.34 per cent. for the years ended 31 December 1998, 1999 and 2000, respectively.

(e) Taxation

The charge represents PRC enterprise income tax for the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, all the Group's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 15%. The charge of PRC enterprise income tax for the Relevant Periods has been provided for after taking these tax incentives into account.

There was no significant unprovided deferred taxation during the Relevant Periods.

(f) Dividends

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the year ended 31 December 2000, Langfang Xiniao Gas Company Limited declared a dividend of RMB44,000,000 to its then shareholders, of which approximately RMB30,529,000 was paid in respect of the approximate 69 per cent. equity interest contributed by Mr. Wang and Ms. Zhao.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

(g) Earnings per share

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(h) Remuneration of directors and highest paid employees

No remuneration was paid or payable to any directors of the Company during the Relevant Periods.

The emoluments of the five highest paid employees of the Group for the Relevant Periods were as follows:

| | 1998 <i>RMB'000</i> | 1999 <i>RMB'000</i> | 2000 <i>RMB'000</i> |
|--|-------------------------------|-------------------------------|-------------------------------|
| Basic salaries and allowances | 78 | 86 | 141 |
| Retirement benefits scheme contributions | <u>3</u> | <u>6</u> | <u>6</u> |
| | <u><u>81</u></u> | <u><u>92</u></u> | <u><u>147</u></u> |

The emoluments of each of the above employees did not exceed RMB1,000,000 during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

(i) Retirement benefits schemes

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the payroll of their employees to the retirement benefits schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes. During the Relevant Periods, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

(j) Transfer to or from reserves

| | 1998 RMB'000 | 1999 RMB'000 | 2000 RMB'000 |
|--|-----------------|-----------------|-----------------|
| Goodwill reserve | | | |
| Balance brought forward | – | – | – |
| Negative goodwill arising on acquisition of businesses and subsidiaries | – | – | 5,590 |
| | <u>–</u> | <u>–</u> | <u>5,590</u> |
| Balance carried forward | <u>–</u> | <u>–</u> | <u>5,590</u> |

Other than the above, there were no movements in reserves during the Relevant Periods.

(k) Related party transactions

During the Relevant Periods, the Group had the following significant transactions with the following related parties in which Mr. Wang has an interest.

| Name of related party | Nature of transaction | 1998 RMB'000 | 1999 RMB'000 | 2000 RMB'000 |
|---|---|-----------------|-----------------|-----------------|
| 廊坊新城房地產開發有限公司 ("Langfang Xincheng Property Development Company Limited") | Provision of gas connection services by the Group (Notes i and iv) | 2,038 | 3,440 | 11,360 |
| | Acquisition of land and buildings by the Group (Note iii) | – | – | 7,600 |
| 廊坊新奧酒店管理有限公司 ("Langfang Xinao Hotel Management Company Limited") | Provision of gas connection services by the Group (Notes i and iv) | – | – | 453 |
| | Sales of piped natural gas by the Group (Notes ii and iv) | – | – | 125 |
| 廊坊新奧物業管理有限公司 ("Langfang Xinao Property Management Company Limited") | Provision of gas connection services by the Group (Notes i and iv) | – | – | 82 |
| | Sales of piped natural gas by the Group (Notes ii and iv) | 2,220 | 4,909 | 3,927 |
| 新奧集團太陽能有限公司 ("Xinao Group Solar Energy Company Limited") | Sales of piped natural gas by the Group (Notes ii and iv) | 25 | 52 | 81 |
| Langfang City Natural Gas Company Limited | Acquisition of land and buildings by the Group (Note iii) | – | 11,152 | 540 |
| | Acquisition of pipelines and related facilities by the Group (Note iii) | – | – | 27,431 |

APPENDIX I**ACCOUNTANTS' REPORT FOR THE COMPANY**

| Name of related party | Nature of transaction | 1998 | 1999 | 2000 |
|--------------------------------|---|----------|----------|---------------|
| | | RMB'000 | RMB'000 | RMB'000 |
| Xinao Group Company Limited | Sales of piped natural gas by the Group (<i>Notes ii and iv</i>) | 271 | 475 | 525 |
| | Acquisition of land and buildings by the Group (<i>Note iii</i>) | <u>–</u> | <u>–</u> | <u>47,900</u> |

Notes:

- (i) The provision of gas connection services was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales of piped natural gas were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (iii) The consideration for the acquisition of property, plant and equipment from the related parties during the year ended 31 December 2000 was determined by reference to valuations made by independent valuers and during the year ended 31 December 1999 was determined at amounts mutually agreed by parties involved.
- (iv) These transactions will continue after the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM").

Certain of the Group's bank loans were guaranteed by certain related companies controlled by Mr. Wang. The Group has been in the process of negotiation with its bankers to release these guarantees following the listing of the Company's shares on GEM.

In the opinion of the directors of the Company, all of the above-mentioned transactions were entered into in the ordinary course of business of the Group.

| | |
|-------------------|--|
| APPENDIX I | ACCOUNTANTS' REPORT FOR THE COMPANY |
|-------------------|--|

4. NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets of the Group as at 31 December 2000 prepared on the basis set out in section 1 above:

| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
|--|--------------|----------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment | <i>(a)</i> | | 260,999 |
| Current assets | | | |
| Inventories | <i>(b)</i> | 12,903 | |
| Trade and other receivables | | 21,589 | |
| Amounts due from customers for contract work | <i>(c)</i> | 22,134 | |
| Amounts due from related companies | <i>(d)</i> | 74,548 | |
| Amount due from ultimate holding company | <i>(e)</i> | 3,492 | |
| Bank balances and cash | | 39,366 | |
| | | 174,032 | |
| Current liabilities | | | |
| Trade and other payables | | 61,472 | |
| Amounts due to customers for contract work | <i>(c)</i> | 5,505 | |
| Amount due to ultimate holding company | <i>(e)</i> | 81,374 | |
| Amounts due to related companies | <i>(f)</i> | 90,482 | |
| Dividend payable to minority shareholder of a subsidiary | | 1,625 | |
| Taxation payable | | 6,657 | |
| Bank loans – due within one year | <i>(g)</i> | 87,392 | |
| | | 334,507 | |
| Net current liabilities | | | (160,475) |
| Total assets less current liabilities | | | 100,524 |
| Non-current liabilities | | | |
| Bank loans – due after one year | <i>(g)</i> | | 20,915 |
| Minority interests | | | 9,779 |
| Net tangible assets | | | 69,830 |

Notes:

(a) **Property, plant and equipment**

| | Cost <i>RMB'000</i> | Accumulated depreciation and amortisation <i>RMB'000</i> | Net book value <i>RMB'000</i> |
|--------------------------|------------------------|--|-------------------------------------|
| Land and buildings | 85,986 | 4,010 | 81,976 |
| Pipelines | 153,545 | 13,353 | 140,192 |
| Machinery and equipment | 15,902 | 501 | 15,401 |
| Motor vehicles | 10,272 | 2,281 | 7,991 |
| Office equipment | 2,243 | 478 | 1,765 |
| Construction in progress | 13,674 | – | 13,674 |
| | <u>281,622</u> | <u>20,623</u> | <u>260,999</u> |

The land and buildings were situated in the PRC with medium term land use rights.

At 31 December 2000, construction in progress included interest capitalised of RMB274,000.

(b) **Inventories**

| | <i>RMB'000</i> |
|-----------------------------|----------------|
| Construction materials | 10,988 |
| Gas appliances for sales | 1,534 |
| Piped natural gas | 169 |
| Spare parts and consumables | 212 |
| | <u>12,903</u> |

At 31 December 2000, all inventories of the Group were stated at cost.

(c) **Amounts due from (to) customers for contract work**

| | <i>RMB'000</i> |
|--|----------------|
| Contract costs incurred plus recognised profits less recognised losses | 109,010 |
| Less: Progress billings | (92,381) |
| | <u>16,629</u> |

Analysed for reporting purposes as:

| | |
|--|---------------|
| Amounts due from customers for contract work | 22,134 |
| Amounts due to customers for contract work | (5,505) |
| | <u>16,629</u> |

At 31 December 2000, advances received from customers for contract work amounted to RMB4,682,000.

(d) Amounts due from related companies

Particulars of the amounts due from related companies are as follows:

| Name of company | At 31 December 2000 RMB'000 | At 1 January 2000 RMB'000 | Maximum amount outstanding during the year RMB'000 |
|---|--------------------------------------|------------------------------------|---|
| Langfang City Natural Gas Company Limited 廊坊開發區市政建設工程有限公司 ("Langfang Development Zone Urban Construction Engineering Company Limited") | 29,876 | 1,487 | 29,876 |
| Newstar Australia Pty. Ltd. | 20,400 | – | 20,400 |
| Langfang Xinao Property Management Company Limited 廊坊新奧建築安裝工程有限公司 ("Langfang Xinao Construction and Decoration Engineering Company Limited") | 17,253 | – | 17,253 |
| 北京新奧密雲化工公司 ("Beijing City Miyun Chemicals Company") | 2,745 | 9,743 | 9,743 |
| 新奧集團石家莊化工機械股份有限公司 ("Xinao Group Shijiazong Chemical and Machinery Company Limited") | 2,000 | – | 2,000 |
| 北京新奧京昌燃氣有限公司 ("Beijing Xinao Jingchang Gas Company Limited") | 1,445 | – | 1,445 |
| Langfang Xinao Hotel Management Company Limited | 322 | – | 322 |
| Xinao Group Solar Energy Company Limited 北京新奧京谷燃氣有限公司 ("Beijing Xinao Jinggu Gas Company Limited") | 202 | – | 202 |
| 青島新奧燃氣有限公司 ("Qingdao Xinao Gas Company Limited") | 136 | – | 136 |
| Xinao Group Company Limited 廊坊新奧化工有限公司 ("Langfang Xinao Chemicals Company Limited") | 100 | 2,180 | 3,009 |
| Beijing Xinao Gas Company Limited | 58 | – | 95 |
| Huludao Xinao Gas Company Limited 廊坊開發區新奧洗衣有限責任公司 ("Langfang Development Zone Xinao Laundry Limited Liability Company") | 10 | – | 10 |
| | 1 | 134,278 | 134,278 |
| | – | 3,299 | 6,686 |
| | – | 2,848 | 2,848 |
| | – | 1,820 | 2,005 |
| | – | 266 | 266 |
| | <u>74,548</u> | <u>155,921</u> | |

All the above related companies are controlled by Mr. Wang except for Beijing City Miyun Chemicals Company, which is the minority shareholder of Beijing Xinao Gas Company Limited, and Newstar Australia Pty. Ltd. which is controlled by Ms. Zhao.

The amounts arose from trading transactions and advances by the Group to these related companies.

The amounts were unsecured and interest free. Other than the amounts due from Beijing City Miyun Chemicals Company, Beijing Xinao Jingchang Gas Company Limited, Beijing Xinao Jinggu Gas Company Limited and Qingdao Xinao Gas Company Limited, the remaining balances were fully settled subsequent to 31 December 2000.

(e) Amounts due from/to ultimate holding company

The amounts were unsecured and interest free. The amount due from ultimate holding company was fully settled subsequent to 31 December 2000. The amount due to the ultimate holding company was fully capitalised subsequent to 31 December 2000. Details of the capitalisation are set out in section 9 below.

(f) Amounts due to related companies

Particulars of the amounts due to related companies are as follows:

| Name of company | <i>RMB'000</i> |
|--|----------------|
| Xinao Group Company Limited | 73,176 |
| Langfang Xincheng Property Development Company Limited | 10,346 |
| Langfang Development Zone Urban Construction Engineering Company Limited | 4,000 |
| Beijing Xinao Jinggu Gas Company Limited | 1,312 |
| Langfang City Natural Gas Company Limited | 1,023 |
| Xinao Group Solar Energy Company Limited | 503 |
| Langfang Xinao Construction and Decoration Engineering Company Limited | 122 |
| | <u>90,482</u> |

All the above related companies are controlled by Mr. Wang. The amounts due to related companies arose from acquisition of certain property, plant and equipment, dividend payable and advances to the Group. The amounts were unsecured and interest free. Other than the amount due to Beijing Xinao Jinggu Gas Company Limited, the remaining balances were fully settled subsequent to 31 December 2000.

(g) Bank loans

| | <i>RMB'000</i> |
|----------------------|----------------|
| Secured bank loans | 51,507 |
| Unsecured bank loans | 56,800 |
| | <u>108,307</u> |

The bank loans are repayable:

| | |
|---|-----------------|
| Within one year | 87,392 |
| In one to two years | 20,210 |
| In two to five years | 705 |
| | <u>108,307</u> |
| <i>Less:</i> Amount due within one year shown under current liabilities | <u>(87,392)</u> |
| Amount due after one year | <u>20,915</u> |

(h) Operating lease commitments

At 31 December 2000, the Group had outstanding annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings as follows:

| | <i>RMB'000</i> |
|---------------------------------------|----------------|
| Operating leases which expire: | |
| Within one year | 34 |
| In the second to fifth year inclusive | 515 |
| | <u>549</u> |

(i) Capital commitments

At 31 December 2000, the Group had commitments of approximately RMB3,311,000 relating to the acquisition of property, plant and equipment which was contracted for but not provided in the Summaries.

(j) Pledge of assets

At 31 December 2000, certain of the Group's property, plant and equipment with an aggregate net book value of approximately RMB130,235,000 were pledged to banks for the bank loans granted to the Group.

5. DISTRIBUTABLE RESERVES

At 31 December 2000, the Company had no reserve available for distribution to its shareholders at that date.

6. NET TANGIBLE ASSETS OF THE COMPANY

The Company was incorporated on 20 July 2000. At 31 December 2000, the Company did not have significant net tangible assets.

On the basis set out in section 1 above, the net tangible assets of the Company as at 31 December 2000 were approximately RMB69,830,000.

7. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable by the Company or any of its subsidiaries to the directors in respect of the Relevant Periods.

Under the arrangement currently in force, the aggregate remuneration of the directors of the Company for the year ending 31 December 2001 is expected to be approximately HK\$3.3 million (excluding any management bonus which may be paid).

8. ULTIMATE HOLDING COMPANY

The directors of the Company consider Easywin Enterprises Limited, a company which is incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

9. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31 December 2000:

- (a) On 31 January 2001, certain subsidiaries of the Company entered into conditional acquisition agreements with Xinao Group Company Limited to acquire an 80 per cent. interest in 北京新奧京昌燃氣有限公司 ("Beijing Xinao Jingchang Gas Company Limited"), a 70 per cent. interest in 北京新奧京谷燃氣有限公司 ("Beijing Xinao Jinggu Gas Company Limited") and a 90 per cent. interest in 青島新奧燃氣有限公司 ("Qingdao Xinao Gas Company Limited") (the "Acquisition Companies") at an aggregate consideration of RMB32,850,000, which represents the capital contribution made by Xinao Group Company Limited in these Acquisition Companies. The completion of each acquisition agreement is conditional on all necessary approvals being obtained in relation to the transfer of interest and the conversion of the relevant Acquisition Company into a Sino-foreign equity joint venture.

All of them are engaged in the sales of piped natural gas, gas pipeline investment and provision of connection services.

Beijing Xinao Jingchang Gas Company Limited was established as a PRC joint venture and commenced business on 16 November 2000. As at 31 January 2001, the registered capital of Beijing Xinao Jingchang Gas Company Limited was RMB9,900,000, of which RMB7,920,000 was contributed by Xinao Group Company Limited.

Beijing Xinao Jinggu Gas Company Limited was established as a PRC joint venture and commenced business on 11 August 2000. As at 31 January 2001, the registered capital of Beijing Xinao Jinggu Gas Company Limited was RMB9,900,000, of which RMB6,930,000 was contributed by Xinao Group Company Limited.

Qingdao Xinao Gas Company Limited was established as a PRC joint venture and commenced business on 30 October 2000. At 31 January 2001, the registered capital of Qingdao Xinao Gas Company Limited was RMB20,000,000, of which RMB18,000,000 was contributed by Xinao Group Company Limited.

- (b) Certain subsidiaries of the Company entered into agreements for the establishment of three Sino-foreign equity joint ventures, i.e., 荊州新奧燃氣有限公司 (“Jingzhou Xinao Gas Company Limited”), 城陽新奧燃氣有限公司 (“Chengyang Xinao Gas Company Limited”) and 諸城新奧燃氣有限公司 (“Zhucheng Xinao Gas Company Limited”). Details of these companies are set out in the paragraph headed “Particulars of the New Project Companies” in Appendix V to the prospectus.
- (c) In preparation of the listing of the Company’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the companies comprising the Group underwent a reorganisation to rationalise the group structure. As a result of the reorganisation, the Company became the holding company of the Group on 28 March 2001. The details of this reorganisation and other changes, including the capitalisation of an amount of RMB81,374,000 due to Easywin Enterprises Limited, are set out in the paragraph headed “Corporate reorganisation” in Appendix V to the prospectus.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2000.

11. OTHER SUPPLEMENTARY INFORMATION

During the Relevant Periods, there were certain costs, details of which are set out in notes (i) and (ii) below, which were attributable to the activities of the Group but were not reflected in the Group's combined results set out in section 3 above. Had these costs been incurred by the Group during the Relevant Periods, the combined results would have been adjusted as follows:

| | 1998 RMB'000 | 1999 RMB'000 | 2000 RMB'000 |
|---|-----------------|-----------------|-----------------|
| Profit for the year | 9,332 | 15,083 | 37,376 |
| Notional adjustments: | | | |
| Staff costs attributable to the activities of the Group incurred by Xinao Group Company Limited (<i>Note i</i>) | (282) | (417) | (818) |
| Rental and building management expenses for certain premises (<i>Note ii</i>) | – | (738) | (836) |
| Rental income for certain staff quarters and office premises (<i>Note iii</i>) | – | 221 | 912 |
| Tax effect on the above notional adjustments | 42 | 140 | 111 |
| Profit for the year after notional adjustments | <u>9,092</u> | <u>14,289</u> | <u>36,745</u> |

Notes:

- (i) Xinao Group Company Limited is a private limited company established in the PRC. It is controlled by Mr. Wang and was previously a shareholder of Langfang Xinao Gas Company Limited. During the Relevant Periods, certain employees of the Group were employed under Xinao Group Company Limited. These employees were engaged in the activities of the Group and were transferred to the Group on 1 January 2001.
- (ii) During the Relevant Periods, Langfang Xincheng Property Development Limited and Langfang Xinao Property Management Company Limited provided certain premises to the Group for its use free of charge. A notional amount of rental charge and building management fee was calculated with reference to the actual facilities utilised by the Group and included in the above to reflect the results of the Group on a comparable basis.
- (iii) During the Relevant Periods, the Group provided certain of the staff quarters and office premises free of charge to Xinao Group Company Limited and Langfang Xinao Property Management Company Limited. A notional amount of rental income was calculated with reference to the actual facilities utilised and included in the above to reflect the results of the Group on a comparable basis.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

The following are the texts of the reports, prepared for the purpose of incorporation in this prospectus, from the auditors and reporting accountants of Xinao Gas Holdings Limited, Deloitte Touche Tohmatsu.

A. ACCOUNTANTS' REPORT FOR JINGGU XINAO

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

27 April 2001

The Directors
Xinao Gas Holdings Limited
N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs,

We refer to the conditional agreement entered into on 31 January 2001 between Xinao Pinggu Investment Limited, a wholly owned subsidiary of Xinao Gas Holdings Limited, and 新奧集團股份有限公司 (“Xinao Group Company Limited”), a company which is controlled by Mr. Wang Yusuo. Pursuant to this agreement, Xinao Pinggu Investment Limited will acquire a 70 per cent. equity interest in 北京新奧京谷燃氣有限公司 (“Beijing Xinao Jinggu Gas Company Limited”) (“Jinggu Xinao”) owned by Xinao Group Company Limited, the completion of which is conditional on all necessary approvals being obtained in relation to the transfer of the equity interest and the conversion of Jinggu Xinao into a Sino-foreign equity joint venture.

Jinggu Xinao was established in the People's Republic of China (“PRC”) as a joint venture on 11 August 2000 for the principal business of sales of piped natural gas, gas pipeline investment and provision of gas connection services. At the date of this report, the registered capital of Jinggu Xinao was RMB9,900,000, of which RMB6,930,000 was contributed by Xinao Group Company Limited.

No audited financial statements have been prepared for Jinggu Xinao since its establishment.

For the purpose of this report, we have undertaken our own independent audit of the management accounts of Jinggu Xinao for the period from 11 August 2000 (date of establishment) to 31 December 2000 (the “Relevant Period”), which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and we have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The summaries of the results of Jinggu Xinao for the Relevant Period and of its net tangible assets as at 31 December 2000 (the “Summaries”) set out in this report have been prepared based on its management accounts. The directors of Jinggu Xinao are responsible for preparation of

these management accounts which give a true and fair view. The directors of Xinao Gas Holdings Limited are responsible for the contents of the prospectus in which this report is included. It is our responsibility to form an independent opinion on the Summaries and to report our opinion to you.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the results of Jinggu Xinao for the Relevant Period and of its net tangible assets as at 31 December 2000.

1. PRINCIPAL ACCOUNTING POLICIES

The financial information set out in this report has been prepared under the historical cost convention. The principal accounting policies adopted, which are in accordance with accounting principles generally accepted in Hong Kong, are as follows:

Revenue recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of each asset other than construction in progress, over its estimated useful life, and after taking into account its estimated residual value, using the straight line method, as follows:

| | |
|-------------------------|---|
| Land use rights | Over the term of the lease |
| Buildings | Over the shorter of 30 years or the operation period of the joint venture |
| Machinery and equipment | 10 years |
| Motor vehicles | 6 years |
| Office equipment | 6 years |

Construction in progress

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Inventories

Inventories, including construction materials and spare parts, are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition is calculated using the weighted average method. Net realisable value is based on estimated selling prices in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the period after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

2. RESULTS

The following is a summary of the results of Jinggu Xinao for the Relevant Period:

| | <i>Notes</i> | <i>RMB'000</i> |
|-------------------------|--------------|-----------------------|
| Interest income | | 6 |
| Administrative expenses | | <u>(1,094)</u> |
| Loss for the period | <i>(a)</i> | <u><u>(1,088)</u></u> |
| Dividends | <i>(c)</i> | <u><u>–</u></u> |

| |
|--|
| APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES |
|--|

Notes:

(a) Loss for the period

RMB'000

Loss for the period has been arrived at after charging:

| | |
|--|-----|
| Auditors' remuneration | – |
| Retirement benefits scheme contribution | 35 |
| Other staff costs | 212 |
| Depreciation and amortisation of property, plant and equipment | 57 |
| Operating lease rentals in respect of land and buildings | 5 |
| | 5 |

(b) Taxation

No provision for PRC enterprise income tax has been made as Jinggu Xinao had no profit for the Relevant Period.

There was no significant unprovided deferred taxation during the Relevant Period.

(c) Dividends

No dividends have been paid or declared by Jinggu Xinao since the date of its establishment.

(d) Remuneration of directors and employees

No remuneration was paid or payable to any directors of Jinggu Xinao and of Xinao Gas Holdings Limited during the Relevant Period.

The emoluments of the five highest paid employees of Jinggu Xinao for the Relevant Period were as follows:

RMB'000

| | |
|---------------------------------|----|
| Employees | |
| – basic salaries and allowances | 64 |
| – bonus | – |
| | 64 |

The emoluments of each of the above employees did not exceed RMB1,000,000 during the Relevant Period.

During the Relevant Period, no emoluments were paid by Jinggu Xinao to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining Jinggu Xinao or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Period.

(e) Transfer to or from reserves

RMB'000

Capital reserve

| | |
|---|----|
| Capital surplus arising on injection of capital during the period and balance carried forward | 31 |
| | 31 |

Other than the above, there was no movement in reserves during the Relevant Period.

APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES

3. NET TANGIBLE ASSETS

The following is a summary of the net tangible assets of Jinggu Xiniao as at 31 December 2000:

| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
|--|--------------|----------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment | <i>(a)</i> | | 6,386 |
| Current assets | | | |
| Inventories, at cost | | 1,067 | |
| Other receivables | | 1,238 | |
| Amounts due from related companies | <i>(b)</i> | 2,770 | |
| Bank balances and cash | | 1,247 | |
| | | 6,322 | |
| Current liabilities | | | |
| Other payables | | 2,610 | |
| Amounts due to related companies | <i>(c)</i> | 1,186 | |
| Secured bank loan – due within one year | <i>(d)</i> | 25 | |
| | | 3,821 | |
| Net current assets | | | 2,501 |
| Total assets less current liabilities | | | 8,887 |
| Non-current liability | | | |
| Secured bank loan – due after one year | <i>(d)</i> | | 44 |
| Net tangible assets | | | 8,843 |

Notes:

(a) Property, plant and equipment

| | Cost <i>RMB'000</i> | Accumulated depreciation and amortisation <i>RMB'000</i> | Net book value <i>RMB'000</i> |
|--------------------------|-------------------------------|--|---|
| Land and buildings | 4,129 | 44 | 4,085 |
| Machinery and equipment | 58 | – | 58 |
| Motor vehicles | 325 | 9 | 316 |
| Office equipment | 128 | 4 | 124 |
| Construction in progress | 1,803 | – | 1,803 |
| | 6,443 | 57 | 6,386 |

The land and buildings were situated in the PRC with medium term land use rights.

APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES

(b) Amounts due from related companies

Particulars of the amounts due from related companies are as follows:

| Name of company | At 31 December 2000 <i>RMB'000</i> | At 11 August 2000 <i>RMB'000</i> | Maximum amount outstanding during the Relevant Period <i>RMB'000</i> |
|-----------------------------------|---|---|---|
| Xinao Group Company Limited | 1,458 | – | 1,500 |
| Beijing Xinao Gas Company Limited | 1,312 | – | 1,389 |
| | <u>2,770</u> | <u>–</u> | |

The amounts arose from advances to the related companies. The amounts were unsecured, interest free and had no fixed repayment term. The amount due from Xinao Group Company Limited was fully settled subsequent to 31 December 2000.

Beijing Xinao Gas Company Limited is controlled by Mr. Wang Yusuo and Ms. Zhao Baoju and became a subsidiary of Xinao Gas Holdings Limited since 28 March 2001.

(c) Amounts due to related companies

Particulars of the amounts due to related companies are as follows:

| Name of company | <i>RMB'000</i> |
|---|----------------|
| Beijing Xinao Jingchang Gas Company Limited | 1,128 |
| Langfang Xinao Gas Company Limited | 58 |
| | <u>1,186</u> |

The amounts arose from advances from the related companies. The amounts were unsecured, interest free and had no fixed repayment terms.

Beijing Xinao Jingchang Gas Company Limited is a subsidiary of Xinao Group Company Limited. Langfang Xinao Gas Company Limited is controlled by Mr. Wang Yusuo and Ms. Zhao Baoju and became a subsidiary of Xinao Gas Holdings Limited since 28 March 2001.

(d) Secured bank loan

| | <i>RMB'000</i> |
|--|----------------|
| The bank loan is repayable: | |
| Within one year | 25 |
| In one to two years | 25 |
| In two to five years | 19 |
| | <u>69</u> |
| Less: Amount due within one year shown under current liabilities | (25) |
| Amount due after one year | <u>44</u> |

(e) Operating lease commitments

At 31 December 2000, Jinggu Xinao had no operating lease commitments.

(f) Pledge of assets

At 31 December 2000, Jinggu Xinao's motor vehicle with an aggregate net book value of approximately RMB138,000 was pledged to a bank for a bank loan granted to Jinggu Xinao.

4. DISTRIBUTABLE RESERVES

At 31 December 2000, Jinggu Xinao had no reserve available for distribution to its shareholders.

5. ULTIMATE HOLDING COMPANY

The directors of Jinggu Xinao consider Xinao Group Company Limited, a company which is incorporated in the PRC, to be its ultimate holding company.

6. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Jinggu Xinao have been prepared in respect of any period subsequent to 31 December 2000.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

B. ACCOUNTANTS' REPORT FOR QINGDAO XINAO

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

27 April 2001

The Directors
Xinao Gas Holdings Limited
N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs,

We refer to the conditional agreement entered into on 31 January 2001 between Xinao Huangdao Investment Limited, a wholly owned subsidiary of Xinao Gas Holdings Limited, and 新奧集團股份有限公司 (“Xinao Group Company Limited”), a company which is controlled by Mr. Wang Yusuo. Pursuant to this agreement, Xinao Huangdao Investment Limited will acquire a 90 per cent. equity interest in 青島新奧燃氣有限公司 (“Qingdao Xinao Gas Company Limited”) (“Qingdao Xinao”) owned by Xinao Group Company Limited, the completion of which is conditional on all necessary approvals being obtained in relation to the transfer of the equity interest and the conversion of Qingdao Xinao into a Sino-foreign equity joint venture.

Qingdao Xinao was established in the People's Republic of China (“PRC”) as a joint venture on 30 October 2000 for the principal business of sales of piped natural gas, gas pipeline investment and provision of gas connection services. At the date of this report, the registered capital of Qingdao Xinao was RMB20,000,000, of which RMB18,000,000 was contributed by Xinao Group Company Limited.

No audited financial statements have been prepared for Qingdao Xinao since its establishment.

For the purpose of this report, we have undertaken our own independent audit of the management accounts of Qingdao Xinao for the period from 30 October 2000 (date of establishment) to 31 December 2000 (the “Relevant Period”), which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and we have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The summaries of the results of Qingdao Xinao for the Relevant Period and of its net tangible assets as at 31 December 2000 (the “Summaries”) set out in this report have been prepared based on its management accounts. The directors of Qingdao Xinao are responsible for preparation of these management accounts which give a true and fair view. The directors of Xinao Gas Holdings Limited are responsible for the contents of the prospectus in which this report is included. It is our responsibility to form an independent opinion on the Summaries and to report our opinion to you.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the results of Qingdao Xinao for the Relevant Period and of its net tangible assets as at 31 December 2000.

1. PRINCIPAL ACCOUNTING POLICIES

The financial information set out in this report has been prepared under the historical cost convention. The principal accounting policies adopted, which are in accordance with accounting principles generally accepted in Hong Kong, are as follows:

Revenue recognition

Sales of liquefied petroleum gas are recognised when goods are delivered and title has been passed.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of each asset other than construction in progress, over its estimated useful life, and after taking into account its estimated residual value, using the straight line method, as follows:

| | |
|-------------------------|---|
| Land use rights | Over the term of the lease |
| Buildings | Over the shorter of 30 years or the operation period of the joint venture |
| Machinery and equipment | 10 years |
| Motor vehicles | 6 years |
| Office equipment | 6 years |

Construction in progress

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Inventories

Inventories, including construction materials and spare parts, are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition is calculated using the weighted average method. Net realisable value is based on estimated selling prices in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the period after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

2. RESULTS

The following is a summary of the results of Qingdao Xinao for the Relevant Period:

| | <i>Notes</i> | <i>RMB'000</i> |
|--------------------------|--------------|-----------------------|
| Turnover | <i>(a)</i> | 705 |
| Cost of sales | | <u>(676)</u> |
| Gross profit | | 29 |
| Administrative expenses | | (834) |
| Other operating expenses | | <u>(261)</u> |
| Loss for the period | <i>(b)</i> | <u><u>(1,066)</u></u> |
| Dividends | <i>(d)</i> | <u><u>–</u></u> |

APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES

Notes:

(a) Turnover

Turnover represents the amounts received and receivable for sales of liquefied petroleum gas.

(b) Loss for the period

RMB'000

Loss for the period has been arrived at after charging:

| | |
|--|-----|
| Auditors' remuneration | – |
| Staff costs | 57 |
| Depreciation and amortisation of property, plant and equipment | 37 |
| Loss on disposal of property, plant and equipment | 261 |
| Operating lease rentals in respect of land and buildings | 10 |
| | 10 |

(c) Taxation

No provision for PRC enterprise income tax has been made as Qingdao Xinao had no profit for the Relevant Period.

There was no significant unprovided deferred taxation during the Relevant Period.

(d) Dividends

No dividends have been paid or declared by Qingdao Xinao since the date of its establishment.

(e) Remuneration of directors and employees

No remuneration was paid or payable to any directors of Qingdao Xinao and of Xinao Gas Holdings Limited during the Relevant Period.

The emoluments of the five highest paid employees of Qingdao Xinao for the Relevant Period were as follows:

RMB'000

| | |
|---------------------------------|----|
| Employees | |
| – basic salaries and allowances | 12 |
| – bonus | – |
| | 12 |

The emoluments of each of the above employees did not exceed RMB1,000,000 during the Relevant Period.

During the Relevant Period, no emoluments were paid by Qingdao Xinao to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining Qingdao Xinao or as compensation for loss of office.

(f) Transfer to or from reserves

There was no movement in reserves during the Relevant Period.

| |
|--|
| APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES |
|--|

3. NET TANGIBLE ASSETS

The following is a summary of the net tangible assets of Qingdao Xinao as at 31 December 2000:

| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
|------------------------------------|--------------|----------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment | (a) | | 3,123 |
| Current assets | | | |
| Inventories, at cost | | 1,139 | |
| Trade and other receivables | | 1,172 | |
| Amounts due from related companies | (b) | 12,613 | |
| Bank balances and cash | | 2,657 | |
| | | 17,581 | |
| Current liabilities | | | |
| Trade and other payables | | 792 | |
| Amounts due to related companies | (c) | 978 | |
| | | 1,770 | |
| Net current assets | | | 15,811 |
| Net tangible assets | | | 18,934 |

Notes:

(a) **Property, plant and equipment**

| | Cost <i>RMB'000</i> | Accumulated depreciation and amortisation <i>RMB'000</i> | Net book value <i>RMB'000</i> |
|--------------------------|-------------------------------|--|---|
| Land and buildings | 377 | 2 | 375 |
| Machinery and equipment | 909 | 26 | 883 |
| Motor vehicles | 511 | 9 | 502 |
| Office equipment | 132 | – | 132 |
| Construction in progress | 1,231 | – | 1,231 |
| | 3,160 | 37 | 3,123 |

The land and buildings were situated in the PRC with medium term land use rights.

APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES

(b) Amounts due from related companies

Particulars of the amounts due from related companies are as follows:

| Name of company | At 31 December 2000 <i>RMB'000</i> | At 30 October 2000 <i>RMB'000</i> | Maximum amount outstanding during the Relevant Period <i>RMB'000</i> |
|--|---|--|---|
| Langfang Development Zone Urban Construction Engineering Company Limited | 12,000 | – | 12,000 |
| 青島經濟技術開發區熱電燃氣總公司 ("Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation") | 613 | – | 613 |
| | 12,613 | – | |

The amounts arose from advances to the related companies. The amounts were unsecured, interest free and had no fixed repayment terms. The amount due from Langfang Development Zone Urban Construction Engineering Company Limited was fully settled subsequent to 31 December 2000.

Langfang Development Zone Urban Construction Engineering Company Limited is controlled by Mr. Wang Yusuo. Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation is the minority shareholder of Qingdao Xinao.

(c) Amounts due to related companies

Particulars of the amounts due to related companies are as follows:

| Name of company | <i>RMB'000</i> |
|------------------------------------|----------------|
| Xinao Group Company Limited | 968 |
| Langfang Xinao Gas Company Limited | 10 |
| | 978 |

The amounts arose from advances from the related companies. The amounts were unsecured, interest free and had no fixed repayment terms. The amount due to Xinao Group Company Limited was fully settled subsequent to 31 December 2000.

Langfang Xinao Gas Company Limited is controlled by Mr. Wang Yusuo and Ms. Zhao Baoju and became a subsidiary of Xinao Gas Holding Limited since 28 March 2001.

(d) Operating lease commitments

At 31 December 2000, Qingdao Xinao had outstanding annual commitments of RMB263,000 payable in the following year under non-cancellable operating leases in respect of land and buildings which expire in the second to fifth year inclusive.

(e) Capital commitments

At 31 December 2000, Qingdao Xinao had commitments of approximately RMB95,500 relating to the acquisition of property, plant and equipment which was contracted for but not provided in the Summaries.

4. DISTRIBUTABLE RESERVES

At 31 December 2000, Qingdao Xinao had no reserve available for distribution to its shareholders.

5. ULTIMATE HOLDING COMPANY

The directors of Qingdao Xinao consider Xinao Group Company Limited, a company which is incorporated in the PRC, to be its ultimate holding company.

6. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Qingdao Xinao have been prepared in respect of any period subsequent to 31 December 2000.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

C. ACCOUNTANTS' REPORT FOR JINGCHANG XINAO

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

27 April 2001

The Directors
Xinao Gas Holdings Limited
N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs,

We refer to the conditional agreement entered into on 31 January 2001 between Xinao Changping Investment Limited, a wholly owned subsidiary of Xinao Gas Holdings Limited, and 新奧集團股份有限公司 (“Xinao Group Company Limited”), a company which is controlled by Mr. Wang Yusuo. Pursuant to this agreement, Xinao Changping Investment Limited will acquire an 80 per cent. equity interest in 北京新奧京昌燃氣有限公司 (“Beijing Xinao Jingchang Gas Company Limited”) (“Jingchang Xinao”) owned by Xinao Group Company Limited, the completion of which is conditional on all necessary approvals being obtained in relation to the transfer of the equity interest and the conversion of Jingchang Xinao into a Sino-foreign equity joint venture.

Jingchang Xinao was established in the People's Republic of China (“PRC”) as a joint venture on 16 November 2000 for the principal business of sales of piped natural gas, gas pipeline investment, and provision of gas connection services. At the date of this report, the registered capital of Jingchang Xinao was RMB9,900,000, of which RMB7,920,000 was contributed by Xinao Group Company Limited.

No audited financial statements have been prepared for Jingchang Xinao since its establishment.

For the purpose of this report, we have undertaken our own independent audit of the management accounts of Jingchang Xinao for the period from 16 November 2000 (date of establishment) to 31 December 2000 (the “Relevant Period”), which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and we have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The summaries of the results of Jingchang Xinao for the Relevant Period and of its net tangible assets as at 31 December 2000 (the “Summaries”) set out in this report have been prepared based on its management accounts. The directors of Jingchang Xinao are responsible for preparation of these management accounts which give a true and fair view. The directors of Xinao Gas Holdings Limited are responsible for the contents of the prospectus in which this report is included.

It is our responsibility to form an independent opinion on the Summaries and to report our opinion to you.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the results of Jingchang Xinao for the Relevant Period and of its net tangible assets as at 31 December 2000.

1. PRINCIPAL ACCOUNTING POLICIES

The financial information set out in this report has been prepared under the historical cost convention. The principal accounting policies adopted, which are in accordance with accounting principles generally accepted in Hong Kong, are as follows:

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of each asset, over its estimated useful life, and after taking into account its estimated residual value, using the straight line method, as follows:

| | |
|-------------------------|---|
| Buildings | Over the shorter of 30 years or the operation period of the joint venture |
| Pipelines | Over the shorter of 30 years or the operation period of the joint venture |
| Machinery and equipment | 10 years |
| Motor vehicles | 6 years |
| Office equipment | 6 years |

Inventories

Inventories, including construction materials and spare parts, are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition is calculated using the weighted average method. Net realisable value is based on estimated selling prices in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the period after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2. RESULTS

The following is a summary of the results of Jingchang Xinao for the Relevant Period:

| | <i>Notes</i> | <i>RMB'000</i> |
|-------------------------|--------------|---------------------|
| Administrative expenses | | <u>(260)</u> |
| Loss for the period | <i>(a)</i> | <u><u>(260)</u></u> |
| Dividends | <i>(c)</i> | <u><u>–</u></u> |

Notes:

(a) Loss for the period

RMB'000

Loss for the period has been arrived at after charging:

| | | |
|------------------------|--|----------|
| Auditors' remuneration | | – |
| Staff costs | | <u>6</u> |

(b) Taxation

No provision for PRC enterprise income tax has been made as Jingchang Xinao had no profit for the Relevant Period.

There was no significant unprovided deferred taxation during the Relevant Period.

| |
|---|
| APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES |
|---|

(c) Dividends

No dividends have been paid or declared by Jingchang Xinao since the date of its establishment.

(d) Remuneration of directors and employees

No remuneration was paid or payable to any directors of Jingchang Xinao and of Xinao Gas Holdings Limited during the Relevant Period.

The emoluments of the five highest paid employees of Jingchang Xinao for the Relevant Period were as follows:

| | <i>RMB'000</i> |
|---------------------------------|----------------|
| Employees | |
| – basic salaries and allowances | 6 |
| – bonus | – |
| | <hr/> |
| | 6 |
| | <hr/> <hr/> |

The emoluments of each of the above employees did not exceed RMB1,000,000 during the Relevant Period.

During the Relevant Period, no emoluments were paid by Jingchang Xinao to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining Jingchang Xinao or as compensation for loss of office.

(e) Transfer to or from reserves

There was no movement in reserves during the Relevant Period.

| |
|--|
| APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES |
|--|

3. NET TANGIBLE ASSETS

The following is a summary of the net tangible assets of Jingchang Xinao as at 31 December 2000:

| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
|------------------------------------|--------------|----------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment | (a) | | 22,375 |
| Current assets | | | |
| Inventories, at cost | | 799 | |
| Other receivables | | 5,258 | |
| Amounts due from related companies | (b) | 1,173 | |
| Bank balances and cash | | 1,176 | |
| | | 8,406 | |
| Current liabilities | | | |
| Other payables | | 1,716 | |
| Amounts due to related companies | (c) | 19,425 | |
| | | 21,141 | |
| Net current liabilities | | | (12,735) |
| Net tangible assets | | | 9,640 |

Notes:

(a) **Property, plant and equipment**

| | Cost and net book value <i>RMB'000</i> |
|-------------------------|---|
| Buildings | 3,000 |
| Pipelines | 19,000 |
| Machinery and equipment | 50 |
| Motor vehicles | 245 |
| Office equipment | 80 |
| | 22,375 |
| | 22,375 |

No provision for depreciation and amortisation has been made during the Relevant Period because the above assets were not yet put into use.

APPENDIX II ACCOUNTANTS' REPORT FOR THE ACQUISITION COMPANIES

(b) Amounts due from related companies

Particulars of the amounts due from related companies are as follows:

| Name of company | At 31 December 2000 <i>RMB'000</i> | At 16 November 2000 <i>RMB'000</i> | Maximum amount outstanding during the Relevant Period <i>RMB'000</i> |
|--|---|---|---|
| Beijing Xinao Jinggu Gas Company Limited 新奧集團石家莊化工機械股份有限公司 (“Xinao Group Shijiazhong Chemical and Machinery Company Limited”) | 1,128 | – | 1,128 |
| | 45 | – | 45 |
| | 1,173 | – | |

The amounts arose from advances to the related companies. The amounts were unsecured, interest free and had no fixed repayment terms. The amount due from Xinao Group Shijiazhong Chemical and Machinery Company Limited was fully settled subsequent to 31 December 2000.

Beijing Xinao Jinggu Gas Company Limited is a subsidiary of Xinao Group Company Limited. Xinao Group Shijiazhong Chemical and Machinery Company Limited is controlled by Mr. Wang Yusuo.

(c) Amounts due to related companies

Particulars of the amounts due to related companies are as follows:

| Name of company | <i>RMB'000</i> |
|---|----------------|
| Xinao Group Company Limited 北京市昌平市政經濟發展總公司 (“Beijing City Changping Urban Economic Development Head Corporation”) | 10,103 |
| Beijing Xinao Gas Company Limited | 9,120 |
| | 202 |
| | 19,425 |

The amounts arose from advances by the related companies. The amounts were unsecured, interest free and had no fixed repayment terms and the amount due to Xinao Group Company Limited was fully settled subsequent to 31 December 2000.

Beijing City Changping Urban Economic Development Head Corporation is the minority shareholder of Jingchang Xinao. Beijing Xinao Gas Company Limited is controlled by Mr. Wang Yusuo and Ms. Zhao Baoju and became a subsidiary of Xinao Gas Holdings Limited since 28 March 2001.

4. DISTRIBUTABLE RESERVES

At 31 December 2000, Jingchang Xinao had no reserve available for distribution to its shareholders.

5. ULTIMATE HOLDING COMPANY

The directors of Jingchang Xinao consider Xinao Group Company Limited, a company which is incorporated in the PRC, to be its ultimate holding company.

6. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Jingchang Xinao have been prepared in respect of any period subsequent to 31 December 2000.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificate issued by Chesterton Petty Ltd., an independent property valuer, prepared for the purpose of incorporation in this prospectus, in connection with its valuation of the property interests held by the Company and its subsidiaries as at 31 January 2001. The Company has confirmed that there is no change in the property interests of the Group between 4 April 2001 and 27 April 2001. Chesterton has confirmed that the content and figures of the following valuation report dated 4 April 2001 will not be affected in any circumstances should the date of the valuation report change from 4 April 2001 (the date of the valuation report) to 27 April 2001 (the date of this prospectus) under the condition that the valuation date remains as at 31 January 2001.



International Property Consultants

Chesterton Petty Limited
16th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

4 April 2001

The Board of Directors
Xinao Gas Holdings Limited
Huaxiang Road
Langfang Economic and Technical Development Zone
Hebei Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the property interests held by Xinao Gas Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the Hong Kong Special Administration Region ("Hong Kong") and in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 31 January 2001.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (iv) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

Our valuation has been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

We have valued property interests Nos. 5, 6, 7 & 13 in Group I according to comparable sale evidence available in the market. For all the other property interests in Group I, due to the specific purpose for which most of the buildings and structures have been constructed, there are no readily identifiable market comparable. Thus these buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define “depreciated replacement cost” for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

Property interests in Group II which are held under construction, have been valued on the basis of the prevailing cost level and status of construction as at the date of valuation, and we have also assumed that all consents, approvals and licences from relevant government authorities for the development proposals will be granted without any onerous conditions or undue delay which might affect their values.

In valuing the property interests, we have also relied on the advice given by the Group and its legal advisers, Commerce & Finance Law Offices, on PRC law, regarding the title to property interests and interests of the Group in the properties. For the purpose of our valuation, unless otherwise stated, we have also assumed that the Group has enforceable title to the property interests and has free and uninterrupted rights to use, occupy or assign property interests for the whole of the respective unexpired terms as granted. Unless otherwise stated, in the course of our valuation of property interests in Group I and II, we have assumed that the transferable land use rights in respect of property interests for respective specific terms subject to nominal annual land use fees have been granted.

Property interests in Group III, IV and VI, which are leased by the Group have no commercial value due to the prohibition against assignment or sub-letting and their short term nature and the lack of substantial profit rent.

In valuing property interests to be acquired by the Group in Group V, we have according to your specific term of instructions, assumed that the properties have proper titles vested in the Group and which are freely transferable in the market without any outstanding payment or premium.

We have been provided with copies of extracts of title documents relating to the properties, such as land use right certificates and construction work planning permits. However, we have not inspected the original documents to verify the ownership or to verify any amendments, which may not appear on the copies handed to us. In the course of our valuation, we have relied to a considerable extent on the information given by the Group and its legal advisers on PRC law, Commerce & Finance Law Offices, and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, particulars of occupancy, joint venture contracts, floor and site areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the correctness of the site and the floor areas of the property interests and we have assumed that the site and the floor areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior of the properties valued and, where possible, the interior of the premises. However, we have not carried out investigations on site to determine the suitability of the ground conditions and services etc for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

In preparing our valuation report, we have had regard to the requirements contained in the provisions of Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi.

Our summary of values and valuation certificate are attached.

Yours faithfully,
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Executive Director

Note: Charles C K Chan, Chartered Estate Surveyor, M.Sc., F.R.I.C.S., F.H.K.I.S, M.C.I.Arb., R.P.S. (G.P.), has been a qualified valuer with Chesterton Petty Ltd. since June 1987 and has about 16 years' experience in valuation of properties in Hong Kong and has extensive experience in valuation of properties in the PRC.

SUMMARY OF VALUES

| Property | Capital value in existing state as at 31 January 2001 <i>RMB</i> | Group's attributable interest % | Capital value in existing state as at 31 January 2001 attributable to the Group <i>RMB</i> |
|--|---|--|--|
| Group I – Property interests held by the Group in the PRC | | | |
| 1. Langfang Development Zone Processing Station Huaxiang Road West Langfang Economic and Technical Development Zone Langfang Hebei Province, the PRC | 7,380,000 | 95% | 7,011,000 |
| 2. Chengbei Processing Station Heping Road North Section West side Langfang Hebei Province, the PRC | 4,900,000 | 95% | 4,655,000 |
| 3. Chengnan Processing Station Langzhou Road North Xinzhuang Road West Langfang Hebei Province, the PRC | 2,960,000 | 95% | 2,812,000 |
| 4. Land and Building located at the junction of Huaxiang Road East and Hongrun Road North Langfang Economic and Technical Development Zone Langfang Hebei Province, the PRC | 53,000,000 | 95% | 50,350,000 |
| 5. Land and Building located at 2 Jinguang Road Langfang Hebei Province, the PRC | 7,600,000 | 95% | 7,220,000 |
| 6. Staff Quarters Building 19 Yinhe Main Street Langfang Hebei Province, The PRC | 3,070,000 | 95% | 2,917,000 |

APPENDIX III
PROPERTY VALUATION

| Property | Capital value in existing state as at 31 January 2001 <i>RMB</i> | Group's attributable interest % | Capital value in existing state as at 31 January 2001 attributable to the Group <i>RMB</i> |
|--|---|--|--|
| 7. Staff Quarters Building 6 Yingchun Road Langfang Hebei Province, the PRC | 1,810,000 | 95% | 1,720,000 |
| 8. Land occupied for laying gas pipelines from Wanzhuang to Langfang Langfang Hebei Province, the PRC | 460,000 | 95% | 437,000 |
| 9. Land occupied for laying gas pipelines from Yongqing to Langfang Langfang Hebei Province, the PRC | 1,080,000 | 95% | 1,026,000 |
| 10. Land occupied for laying gas pipelines from Anci to Langfang Langfang Hebei Province, the PRC | 370,000 | 95% | 351,500 |
| 11. A parcel of land located at the northern side of Wanzhuang Petroleum Factory Planning District Langfang Hebei Province, the PRC | 540,000 | 95% | 513,000 |
| 12. Huludao Processing Station 2 Shanshui Road Longwan New District Huludao Liaoning Province, the PRC | 7,350,000 | 90% | 6,615,000 |
| 13. 13 Residential Units Block 4, Shenhai Garden Huludao Liaoning Province, the PRC | 1,770,000 | 90% | 1,593,000 |
| 14. Miyun Processing Station Jizhuang Village Mixi Road North Miyun County Beijing Municipality, the PRC | 2,650,000 | 80% | 2,120,000 |
| Sub-total : | 94,940,000 | | 89,340,500 |

| Property | Capital value | Group's | Capital value |
|---|--|-------------------------------|---|
| | in existing state as at 31 January 2001 <i>RMB</i> | attributable interest % | in existing state as at 31 January 2001 attributable to the Group <i>RMB</i> |
| Group II – Property interests held by the Group under construction in the PRC | | | |
| 15. The Extended Portion of Langfang Development Zone Processing Station Yaohua Road Langfang Economic and Technical Development Zone Langfang Hebei Province, the PRC | 5,340,000 | 95% | 5,073,000 |
| 16. A parcel of land located at South of Xihutun Chun Langfang Hebei Province, the PRC | No commercial value | 95% | No commercial value |
| 17. Liaocheng Processing Station Huxi Road Liaocheng Shandong Province, the PRC | 4,850,000 | 90% | 4,365,000 |
| Sub-total : | 10,190,000 | | 9,438,000 |

Group III – Property interests leased by the Group in the PRC

| | | |
|--|--|---------------------|
| 18. Portion of Level 1 in a building of Jinyu Area Shuguang Road Langfang Hebei Province, the PRC | | No commercial value |
| 19. Level 2 of a building located at Pipeline Bureau District Six Langfang Hebei Province, The PRC | | No commercial value |
| 20. A unit on Level 1 located at 1 Yingchun Road Langfang Hebei Province, The PRC | | No commercial value |

| Property | Capital value in existing state attributable to the Group as at 31 January 2001 <i>RMB</i> |
|--|---|
| 21. Two units on Level 1 West Wing Pipeline Bureau District Nine Langfang Hebei Province, The PRC | No commercial value |
| 22. Various buildings Changfu Road Anci District Langfang Hebei Province, the PRC | No commercial value |
| 23. A unit on Level 1 3-1-8 Binhe Estate Huludao Liaoning Province, the PRC | No commercial value |
| 24. 45-1 Western Area Hubei Estate Liaocheng Shandong Province, The PRC | No commercial value |
| 25. Blocks 25 and 26 in Western Area Hubei Estate Liaocheng Shandong Province, the PRC | No commercial value |
| 26. Portion of Level 1, Yuxin Street Middle Section of South Road Liaocheng Shandong Province, The PRC | No commercial value |
| 27. Portion of Level 1 74 Dongchang West Road Liaocheng Shandong Province, the PRC | No commercial value |
| 28. Portion of Level 1, Building 11 Menshi Jia, South Main Street Miyun County Beijing Municipality, the PRC | No commercial value |
| 29. Portion of Levels 1 & 2 Commercial Service Building Kangju South District Miyun County Beijing Municipality, the PRC | No commercial value |

| Property | Capital value in existing state as at 31 January 2001 <i>RMB</i> | Group's attributable interest % | Capital value in existing state attributable to the Group as at 31 January 2001 <i>RMB</i> |
|--|---|--|---|
| 30. Rooms 201, 301, 401 of Block 4 and Rooms 201, 202, 302 of Block 5 Building No. 6 Kangju South District Miyun County Beijing Municipality, the PRC | | | No commercial value |
| Sub-total: | | | Nil |
| Group IV – Property interest leased by the Group in Hong Kong | | | |
| 31. Portion of Office Units 4201-4202 42th Floor, Far East Finance Centre 16 Harcourt Road Admiralty, Hong Kong | | | No commercial value |
| Sub-total: | | | Nil |
| Grand total for the Group: | 105,130,000 | | 98,778,500 |

Group V – Property interests held by the companies to be acquired by the Group in the PRC

| Property | Capital value in existing state as at 31 January 2001 <i>RMB</i> | Attributable interest to be acquired by the Group % | Capital value in existing state attributable to the Group as at 31 January 2001 <i>RMB</i> |
|--|---|---|---|
| 32. Changping Processing Station Zheng Ba Street Changping County Beijing Municipality, the PRC | No Commercial Value | 80% | No Commercial Value |
| 33. Pinggu Processing Station District 11 Xinggu Economic Development Area Pinggu County Beijing Municipality, the PRC | No Commercial Value | 70% | No Commercial Value |
| 34. Land and buildings located at 26 Leyuan West District Pinggu County Beijing Municipality, the PRC | No Commercial Value | 70% | No Commercial Value |

| | Capital value in existing state as at 31 January 2001 <i>RMB</i> | Attributable interest to be acquired by the Group % | Capital value in existing state attributable to the Group as at 31 January 2001 <i>RMB</i> |
|--|---|---|---|
| 35. Qingdao Processing Station West of Changbeishan Road and North of Jialingjiang Road Qingdao Shandong Province, the PRC | No Commercial value | 90% | No Commercial value |
| 36. A parcel of land located at North of Jialingjiang Road West of Changbeishan Road Qingdao Shandong Province, the PRC | No Commercial value | 90% | No Commercial value |
| 37. A parcel of land located at Tuanjie Road Qingdao Shandong Province, the PRC | No Commercial value | 90% | No Commercial value |
| Sub-total: | <u>Nil</u> | | <u>Nil</u> |

Group VI – Property interests leased by companies to be acquired by the Group in the PRC

| | | | |
|---|--|--|------------------------|
| 38. Level 16 Hualin Building Qingdao Shandong Province, the PRC | | | No commercial value |
| 39. Rooms 101 & 102, Building No. 9 Group A, Tangdao Bay Qingdao Shandong Province, the PRC | | | No commercial value |
| 40. A unit at 8-1 Xiangjiang Road Developing District Qingdao Shandong Province, the PRC | | | No commercial value |
| 41. Room 101 at West Block of Building No. 26 Zijinshan Estate Qingdao Shandong Province, the PRC | | | No commercial value |
| 42. West Wing of Level 2 Building No. 3 Guanting Estate Qingdao Shandong Province, the PRC | | | No commercial value |

| Property | Capital value in existing state as at 31 January 2001 <i>RMB</i> | Attributable interest to be acquired by the Group % | Capital value in existing state attributable to the Group as at 31 January 2001 <i>RMB</i> |
|--|---|---|---|
| 43. Room 603 at Building No. 20 Zijinshan Estate Developing District Qingdao Shandong Province, the PRC | _____ | | No commercial value _____ |
| Sub-total: | Nil | | Nil |
| Grand-total for property interests held by the companies to be acquired by the Group: | <u>Nil</u> | | <u>Nil</u> |

VALUATION CERTIFICATE

Group I – Property interests held by the Group in the PRC

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|--|--|---|
| 1. Langfang Development Zone Processing Station Huaxiang Road West Langfang Economic and Technical Development Zone Langfang Hebei Province The PRC | <p>The property comprises a level site with a site area of approximately 24,840 sq.m. (267,378 sq.ft.), located at the junction of Huaxiang Road and Yaohua Road.</p> <p>Currently erected on the site is a processing station comprising six one to three storey buildings of brick/concrete construction with a total gross floor area of approximately 3,038.29 sq.m. (32,704 sq.ft.) completed in 1998.</p> <p>The land use rights of the property are held for a term commencing from 30 December 1999 and expiring on 26 September 2045 for industrial uses.</p> | The property is occupied by the Group for administration and manufacturing purposes. | RMB7,380,000 (95% interest attributable to the Group: RMB7,011,000) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊產國用(1999)字第00052號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 30 December 1999, the land with a site area of 24,840 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A"), for a term commencing from 30 December 1999 and expiring on 26 September 2045 for industrial use.
- (2) Pursuant to the Building Ownership Certificate 廊開字第5034號 issued by 廊坊經濟技術開發區房地產管理局 (Langfang Economic and Technology Development Zone Real Estate Administration Bureau) in October 1998, title to the buildings with a total gross floor area of 3,038.29 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from 28 March 1993
 - (iii) Total investment amount : US\$9,333,900
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
 - (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.

- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority's approval has been obtained.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|--|---|
| 2. Chengbei Processing Station Heping Road North Section West side Langfang Hebei Province The PRC | The property comprises a level site with an area of approximately 20,000.00 sq.m. (215,280 sq.ft.), constructed with two single-storey buildings of brick/concrete structure with a total gross floor area of approximately 658.16 sq.m. (7,084 sq.ft.) completed in 1999. The land use rights of the property are held for a term of 50 years commencing from 8 August 1999 and expiring on December 2048 for urban facilities use. | The property is occupied by the Group for administration and manufacturing purposes. | RMB4,900,000 (95% interest attributable to the Group: RMB4,655,000) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(1999)字第01310號 dated 8 August 1999 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a site area of 20,000.00 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 8 August 1999 and expiring on December 2048 for urban facilities use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證字第K3170 dated 23 August 1999 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), the title to the buildings with a total gross floor area of 658.16 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of Capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. Subject to the registration procedures being completed with the relevant government authority, these land use rights can be transferred, leased or mortgaged but the use of the land cannot be changed. There is no legal impediment for Party A in completing the registration procedure.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. Party A is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to the transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid registration procedure is completed.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|---|
| 3. Chengnan Processing Station Langzhou Road North Xinzhuang Road West Langfang Hebei Province The PRC | <p>The property comprises two adjoining level plots of land with a total site area of approximately 13,067.40 sq.m. (140,657 sq.ft.), constructed with two single storey buildings of brick/concrete construction. The total gross floor area of the buildings is approximately 323.10 sq.m. (3,478 sq.ft.) completed in August 2000.</p> <p>The land use rights of the property are held for a term commencing from 20 August 1998 and expiring on 20 August 2043 for composite use.</p> | The property is occupied by the Group for administration and manufacturing uses. | RMB2,960,000 (95% interest attributable to the Group: RMB2,812,000) |

Notes:

- (1) Pursuant to two State-owned Land Use Right Certificates 安國轉(1999)字第0181 and 0182號 both dated 16 August 1999 issued by 廊坊市安次區土地管理局 (Langfang City Anci District Land Administration Bureau), the land with a total site area of 13,067.40 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 20 August 1998 and expiring on 20 August 2043 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證字第K3299 dated 2 August 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), titles to the said buildings with a total gross floor area of 323.10 sq.m. are vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd, referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.

- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the land but Party A shall complete the registration procedure with the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in completing such registration procedure.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid registration procedure is completed.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|---|---|
| 4. Land and Building located at the junction of Huaxiang Road East and Hongrun Road North Langfang Economic and Technical Development Zone Langfang Hebei Province The PRC | <p>The property comprises a level site with a site area of 19,481.33 sq.m. (209,697 sq.ft.) or thereabouts located at the junction of Huaxiang Road and Hongrun Road.</p> <p>Currently erected on the site is a composite building of reinforced concrete structure completed in August 1999. The total gross floor area of the building is approximately 10,605.17 sq.m. (114,154 sq.ft.).</p> <p>The land use rights of the property are held for a term commencing from 20 December 2000 and expiring on 30 March 2047 for composite use.</p> | <p>Level 1 of the property with a total gross floor area of approximately 3,299 sq.m. is leased under a tenancy agreement to 新奧集團股份有限公司 (Xinao Group Company Limited) for a term of 3 years commencing from 1 January 2001 and expiring on 31 December 2003 at an annual rent of RMB1,039,185 exclusive of management fee but inclusive of charges listed in Note 6(i).</p> <p>The remaining portion of the property is occupied by the Group for administration and recreational purposes.</p> | <p>RMB53,000,000</p> <p>(95% interest attributable to the Group: RMB50,350,000)</p> |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊開國用(2000)字第00027號 dated 20 December 2000 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a total site area of 19,481.33 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 20 December 2000 to 30 March 2047 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證廊開字第G4109號 dated 25 December 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), title to the said building with a total gross floor area of approximately 10,605.17 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated entered 29 July 2000 into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.

(5) The property is subject to three mortgage charges; details of which are being listed as follows:

| Contract No. | Mortgagor | Mortgagee | Mortgage Loan | Mortgage Term |
|----------------------|----------------|-------------------|---------------------------------|--------------------------|
| 1. 開農銀抵字(2000)第022號 | Party A | 中國農業銀行 廊坊開發區支行 | Short Term Loan RMB5,000,000 | Expiring on 2001-8-30 |
| 2. 開農銀借字(2000)第004號 | 新奧集團股份 有限公司 | 中國農業銀行 廊坊開發區支行 | RMB3,000,000 | Expiring on 2001-9-24 |
| 3. (1999)開農銀抵借字第026號 | 新奧集團股份 有限公司 | 中國農業銀行 廊坊開發區支行 | RMB15,000,000 | Expiring on 2001-9-9 |

(6) The Lease Agreement entered into between Party A (the “Landlord”) and 新奧集團股份有限公司 (Xinao Group Company Limited) (the “Tenant”) dated 1 January 2001, which contains, inter alia, the following information:

- (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;
- (ii) The rent will not be adjusted within the first year; and
- (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the State provided that the new rent shall not exceed an increment rate of 8%.

(7) We have been provided with legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:

- (i) Party A has obtained the land use rights of the aforesaid land legally by grant. These land use rights have been mortgaged for a term from 6 September 1999 to 24 September 2001. During the mortgage period, Party A shall not transfer or further mortgage the land use rights of the aforesaid land unless with the consent of the aforesaid mortgagee. However the same can be leased after obtaining approval of the relevant government authority. After the mortgage period expires, subject to the approval of the relevant government authority this land use rights can be transferred, leased or mortgaged but the use of the land cannot be changed. According to the PRC law, Party A shall only be granted the State-owned land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the land but Party A shall obtain the approval of the relevant government authority for future transfer of lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. The buildings are subject to mortgage. The mortgage period is 2 year from 6 September 1999. During the mortgage period, Party A shall not transfer or further mortgage the building ownership right of such buildings unless with the consent of the aforesaid mortgagee. However, the same can be leased after obtaining approval of the relevant government authority. After the mortgage period expires, Party A is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority’s approval has been obtained.
- (iii) Party A has the building ownership right of the buildings. The lease agreement is registered in relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto. The rights and obligations of both parties thereto are protected and governed by PRC laws.

(8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |
| Mortgage Contracts | Yes |
| Lease Agreement | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|---|
| 5. Land & Building located at 2 Jinguang Road Langfang Hebei Province The PRC | <p>The property comprises a parcel of land with a total site area of approximately 2,481.90 sq.m. (26,715 sq.ft.) constructed with a 6-storey building of reinforced concrete structure with a total gross floor of approximately 4,368.63 sq.m. (47,024 sq.ft.) completed in 1999.</p> <p>The land use rights of the property are held for a term commencing from 22 December 2000 and expiring on 23 December 2047 for composite use.</p> | The property is occupied by the Group for administration purposes. | RMB7,600,000 (95% interest attributable to the Group: RMB7,220,000) |

Notes:

- (1) Pursuant to State-owned Land Use Right Certificate 廊國用(2000)字第01363號 dated 22 December 2000 issued by 廊坊市土地管理局(Langfang City Land Administration Bureau), the land with a total site area of 2,481.90 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 22 December 2000 and expiring on 23 December 2047 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證字第K2902號 dated 20 December 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), title to the said building with a total gross floor area of 4,368.63 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from 28 March 1993
 - (iii) Total investment amount : US\$9,333,900
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
 - (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家

- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority's approval has been obtained.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|---|
| 6. Staff Quarters Building 19 Yinhe Main Street Langfang Hebei Province The PRC | <p>The property comprises a parcel of land with a total site area of approximately 319.14 sq.m. (3,435 sq.ft.), constructed with a 6-storey building of reinforced concrete structure with a total gross floor area of approximately 1,373.38 sq.m. (14,783 sq.ft.) completed in 1998.</p> <p>The land use rights of the property is held for a term commencing from 22 December 2000 and expiring on 9 August 2065 for composite use.</p> | <p>The property is leased to 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited), for a term of 3 years commencing from 1 January 2001 and expiring on 31 December 2003 at an annual rent of RMB329,611 inclusive of all charges listed in Note 5(i), as staff quarters.</p> | <p>RMB3,070,000</p> <p>(95% interest attributable to the Group: RMB2,917,000)</p> |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(2000)字第01361號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 22 December 2000, the title to the property is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred hereinafter as "Party A") for a term commencing from 22 December 2000 and expiring on 9 August 2065 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊C字第3289號 dated July 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), title to the said buildings with a total gross floor area of 1,373.38 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from 28 March 1993
 - (iii) Total investment amount : US\$9,333,900
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
 - (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (5) The Lease Agreement entered into between Party A (the "Landlord") and 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited) (the "Tenant") dated 1 January 2001, which contains, inter alia, the following information:
 - (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;

- (ii) The rent will not be adjusted within the first year; and
 - (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the state provided that the new rent shall not exceed an increment rate of 8%.
- (6) We have been provided with a legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority’s approval has been obtained.
 - (iii) Party A has the building ownership right of the buildings. The lease agreement is registered in relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto. The rights and obligations of both parties thereto are protected and governed by PRC laws.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |
| Lease Agreement | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|---|
| 7. Staff Quarters Building 6 Yingchun Road Langfang Hebei Province The PRC | The property comprises a parcel of level site with a site area of approximately 629.68 sq.m. (6,178 sq.ft.), constructed with 1 brick/concrete construction building with a total gross floor area of approximately 2,017.7 sq.m. (21,719 sq.ft.) completed in 1995. The land use rights for the property are held for a term expiring on 23 December 2047 for composite use. | The property is leased to 新奧集團股份有限公司 (Xinao Group Company Limited) for a term of 3 years commencing from 1 January 2001 and expiring on 31 December 2003 at an annual rental of RMB435,823 inclusive of all charges listed in Note 5(i). | RMB1,810,000 (95% interest attributable to the Group: RMB1,720,000) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(2000)字第01360號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 20 December 2000, the land with a site area of approximately 629.68 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred hereinafter as "Party A") for a term expiring on 23 December 2047 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊自字第1954號 issued by 廊坊市房屋產權籍監理處 (Langfang City Property Rights Supervisory Office) on July 2000, the title to the said building with a total gross floor area of 2,017.7 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (5) The Lease Agreement entered into between Party A (the "Landlord") and 新奧集團股份有限公司 (Xinao Group Company Limited) (the "Tenant") dated 1 January 2001, which contains, inter alia, the following information:
- (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;

- (ii) The rent will not be adjusted within the first year; and
- (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the state provided that the new rent shall not exceed an increment rate of 8%.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority's approval has been obtained.
- (iii) Party A has the building ownership right of the building. The lease agreement is registered in relevant government authorities and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto. The rights and obligations of both parties thereto are protected and governed by PRC laws.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follow:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |
| Lease Agreement | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2000 |
|---|--|--|---|
| 8. Land occupied for laying gas pipelines from Wanzhuang to Langfang Langfang Hebei Province The PRC | The property comprises a long and narrow parcel of land with a total area of approximately 3,815.87 sq.m. (41,074 sq.ft.). The land use rights are held for a term of 50 years expiring on 18 August 2050 for urban facilities use. | The property is occupied by the Group for laying gas pipeline. | RMB460,000 (95% interest attributable to the Group: RMB437,000) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(2000)字第00709號 dated 18 August 2000 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a site area of 3,815.87 sq.m. (41,074 sq.ft.) is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term of 50 years commencing from 18 August 2000 and expiring on 18 August 2050 for urban facilities use.
- (2) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (3) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (4) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|--|--|---|
| 9. Land occupied for laying gas pipeline from Yongqing to Langfang Langfang Hebei Province The PRC | The property comprises a long and narrow parcel of land with total site area of approximately 9,045.00 sq.m. (97,360 sq.ft.). The land use rights are held for a term of 50 years expiring on 17 August 2050 for the purpose of laying gas pipelines. | The property is occupied by the Group for laying gas pipeline. | RMB1,080,000 (95% interest attributable to the Group: RMB1,026,000) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 永國用(2000)字第012572573號 dated 18 August 2000 issued by 永清縣土地管理局 (Yongqing County Land Administration Bureau), the land with a site area of 9,045.00 sq.m is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, "referred thereafter as "Party A") for a term expiring on 17 August 2050 for the purpose of laying gas pipelines.
- (2) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (3) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (4) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|---|
| 10. Land occupied for laying gas pipelines from Anci to Langfang Langfang Hebei Province The PRC | The property comprises a long and narrow parcel of land with a total site area of approximately 3,100.02 sq.m. (33,369 sq.ft.). The land use rights are held for a term of 50 years expiring on 20 August 2050 for the purpose of laying gas pipelines. | The property is occupied by the Group for laying gas pipeline. | RMB370,000 (95% interest attributable to the Group: RMB351,500) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 安國用(2000)字第0457號 dated 20 August 2000 issued by 廊坊市安次區土地管理局 (Langfang City Anci District Land Administration Bureau), the land with a site area of 3,100.02 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xiniao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 20 August 2000 and expiring on 20 August 2050 for the purpose of laying gas pipelines.
- (2) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xiniao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 廊坊新奧燃氣有限公司
(Langfang Xiniao Gas Company Limited)
- (ii) Term of operation : 30 years from 28 March 1993
- (iii) Total investment amount : US\$9,333,900
- (iv) Registered capital : US\$9,333,900
- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (3) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 the (State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A was incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (4) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|--|---|
| 11. A parcel of land located at the northern side of Wanzhuang Petroleum Factory Planning District Langfang Hebei Province The PRC | <p>The property comprises a parcel of land with a total site area of approximately 10,869.32 sq.m. (116,997 sq.ft.).</p> <p>The land use rights of the portion of land with an area of approximately 2,348.23 sq.m. (25,276 sq.ft.) is granted for a term expiring on 15 June 2068. The remaining portion of the land is of allocative nature and held for an indefinite term. The whole parcel of land is for residential and natural gas distribution station uses.</p> | The property is currently a vacant site. | <p>RMB540,000</p> <p>(95% interest attributable to the Group: RMB513,000)</p> |

Notes:

- Pursuant to a State-owned Land Use Right Certificate 廊國用(1999)字第01309號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 8 August 1999, the land use rights to the property with a site area of approximately 10,869.32 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred hereinafter as "Party A").
- A portion of the aforesaid land of approximately 8,521.09 sq.m. is allocated land ("Allocated Portion") and the remaining portion of 2,348.23 sq.m. is transferable land ("Remaining Portion"). The Allocated Portion cannot be leased, transferred, mortgaged or changed for other uses before obtaining approval of the relevant government authority and completing relevant land grant procedure and payment of land premium. For the purpose of this valuation, we have disregarded this restriction in our valuation and the allocated land portion of the property has no commercial value due to its in-transferability in the open market.
- Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - Name of joint venture company : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - Term of operation : 30 years from 28 March 1993
 - Total investment amount : US\$9,333,900
 - Registered capital : US\$9,333,900
 - Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
 - In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A was incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information

Party A has obtained the land use rights of the Remaining Portion legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium in respect of the Remaining Portion has been fully paid. However, whether Party A has paid all land premium in respect of the Remaining Portion shall not affect its legal rights as the holder of the State-owned Land Use Right of completing such registration procedure but Party A shall complete the registration procedure with the relevant government authority for future transfer or lease or mortgage of the Remaining Portion. There is no legal impediment for Party A in completing such registration procedure.

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|--|
| 12. Huludao Processing Station 2 Shanshui Road Longwan New District Huludao Liaoning Province The PRC | <p>The property comprises two adjoining levelled sites with a total area of approximately 19,803.00 sq.m. (213,159 sq.ft.), constructed with eight single or multi-storey buildings of brick/concrete construction completed in 1998.</p> <p>The buildings include a composite plant, pressure regulating plant and workshops. The total gross floor area of these buildings is approximately 3,377.24 sq.m. (36,353 sq.ft.).</p> <p>The land use rights of the property are held for 2 respective terms expiring on 9 August 2050 and 26 April 2044 for urban facilities use.</p> | The property is occupied by the Group for administration and manufacturing purposes. | RMB7,350,000 (90% interest attributable to the Group: RMB6,615,000) |

Notes:

- (1) Pursuant to two State-owned Land Use Right Certificates 葫蘆島國用(2000)字第1100159&1100160號 issued by 葫蘆島市土地管理局 (Huludao City Land Administration Bureau), the land with a total site area of 19,803.00 sq.m. is vested in 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited, referred thereafter as "Party A") for two respective terms expiring on 9 August 2050 and 26 April 2044 respectively for urban facilities use.
- (2) Pursuant to 8 Building Ownership Certificates 房字第077137, 078061, 078065, 078066, 078067, 078071, 078078 & 078079號, issued by 葫蘆島市房屋產權監理處 (Huludao City Property Rights Supervisory Office) on 30 September 2000, the said buildings with a total floor area of 3,377.24 sq.m is held by Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 27 July 2000 entered into between 葫蘆島市城市建設投資公司 (Huludao City Urban Construction Investment Company Limited, referred thereafter as "Party B") and Xinao Huludao Investment Limited (then known as New Profound Investment Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 葫蘆島新奧燃氣有限公司
(Huludao Xinao Gas Company Limited)
- (ii) Term of operation : 30 years from 7 August 2000
- (iii) Total investment amount : US\$1,725,300
- (iv) Registered capital : US\$1,207,700 (equivalent to RMB10,000,000)
- (v) Proportion of capital contribution : Party B – US\$120,700
Party C – US\$1,087,000
- (vi) Joint venture company's products are for domestic sales only.
- (vii) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (4) Pursuant to the Business Licence (Registration No. 企合葫總字第000189號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 August 2000, Party A is incorporated with registered capital of US\$1,207,700 with term of operation commencing from 7 August 2000 to 6 August 2030.

- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. These land use rights can be transferred, leased or mortgaged. According to the relevant PRC law, Party A would only be granted the State-owned Land Use right Certificate after full payment of the land premium. Since Party A has already obtained the relevant State-owned Land Use Right Certificate, it is reasonable to take the view that all Land premium has been fully paid. However, even if Party A had not fully paid all the land premium, it would not in any event affect any of its legal rights as the holder of the State-owned Land Use Right Certificate, other than the requirement to obtain approval from the relevant PRC government authority for future transfer, lease or mortgage of the land. There shall not be any legal impediment for Party A in obtaining such approval from the relevant PRC government authority.
 - (ii) Party A has obtained the building ownership rights of these buildings under the Building Ownership Certificate and is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|--|--|---|
| 13. 13 Residential Units Block 4, Shenhai Garden Huludao Liaoning Province The PRC | The property comprises 13 residential units in a 6-storey block, namely Block 4 of Shenhai Garden with a total gross floor area of approximately 1,238.90 sq.m. (13,336 sq.ft.) completed in 1999. | The property is occupied by the Group as staff quarters. | RMB1,770,000 (90% interest attributable to the Group: RMB1,593,000) |

Notes:

- (1) Pursuant to the Sale and Purchase Agreement dated 28 March 2000 entered into between 葫蘆島市宏運房地產開發有限責任公司 (Huludao City Hong Yun Real Estate Development Limited Liability Company, referred thereafter as "Party A") and 葫蘆島市新奧天然氣有限責任公司 (Huludao City Xinao Natural Gas Limited Liability Company) (now known as 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited, 90% interest of which is now held by the Group, referred thereafter as "Party B"), Party B agreed to purchase from Party A 13 residential units with a total gross floor area of approximately 1,238.90 sq.m. at a consideration of RMB1,690,334.80.
- (2) Pursuant to 13 Building Ownership Certificates issued by 葫蘆島市房屋產權監理處 (Huludao City Property Rights Supervisory Office) on 2 November 2000, titles to the said units with a total gross floor area of approximately 1,238.90 sq.m. are vested in Party B. The details of which are listed as follows:

| | Certificate nos. | Registered owner | Gross floor area | |
|-----|------------------|--|------------------|-----------------|
| | | | Units | sq.m. |
| 1. | 房字第073489號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-2-11 | 76.50 |
| 2. | 房字第078659號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-2-6 | 99.76 |
| 3. | 房字第073484號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-4-8 | 120.23 |
| 4. | 房字第078643號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-1-1 | 97.06 |
| 5. | 房字第078658號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-1-10 | 99.74 |
| 6. | 房字第073475號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-4-11 | 87.42 |
| 7. | 房字第078656號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-2-9 | 95.94 |
| 8. | 房字第073488號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-2-1 | 95.94 |
| 9. | 房字第078644號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-4-9 | 97.06 |
| 10. | 房字第078645號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-2-12 | 76.50 |
| 11. | 房字第073514號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-2-10 | 99.76 |
| 12. | 房字第078657號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-4-12 | 72.76 |
| 13. | 房字第073513號 | 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) | 4-4-2 | 120.23 |
| | | | Total: | <u>1,238.90</u> |

- (3) According to a State-owned Land Use Right Certificate 葫國用(97)字第1006012號 issued by 葫蘆島市人民政府 (Huludao City People's Government) provided to us, a parcel of land with the following particulars is vested in 葫蘆島市宏運房地產開發有限責任公司.

Location : Longwan District, Wanxin District, East of Junten District (Longcheng Road North)

Use : Residential

Site area : 33,410 sq.m.

Tenure : 50 years commencing from 8 June 1993

- (4) Pursuant to the Sino-foreign equity joint venture contract dated 27 July 2000 entered into between 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited) (referred thereafter as "Party C") and Xinao Huludao Investment Limited (referred thereafter as "Party D"), both parties agreed to establish a joint venture company. The major terms stipulated in the agreement, inter alia, are stated below:

(i) Name of joint venture company : 葫蘆島新奧燃氣有限公司
(Huludao Xinao Gas Company Limited)

(ii) Term of operation : 30 years from 7 August 2000.

(iii) Total investment amount : US\$1,725,300

(iv) Registered capital : US\$1,207,700 (equivalent to RMB10,000,000)

(v) Proportion of capital contribution : Party C – US\$120,700
Party D – US\$1,087,000

(vi) Joint venture company's products are for domestic sales only.

(vii) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.

- (5) Pursuant to the Business Licence (Registration No. 企合葫總字第000189號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 August 2000, Party B was incorporated with registered capital of US\$1,207,700 with term of operation commencing from 7 August 2000 to 6 August 2030.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

Party B has obtained the building ownership rights of the buildings under the Building Ownership Certificates. As the developer of the property has obtained Land Use Right Certificate of the property and title certificates of certain commodity buildings in China currently have also not specified the land titles, thus notwithstanding that the status of the land use rights of the related land has not been specified therein, Party B is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means.

- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| Acquisition Agreement of Residential Units | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|---|---|
| 14. Miyun Processing Station Jizhuang Village Mixi Road North Miyun County Beijing Municipality The PRC | The property comprises 2 plots of level sites with a total site area of approximately 9,982.48 sq.m. (107,451 sq.ft.), constructed with two single storey buildings of brick/concrete structure with a total gross floor area of approximately 450.49 sq.m. (4,849 sq.ft.) scheduled to be completed in 2001. The land use rights of the property are held for a term expiring on 18 August 2050 for industrial use. | The property is occupied by the Group for manufacturing purposes. | RMB2,650,000 (80% interest attributable to the Group: RMB2,120,000) |

Notes:

(1) Pursuant to two State-owned Land Use Right Certificates 京密國用(2000出)字第0100&0101號 dated 18 August 2000 issued by 密雲縣房屋土地管理局(Miyun County Building and Land Administration Bureau, referred thereafter as "Party A"), the land with a total site area of approximately 9,982.48 sq.m. is vested in 北京新奧燃氣有限公司(Beijing Xinao Gas Company Limited, referred thereafter as "Party B") for a term expiring on 18 August 2050 for industrial use.

(2) Pursuant to two Contracts for Grant of State-owned Land Use Right 京密房地出讓合字(2000)第055號 and 056號 both dated 17 August 2000 made between Party A and Party B, Party A agreed to grant the land use rights of two pieces of land with total site area of approximately 9,982.48 sq.m. to Party B for a term of 50 years commencing from the date of issuance of the State-owned Land Use Right Certificate for industrial use at a total consideration of approximately RMB199,649.6. Details of the contracts are being listed as follows:

| | 京密房地出讓合字 (2000)第055號 | 京密房地出讓合字 (2000)第056號 |
|--|-------------------------|-------------------------|
| Use | : Industrial | Industrial |
| Site Area | : 4,228.78 sq.m. | 5,753.7 sq.m. |
| Maximum Total Gross Floor Area | : 810 sq.m. | 810 sq.m. |
| Plot Ratio | : 8% | 8% |
| Site Coverage | : 8% | 8% |
| Green Area | : ≥30% | ≥30% |
| No. of storey for the building (maximum/average) | : 1/1 | 1/1 |

(3) Pursuant to the Building Ownership Certificate 房權證密私字第 01655號 dated 18 August 2000 issued by 北京市房屋土地管理局(Beijing City Building and Land Administration Bureau), the building with a total gross floor area of approximately 450.49 sq.m. is vested in Party B.

(4) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 北京市密雲化工公司(Beijing City Miyun Chemicals Company, referred thereafter as "Party C") and Xinao Miyun Investment Limited (then known as New Profound Capital Construction Development Co. Ltd., referred thereafter as "Party D"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:

| | | |
|--|---|---|
| (i) Name of joint venture company | : | 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited) |
| (ii) Term of operation | : | 30 years from 8 August 2000 |
| (iii) Total investment amount | : | US\$1,205,300 |
| (iv) Registered capital | : | US\$1,195,600 (equivalent to RMB9,900,000) |
| (v) Proportion of capital contribution | : | Party C – US\$239,100 Party D – US\$956,500 |

- (vi) In the case that any party intends to sell or transfer its interests (part or whole) of the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (5) Pursuant to the Business Licence (Registration No. 企合京總字第014976號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce in the PRC) dated 8 August 2000, 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited) is incorporated with registered capital of US\$1,195,600 with a term of operation commencing from 8 August 2000 to 7 August 2030.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B has fully paid all land premium and obtained the land use rights of aforesaid land legally by grant. These land use rights can be transferred, leased or mortgaged but the use of the land cannot be changed.
- (ii) Party B has fully paid all land premium and obtained the building ownership's rights of these buildings under the Building Ownership Certificate and is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means but the use of the land cannot be changed.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|--|-----|
| Joint Venture | Yes |
| Contract for Grant of State-owned Land Use | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

Group II – Property interests held by the Group under construction in the PRC

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|---|--|
| 15. The Extended Portion of Langfang Development Zone Processing Station | The property comprises a levelled site with an area of approximately 19,999.91 sq.m. (215,279 sq.ft.). | The property is currently under construction. | RMB5,340,000 |
| Yaohua Road Langfang Economic and Technical Development Zone | The property is planned to be developed to a processing station comprising one single storey building of reinforced concrete structure with a total floor area of approximately 1,423.95 sq.m. (15,327 sq.ft.) scheduled to be completed in May 2001. | | (95% interest attributable to the Group: RMB5,073,000) |
| Langfang Hebei Province The PRC | The land use rights of the property is held for a term commencing from 30 December 1999 and expiring on 24 November 2048 for industrial use. | | |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊坊國用(1999)字第0057號 dated 30 December 1999 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a total site area of approximately 19,999.91 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as “Party A”) and the land is held for a term commencing from 30 December 1999 and expiring on 24 November 2048 for industrial use.
- (2) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證:換268號 issued by 廊坊經濟技術開發區管理委員會 (Langfang Economic and Technology Development Zone Administration Committee) on 9 January 2001, Party A is permitted to use the land with total site area of approximately 19,999.91 sq.m. to construct the extension portion of the Langfang Development Zone Processing Station.
- (3) Pursuant to the Construction Works Planning Permission Certificate 建設工程規劃許可證:換268號 issued by 廊坊經濟技術開發區管理委員會 (Langfang Economic and Technology Development Zone Administration Committee) on 9 January 2001, Party A is permitted to construct the extension portion of the Langfang Development Zone Processing Station with a total gross floor area of approximately 3,000 sq.m..
- (4) Pursuant to a Construction Commencement of Works Permission Certificate 建設項目開工許可證 200-27 開補號 issued by 廊坊經濟技術開發區建設工程管理處 (Langfang Economic and Technology Development Zone Construction Administration Committee) on 18 April 2000, Party A is permitted to start the construction work for the Langfang Development Zone Processing Station.
- (5) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as “Party B”) and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as “Party C”), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:

| | | | |
|-------|-------------------------------|---|--|
| (i) | Name of joint venture company | : | 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited) |
| (ii) | Term of operation | : | 30 years from 28 March 1993 |
| (iii) | Total investment amount | : | US\$9,333,900 |
| (iv) | Registered capital | : | US\$9,333,900 |

- (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms required.
- (6) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2001, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (7) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) All the necessary legal and valid consents, approvals and permits in relation to the construction works of the buildings have been obtained and the same have not been revoked, cancelled or amended. There is no legal impediment for Party A in obtaining the Building Ownership Certificate of such buildings upon completion of the construction works.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|---|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Construction and Land Use Planning Permission Certificate | Yes |
| Construction Works Planning Permission Certificate | Yes |
| Business Licence | Yes |

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|---|
| 16. A parcel of land located at South of Xihutun Chun Langfang Hebei Province The PRC | The property comprises a plot of level site with an area of approximately 666.67 sq.m. (7,176 sq.ft.) located at the south of Xihutum amid the eastern portion of Langfang. | The property is currently a vacant site. | No commercial value |

Notes:

- (1) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證200014號 issued by 廊坊市城市規劃局(Langfang City Town Planning Bureau) to 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred hereinafter to as "Party A") on 25 December 2000, Party A is permitted to use the land with a total site area of approximately 666.67 sq.m. to construct a pressure regulatory station.
- (2) Pursuant to a notice issued by 廊坊市土地管理局用地科 (Langfang City Land Administration Bureau Land Use Department), Party A needs to acquire the land with a site area of 1 mu for the construction of a pressure regulatory station. The relevant land grant procedure is in process.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited, referred thereafter as "Party B") and Xinao Langfang Investment Limited (then known as New Profound International Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from 28 March 1993
 - (iii) Total investment amount : US\$9,333,900
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$466,700
Party C – US\$8,867,200
 - (vi) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms required.
- (4) Pursuant to the Business Licence (Registration No. 企合冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 3 August 2000, Party A (Langfang Xinao Gas Company Limited) is incorporated with registered capital of US\$9,333,900 with a term of operation commencing from 28 March 1993 to 27 March 2023.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
 - (i) According to a confirmation dated 15 March 2001 issued by 廊坊市土地管理局用地科 (Langfang City Land Administration Bureau, Land Use Department), Party B is now applying for the grant of the land use right certificate of the aforesaid land. Upon payment of the land premium, there is no legal impediment for Party A in obtaining the land use right certificate.
- (6) Due to insufficient title proof of the property, we have assigned no commercial value to the property.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
 - (i) Joint Venture Contract Yes
 - (ii) Transfer of State-owned Land Use Right Contract No
 - (iii) Construction Land Use Planning Permission Certificate Yes

| Property | Description and Tenure | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|--|---|---|
| 17. Liaocheng Processing Station Huxi Road Liaocheng Shandong Province The PRC | The property comprises a parcel of level site with an area of approximately 25,274.50 sq.m. (272,055 sq.ft.), currently constructed with two single storey buildings of brick/concrete structure with a total gross floor area of approximately 1,475 sq.m. (15,877 sq.ft.) scheduled to be completed in March 2001. The land use rights of the property are held for a term of 50 years expiring on 10 December 2049 for urban facilities use. | The property is currently under construction. | RMB4,850,000 (90% interest attributable to the Group: RMB4,365,000) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 聊國用(2000)字第85號 dated 6 September 2000 issued by 聊城市土地管理局(Liaocheng City Land Administration Bureau, referred thereafter as "Party A"), the land with a site area of approximately 25,274.50 sq.m. is vested in 聊城新奧然氣有限公司 (Liaocheng Xinao Gas Company Limited, referred thereafter as "Party B") and the land is held for a term commencing from 6 September 2000 and expiring on 10 December 2049 for urban facilities use.
- (2) Pursuant to the Contract for Grant of State-owned Land Use Right 土合字(97)第5號 dated 1 December 1999 made between Party A and Party B (90% of interests held by the Group), Party A agreed to grant the land use rights of the land with a site area of 25,275 sq.m. to Party B for a term expiring on 10 December 2049 at a consideration of approximately RMB3,262,759.82.
- (3) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證(99)008號 issued by 聊城市城市規劃局(Liaocheng City Town Planning Bureau) on 23 June 1999, 聊城市天燃氣有限公司(Liaocheng City Natural Gas Company Limited) (now known as Party B) is permitted to use the land with a total site area of approximately 38 mu to construct the Gas Processing Station with scale of construction of approximately 4,326 sq.m. According to the information provided by the Group, an administration office is scheduled to be built in 2001.
- (4) Pursuant to the Temporary Construction Works Planning Permission Certificate 臨時建設工程規劃許可證(99)聊規許公建臨字第076號 issued by 聊城市城市規劃局(Liaocheng City Town Planning Bureau) on 23 September 1999, 聊城市天燃氣有限公司(Liaocheng City Natural Gas Company Limited) (now known as Party B) is permitted to construct a single-storey pressure control workshop with a total floor area of approximately 975 sq. m. during the period commencing from 23 September 1999 to 23 September 2001. Such building is under construction.
- (5) Pursuant to the Temporary Construction Works Planning Permission Certificate 臨時建設工程規劃許可證(99)聊規許公建臨字第064號 issued by 聊城市城市規劃局(Liaocheng City Town Planning Bureau) on 17 August 1999, 聊城市天燃氣有限公司(Liaocheng City Natural Gas Company Limited) (now known as Party B) is permitted to construct a 495 m long boundary wall during the period commencing from 17 August 1999 to 17 August 2001.
- (6) Pursuant to the Temporary Construction Works Planning Permission Certificate 臨時建設工程規劃許可證(2000)聊規許公建臨字第51號 issued by 聊城市城市規劃局(Liaocheng City Town Planning Bureau) on 28 June 2000, 聊城天燃氣有限公司(Liaocheng City Natural Gas Company Limited) (now known as Party B) is permitted to construct a single-storey warehouse with a total floor area of approximately 500 sq.m. during the period commencing from 28 June 2000 to 28 June 2002. Such building is under construction.
- (7) Pursuant to the Construction Commencement of Works Permission Certificate 建築工程施工許可證 990144 issued by 聊城市城市規劃局(Liaocheng City Town Planning Bureau) on 25 September 1999, 聊城市天燃氣有限公司(Liaocheng City Natural Gas Company Limited) (now known as Party B) is permitted to start the construction work for the Gas Processing Station.

- (8) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 聊城市熱力公司 (Liaocheng City Heating Company, referred thereafter as “Party C”) and Xinao Liaocheng Investment Limited (then known as New Profound Development Co. Ltd., referred thereafter as “Party D”), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of joint venture company : 聊城新奧燃氣有限公司
(Liaocheng Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from 8 August 2000
 - (iii) Total investment amount : RMB22,000,000
 - (iv) Registered capital : RMB16,000,000 (equivalent to US\$1,932,400)
 - (v) Proportion of capital contribution : Party C – US\$192,400
Party D – US\$1,740,000
 - (vi) Joint venture company’s products are for domestic sales only.
 - (vii) In the case that any party intends to sell or transfer its interests (part or whole) of the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (9) Pursuant to the Business Licence (Registration No. 企合魯總第004038號1/1) issued by 中華人民共和國國家工商行政管理局 (The State Administration Bureau of Industry and Commerce) dated 8 August 2000, Party B is incorporated with registered capital of RMB16,000,000 (equivalent to US\$1,932,400) with term of operations commencing from 8 August 2000 to 7 August 2030.
- (10) We have been provided with legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B has obtained the land use rights of aforesaid land legally by transfer. According to the PRC law, Party B shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party B has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party B has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party B shall obtain the approval of the relevant government authority for the transfer or lease or mortgage of the land. There is no legal impediment for Party B in obtaining such approval from the relevant government authority.
 - (ii) All the necessary legal and valid consents, approvals and permits in relation to the construction works of the buildings have been obtained and the same have not been revoked, cancelled or amended. There is no legal impediment for Party B in obtaining the Building Ownership Certificate of such buildings upon completion of the construction works.
- (11) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|---|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Contract for Grant of State-owned Land Use Right | Yes |
| Business Licence | Yes |
| Construction Land Use Planning Permission Certificate | Yes |
| Temporary Construction Works Planning Permission Certificates | Yes |
| Construction Commencement of Works Permit | Yes |

Group III - Property interests leased by the Group in the PRC

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|---|
| 18. Portion of Level 1 in a building of Jinyu Area Shuguang Road Langfang Hebei Province The PRC | <p>The property comprises a portion of level 1 in a 6-storey composite building completed in 1998 with a total gross floor area of 49.38 sq.m. (532 sq.ft.) or thereabouts.</p> <p>The property is currently subject to a lease agreement for a term commencing from 1 April 2000 and expiring on 11 April 2001 at an annual rent of RMB9,000 and with 10 days of rent free period.</p> | The property is occupied by the Group as office. | No commercial value |
| 19. Level 2 of a building located at Pipeline Bureau District Six Langfang Hebei Province The PRC | <p>The property comprises whole floor of level 2 in a 2-storey building completed in approximately 1995. The total floor area is approximately 150 sq.m. (1,615 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of 1 year commencing from 25 August 2000 and expiring on 25 August 2001 at an annual rent of RMB12,000 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information;
- (i) The property is subject to the lease agreement dated 1 April 2000 made between 張紹堂 (Zhang Zhaotang) ("the owner") and 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited) (the "tenant");
- (ii) The owner has obtained the leasing permit (廊) 房租證第0837號 issued by 廊坊市房地產市場管理處 (Langfang City Property Management Office);
- (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.
- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:
- (i) The property is subject to a lease agreement dated 25 August 2000 made between 管道局廊坊基地物業總公司物業二處 (Pipeline Bureau Langfang Property Second Corporation) ("the owner") and 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited) (the "tenant");
- (ii) The owner has obtained the leasing permit (廊) 房租證第0838號 issued by 廊坊市房地產市場管理處 (Langfang City Property Management Office);
- (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

Note:

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|---|
| 20. A unit on Level 1 located at 1 Yinchun Road Langfang Hebei Province The PRC | <p>The property comprises a unit on level 1 of a 6-storey building completed in approximately 1998. The total gross floor area is approximately 149.04 sq.m. (1,604 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of two years commencing from 1 October 1999 at an annual rent of RMB53,200 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group as sales office. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information;
- (i) The property is subject to a lease agreement dated 1 October 1999 made between 蘇啟蒙 (Su Qimong) ("the owner") and 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained the leasing permit (廊) 房租證第0839號 issued by 廊坊市房地產市場管理處 (Langfang City Property Management Office);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

| | | | |
|--|--|--|---------------------|
| 21. Two units on Level 1 West Wing Pipeline Bureau District Nine Langfang Hebei Province The PRC | <p>The property comprises two office units on level 1 of a 4-storey building completed in approximately November 1999. The total gross floor area is approximately 36 sq.m. (388 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of 1 year commencing from 7 March 2000 and expiring on 6 March 2001 at an annual rent of RMB12,960 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group as office. | No commercial value |
|--|--|--|---------------------|

Notes:

- (1) We have been provided with a renewal lease agreement for a term of 1 year commencing from 7 March 2001 to 6 March 2002 at an annual rental of RMB12,960 exclusive of water, electricity and other charges.
- (2) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:
- (i) The property is subject to a lease agreement dated 7 March 2000 made between 中國石油天然氣管道局廊坊基地物業總公司 (Pipeline Bureau Property Corporation) ("the owner") and 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained leasing permit (廊) 房租證第0833號 issued by 廊坊市房地產市場管理處 (Langfang City Property Management Office);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.
 - (iv) By a lease agreement dated 7 March 2001, the owner and the tenant have renewed the lease for a term of 1 year upon the same terms and rent of the lease agreement dated 7 March 2000.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|--|---|---|
| 22. Various buildings Changfu Road Anci District Langfang Hebei Province The PRC | <p>The property comprises 4 various buildings erected on a parcel of land.</p> <p>The total gross floor area of the buildings are approximately 8,250.00 sq.m. (88,803 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term commencing from 1 January 2001 and expiring on 31 December 2003 at a monthly rent of RMB136,044 inclusive of management fee and the all charges listed in note (2) below.</p> | The property is occupied by the Group as storage. | No commercial value |

Notes:

- (1) We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:
 - (i) The property is subject to a lease agreement dated 1 January 2001 made between 新奧集團股份有限公司 (Xinao Group Company Ltd) (the "owner") and 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained leasing permit (廊) 房租證第5005號 issued by 廊坊市房地產市場管理處 (Langfang City Property Management Office); and
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.
- (2) The Lease Agreement entered into between the owner and the tenant dated 1 January 2001, which contains, inter alia, the following information:
 - (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees, common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;
 - (ii) The rent will not be adjusted within the first year; and
 - (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the state provided that the new rent shall not exceed an increment rate of 8%.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|--|---|
| 23. A unit on Level 1 3-1-8 Binhe Estate Huludao Liaoning Province The PRC | <p>The property comprises the sales unit in a 2-storey building completed in 1998 with a total gross floor area of approximately 217.95 sq.m. (2,346 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 18 April 2000 and expiring on 18 April 2003 at an annual rent of RMB31,000 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group for commercial purposes. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information;
- (i) The property is subject to a lease agreement dated 17 April 2000 made between 李錦堂 (Li Jintang) ("the owner") and the 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained leasing permit 房租證字第0073號 issued by 葫蘆島市房屋產權監理處 (Huludao City Property Rights Supervisory Office);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state at as 31 January 2001 |
|---|---|--|---|
| 24. 45-1 Western Area Hubei Estate Liaocheng Shandong Province The PRC | <p>The property comprises a 2-storey block of building completed in November 1998 with a total gross floor area of approximately 260 sq.m. (2,799 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of one year commencing from 15 August 2000 and expiring on 15 August 2001 at an annual rent of RMB14,400 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information;
- (i) The property is subject to the lease agreement and supplemental agreement dated 13 August 2000 and 30 September 2000 respectively made between 曾慶華 (Zheng Qinghua) ("the owner") and 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained leasing permit 房地租證第350號 issued by 聊城市房地產市場交易所 (Liaocheng City Property Market Exchange);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state at as 31 January 2001 |
|---|--|--|---|
| 25. Blocks 25 and 26 in Western Area Hubei Estate Liaocheng Shandong Province The PRC | <p>The property comprises two 2-storey blocks of building completed in November 1998 with a total gross floor area of approximately 260 sq.m. (2,799 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of one year commencing from 1 May 2000 and expiring on 30 April 2001 at an annual rent of RMB30,000 exclusive of water, electricity and air-conditioning charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contain, inter alia, the following information;
- (i) The property is subject to a lease agreement dated 20 August 2000 made between 符春亮 (Fu Chunliang) ("the owner") and 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained leasing permit 房地租證第349號 issued by 聊城市房地產市場交易所 (Liaocheng City Property Market Exchange);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state at as 31 January 2001 |
|---|---|--|---|
| 26. Portion of Level 1 Yuxin Street, Middle Section of South Road Liaocheng Shandong Province The PRC | <p>The property comprises portion of level 1 in a 2-storey building completed in approximately August 1999. The total floor area is approximately 76 sq.m. (818 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of 3 year commencing from 25 July 2000 and expiring on 25 July 2003 at an annual rent of RMB12,000 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:
- (i) The property is subject to a lease agreement dated 15 August 2000 made between 孫克新 (Shun Ke-Xin) ("the owner") and 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained the leasing permit 房地租證第348號 issued by 聊城市房地產市場交易所 (Liaocheng City Property Market Exchange);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

| | | | |
|---|---|--|---------------------|
| 27. Portion of Level 1 74 Dongchang West Road Liaocheng Shandong Province The PRC | <p>The property comprises portion of level 1 in a 6-storey building completed in August 1998 with a total useable floor area of approximately 400 sq.m. (4,306 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 18 May 1999 and expiring on 17 May 2002 at an annual rent of RMB170,000 exclusive of water, electricity, telecommunication charges.</p> | The property is occupied by the Group as sales office. | No commercial value |
|---|---|--|---------------------|

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:
- (i) The property is subject to the lease agreement dated 18 May 1999 made between 聊城市建安裝飾工程公司 (Liaocheng City Jian An Decoration Company) ("the owner") and 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner has obtained leasing permit 房地租證347號 issued by 聊城市房地產市場交易所 (Liaocheng City Property Market Exchange);
 - (iii) The lease agreement is registered with the relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto, the rights and obligations of both parties thereto are protected and governed by PRC laws.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|---|
| 28. Portion of Level 1 Building 11 Menshi Jia South Main Street Miyun County Beijing Municipality The PRC | <p>The property comprises portion of level 1 in a 5-storey building completed in about 1998 with total floor area of approximately 240 sq.m. (2,583 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 1 January 2000 at an annual rent of RMB100,000 exclusive of water, electricity and air-conditioning charges.</p> | The property is occupied by the Group as sales office. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:
- (i) The property is subject to a lease agreement dated 1 January 2000 made between 張國增 (Chang Guozheng) ("the owner") and 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited) (the "tenant");
 - (ii) The owner does not registered the lease agreement according to the legal requirement. The lease agreement is binding between the parties thereto. However, the owner should register the lease agreement with the relevant government authority and there is no legal impediment for the owner in completing such registration procedure.

| | | | |
|---|--|--|---------------------|
| 29. Portion of Levels 1 & 2 Commercial Service Building Kangju South District Miyun County Beijing Municipality The PRC | <p>The property comprises portion of levels 1 & 2 in a 5-storey building completed in 1998 with a total floor area of approximately 205 sq.m. (2,207 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 19 October 1999 at an annual rent of RMB65,000 exclusive of water, electricity and air-conditioning charges.</p> | The property is occupied by the Group as sales office. | No commercial value |
|---|--|--|---------------------|

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:
- (i) The property is subject to a lease agreement dated 19 October 1999 made between 張國增 (Mr. Zhang Guozheng) ("the owner") and 北京新奧燃氣有限公司 (Beijing Xinao Gas Co. Ltd.) (the "tenant");
 - (ii) The owner does not registered the lease agreement according to the legal requirement. The lease agreement is binding between the parties thereto. However, the owner should register the lease agreement with the relevant government authority and there is no legal impediment for the owner in completing such registration procedure.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|---|---|
| 30. Rooms 201, 301, 401 of Block 4 and Rooms 201, 202, 302 of Block 5 Building No. 6 Kangju South District Miyun County, Beijing Municipality The PRC | <p>The property comprises six residential units in Blocks 4 and 5.</p> <p>The buildings are 6-storey completed in 1998.</p> <p>The total floor area of the units is approximately 387.84 sq.m. (4,175 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of 1 year commencing from 11 October 2000 at an annual rent of RMB25,560 exclusive of water, electricity and other charges.</p> | The property is occupied by the Group as staff quarters | No commercial value |

Note:

- (1) We have been provided with legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:-
- (i) The property is subject to a lease agreement dated 11 October 2000 made between 北京新興房地產開發公司第二分公司 (Beijing Xinxin Property Development Head Company) ("the owner") and 北京新奧燃氣總公司 (Beijing Xinao Gas Co. Ltd.) (the "tenant");
 - (ii) The owner does not registered the lease agreement according to the legal requirement. The lease agreement is binding between the parties thereto. However, the owner should register the lease agreement with the relevant government authority and there is no legal impediment for the owner in completing such registration procedure.

Group IV – Property interest leased by the Group in Hong Kong

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|---|
| 31. Portion of Office Units 4201-4202 42th Floor, Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong | <p>Far East Financial Centre comprises a 44-storey office building erecting over a 3 levels commercial podium plus single level of car-parking basement underneath completed in 1982.</p> <p>The property comprises portion of office units 4201-4202 on 42nd floor with a total usable floor area of approximately 33.5 sq.m. (360 sq.ft.).</p> <p>The property is rented under a lease agreement contract for a term of three years commencing from 1 January 2001 at a monthly rent of HK\$15,000 exclusive of rates, management fees, electricity and water charges.</p> | The property is occupied by the Group as office. | No commercial value |

Notes:

- (1) The property is subject to a lease agreement dated 30 December 2000 made between Overseas Way (China) Limited (the “owner”) and Xinao Gas Investment Group Limited, the Company’s wholly-owned subsidiary (the “tenant”).
- (2) According to the lease agreement, the property cannot be sublet to any third party by the tenant.

Group V – Property interests held by the companies to be acquired by the Group in the PRC

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|--|---|
| 32. Changping Processing Station Zheng Ba Street Changping County Beijing Municipality The PRC | <p>The property comprises a level site with a site area of approximately 4,359.40 sq.m. (46,925 sq.ft.).</p> <p>Currently erected on the site is a processing station comprising three 1 to 3–storey buildings of brick/concrete construction with a total gross floor area of approximately 1,685 sq.m. (18,137 sq.ft.) scheduled to be completed in 2001.</p> <p>The land use rights of the property are held for an indefinite term and for processing station uses.</p> | According to the information provided by the Group, the property is currently occupied by the Group for administration and manufacturing uses. | No Commercial Value (please see note 7) |

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 昌國用(1999)字第01-06-1003號 issued by 昌平縣市政管理委員會 (Changping County Urban Administration Committee) on 9 April 1999, the land with a site area of approximately 4,359.40 sq.m. is vested in 昌平縣市政管理委員會 (燃氣站) (Changping County Urban Administration Committee, referred thereafter as “Party A”), for processing station use and the term of land use rights cannot be ascertained.
- (2) Pursuant to the Construction Work Planning Permit (99-昌規建字-033號) issued by 北京市昌平縣規劃管理局 (Beijing City Changping County Planning Committee), the proposed development is permitted to comprise three building blocks with a total gross floor area of approximately 1,685 sq.m.
- (3) Pursuant to three Construction Work Commencement Permits (京建開字99昌第0022, 0023 & 0024號) issued by 昌平縣城鄉建設委員會 (Changping County Urban and Rural Construction Committee) on 9 June 1999, the proposed development is permitted to comprise three building blocks with a total gross floor area of approximately 1,675 sq.m.
- (4) Pursuant to the Articles of Association of 北京新奧京昌燃氣有限公司 (Beijing Xiniao Jingchang Gas Company Limited, referred hereinafter as “Party B”) dated 8 November 2000, 新奧集團股份有限公司 (Xiniao Group Company Limited, referred hereinafter as “Party C”) and 北京市昌平區市政經濟發展總公司 (Beijing City Changping Urban Economic Development Corporation, referred hereinafter as “Party D”) agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 北京新奧京昌燃氣有限公司 (Beijing Xiniao Jingchang Gas Company Limited)
 - (ii) Term of operation : 30 years from 16 November 2000
 - (iii) Registered capital : RMB9,900,000
 - (iv) Proportion of capital contribution : Party C – RMB7,920,000
Party D – RMB1,980,000 (by injection of assets including the property)
- (5) Pursuant to the Business Licence (Registration No.1102211176268(1-1)) issued by 北京市工商行政管理局 (Beijing City State Administration of Industry and Commerce) on 16 November 2000, Party B is incorporated with registered capital of RMB9,900,000 with a term of operation commencing from 16 November 2000 to 15 November 2030.
- (6) Pursuant to the acquisition agreement entered into between Changping BVI and XGCL dated 31 January 2001, XGCL agreed to sell, and Changping BVI agreed to purchase XGCL’s entire interest in Jingchang Xiniao on the satisfaction of certain conditions, including Changping BVI is satisfied with the due diligence review on Jingchang Xiniao and the approval of the relevant local foreign trade and economic co-operation department.

- (7) Based on the following assumptions, capital value of the property in existing state as at the valuation date is RMB2,700,000 (80% interest to be acquired by the Group: RMB2,160,000):

Assumptions

- (i) The State-owned Land Use Right Certificate has been granted by relevant Land Administration Bureau without any onerous conditions which might affect the land value.
 - (ii) All Consents, approvals and licenses from relevant government authorities for the development have been granted to the Group without any onerous conditions which might affect the property value.
 - (iii) Building Ownership Certificate(s) has(have) been granted by relevant Real Estate Administration Bureau without onerous conditions which might affect the property value.
 - (iv) The property can be freely transferable to local and overseas purchasers in the open market.
- (8) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B is currently applying for the State-owned Land Use Right Certificate. There is no legal impediment for Party B in obtaining the State-owned Land Use Right Certificate.
 - (ii) Party B is currently applying for the Building Ownership Certificate. There is no legal impediment for Party B in obtaining the Building Ownership Certificate.
- (9) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

| | |
|--|-----|
| Articles of Association | Yes |
| State-owned Land Use Right Certificate | Yes |
| Business Licence | Yes |
| Construction Work Planning Permit | Yes |
| Construction Work Commencement Permits | Yes |
| Acquisition Agreement | Yes |

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|--|---|---|
| 33. Pinggu Processing Station Xinggu Development Area District 11 Pinggu County Beijing Municipality The PRC | The property comprises a level site with a site area of approximately 13,500.00 sq.m. (145,314 sq.ft.). Currently erected on the site are three single-storey buildings of brick/concrete construction scheduled to be completed in 2001. | The property is currently under construction. | No Commercial Value (please see note 6) |

Notes:

- (1) Pursuant to the Land Use Agreement entered into between 平谷縣興谷經濟開發區管理委員會 (Pinggu County Xingu Economic Development Zone Administration Committee, referred hereinafter as "Party A") and 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited, referred hereinafter as "Party B") on 18 August 2000, Party B agrees to pay Party A RMB1,300,000 as land premium and Party A agrees to pay the land premium to the relevant government authority and arrange for the State-owned Land Use Right Certificate to be issued to Party B for a piece of land with a site area of approximately 13,500.00 sq.m., for a term of 50 years for industrial uses.
- (2) As buildings and structures erected on the property have no sufficient title or documentation proofs, we have excluded those buildings and structures in our valuation.
- (3) Pursuant to the Article of Association dated 22 July 2000, 新奧集團股份有限公司 (Xinao Group Company Limited, referred thereafter as "Party C") and 平谷縣液化石油氣公司 (Beijing City Pinggu County LPG Company, referred hereinafter as "Party D") agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
- (i) Name of the joint venture company : 北京新奧京谷燃氣有限公司
(Beijing Xinao Jinggu Gas Company Limited)
- (ii) Term of operation : 30 years from 11 August 2000
- (iii) Registered capital : RMB9,900,000
- (vi) Proportion of capital contribution : Party C – RMB6,930,000
Party D – RMB2,970,000
- (4) Pursuant to the Business Licence (Registration No.1102261149886(1-1)) issued by 北京市工商行政管理局 (Beijing City State Administration of Industry and Commerce) on 11 August 2000, Party B is incorporated with registered capital of RMB9,900,000 with a term of operation commencing from 10 August 2000 to 9 August 2030.
- (5) Pursuant to the acquisition agreement entered into between Pinggu BVI and XGCL dated 31 January 2001, XGCL agreed to sell, and Pinggu BVI agreed to purchase XGCL's entire interest in Jinggu Xinao on the satisfaction of certain conditions, including Pinggu BVI is satisfied with the due diligence review on Jinggu Xinao and the approval of the relevant local foreign trade and economic co-operation department.
- (6) Based on the following assumptions, capital value of the property in existing state as at the valuation date is RMB1,350,000 (70% interest to be acquired by the Group: RMB945,000):

Assumptions

- (i) The State-owned Land Use Right Certificate has been granted by relevant Land Administration Bureau without any onerous conditions which might affect the land value.
- (ii) All consents, approvals and licenses from relevant government authorities for the development have been granted to the Group without any onerous conditions which might affect the property value.

- (iii) Building Ownership Certificate(s) has(have) been granted by relevant Real Estate Administration Bureau without onerous conditions which might affect the property value.
 - (iv) The property can be freely transferable to local and overseas purchasers in the open market.
- (7) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B has paid the land premium in the sum of RMB1,300,000 to Party A on 21 August 2000 and 10 January 2001 respectively in accordance with the Land Use Agreement and Party B is currently applying for the State-owned Land Use Right Certificate. There is no legal impediment for Party B in obtaining the State-owned Land Use Right Certificate.
 - (ii) According to a confirmation dated 28 March 2001 issued by 北京市平谷具規劃管理局, Party B is currently applying for the relevant construction work planning permit and construction work commencements permit. Party B should obtain such permits to satisfy the legal requirement.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

| | |
|------------------------|-----|
| Article of Association | Yes |
| Land use Agreement | Yes |
| Business Licence | Yes |
| Acquisition Agreement | Yes |

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|---|---|
| 34. Land and buildings located at 26 Leyuan West District Pinggu County Beijing Municipality The PRC | <p>The property comprises a level site with a site area of approximately 3,685.5 sq.m. (39,671 sq.ft.).</p> <p>Currently erected on the site are three 1 to 2-storey buildings of brick / concrete construction with a total gross floor area of approximately 1,104.40 sq.m. (11,888 sq.ft.) completed in approximately 1989.</p> <p>The land use rights of the property are held for an indefinite term and for public facilities uses.</p> | The property is occupied by 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited) as administration office. | No Commercial Value (please see note 6) |

Notes:

- (1) Pursuant to a State-owned Land Use Right Certificate 京平國用(2000劃)字第1083號 issued by 平谷縣土地管理局 (Pinggu County State Land Administration Bureau) on 7 August 2000, the land with a site area of approximately 3,685.5 sq.m. is vested in 平谷縣液化石油氣公司 (Pinggu County LPG Company, referred thereafter as "Party A"), for public facilities uses. The aforesaid land is allocated land.
- (2) Pursuant to the Building Ownership Certificate 平全字第00281號 issued by 平谷縣房地產管理局 (Pinggu County Real Estate Administration Bureau) on 30 November 1989 which included 12 buildings having a total gross floor area of 1,963 sq.m.. However at the date of our inspection only 3 building remains erected on the site and the title to these three buildings with a total gross floor area of approximately 1,104.4 sq.m. is vested in Party A.
- (3) Pursuant to the Article of Association dated 22 July 2000, 新奧集團股份有限公司 (Xinao Group Company Limited referred thereafter as "Party B") and Party A agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited)
 - (ii) Term of operation : 30 years from 11 August 2000
 - (iii) Registered capital : RMB9,900,000
 - (vi) Proportion of capital contribution : Party B – RMB6,930,000
Party A – RMB2,970,000 (by injection of assets including the Property)
- (4) Pursuant to the Business Licence (Registration No.1102261149886(1-1)) issued by 北京市工商行政管理局 (Beijing City State Administration of Industry and Commerce) on 11 August 2000, 北京新奧京谷燃氣有限公司 (Beijing Municipality Xinao Jinggu Gas Company Limited) is incorporated with registered capital of RMB9,900,000 with a term of operation commencing from 10 August 2000 to 9 August 2030.
- (5) Pursuant to the acquisition agreement entered into between Pinggu BVI and XGCL dated 31 January 2001, XGCL agreed to sell, and Pinggu BVI agreed to purchase XGCL's entire interest in Jinggu Xinao on the satisfaction of certain conditions, including Pinggu BVI is satisfied with the due diligence review on Jinggu Xinao and the approval of the relevant local foreign trade and economic co-operation department.
- (6) Based on the following assumptions, capital value of the property in existing state as at the valuation date is RMB1,500,000 (70% interest to be acquired by the Group: RMB1,050,000):

Assumptions

- (i) The State-owned Land Use Right Certificate has been granted by relevant Land Administration Bureau without any onerous conditions which might affect the land value.
- (ii) All consents, approvals and licenses from relevant government authorities for the development have been granted to the Group without any onerous conditions which might affect the property value.

- (iii) Building Ownership Certificate(s) has(have) been granted by relevant Real Estate Administration Bureau without onerous conditions which might affect the property value.
 - (iv) The property can be freely transferable to local and overseas purchasers in the open market.
- (7) We have been provided with legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:
- (i) The aforesaid land is allocated land, Party A shall pay the land premium and arrange for the land use rights of such land to be vested in Party B. Party B is now applying for the State-owned Land Use Right Certificate. There is no legal impediment for Party B in obtaining the State-owned Land Use Right Certificate.
 - (ii) Party B is currently applying for the Building Ownership Certificate. There is no legal impediment for Party B in obtaining the Building Ownership Certificate.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

| | |
|---------------------------------------|-----|
| Joint Venture Contract | Yes |
| Sate-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |
| Article of Association | Yes |
| Acquisition Agreement | Yes |

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|---|---|
| 35. Qingdao Processing Station West of Changbeishan Road and North of Jialingjiang Road Qingdao Shandong Province The PRC | <p>The property comprises a level site with a site area of approximately 2,807.90 sq.m. (30,224 sq.ft.).</p> <p>Currently erected on the site are two single-storey buildings of brick/concrete construction scheduled to be completed in 2001.</p> <p>The land use rights of the property are held for a term expiring on 18 March 2047 for industrial uses.</p> | The property is currently under construction. | No Commercial Value (please see note 6) |

Notes:

- (1) Pursuant to a State-owned Land Use Right Certificate 黃國用(1998)字第0287號 issued by 青島經濟技術開發區規劃土地局(Qingdao Economic and Technology Development Zone Planning and Land Bureau) on 6 November 1998, the land with a site area of approximately 2,807.90 sq.m. is vested in 青島經濟技術開發區液化氣公司(Qingdao Economic and Technology Development Zone LPG Company, referred hereafter as “Party A”), for a term expiring on 18 March 2047 for industrial uses.
- (2) As buildings and structures erected on the property have no sufficient title or documentation proofs, we have excluded those buildings and structures in our valuation.
- (3) Pursuant to the Article of Association dated 18 October 2000, 新奧集團股份有限公司 (referred thereafter as “Party B”) and 青島經濟技術開發區熱電燃氣總公司 (referred thereafter as “Party C”) agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 青島新奧燃氣有限公司
(Qingdao Xinao Gas Company Limited)
 - (ii) Registered capital : RMB20,000,000
 - (iii) Proportion of capital contribution : Party B – RMB18,000,000
Party C – RMB2,000,000 by injection of assets, including the property
- (4) Pursuant to the Business Licence (Registration No.3702111801764) issued by 青島市工商行政管理局 on 30 October 2000, 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) is incorporated with registered capital of RMB20,000,000 with a term of operation commencing from 30 October 2000.
- (5) Pursuant to the acquisition agreement entered into between Huangdao BVI and XGCL dated 31 January 2001, XGCL agreed to sell, and Huangdao BVI agreed to purchase XGCL’s entire interest in Qingdao Xinao on the satisfaction of certain conditions, including Huangdao BVI is satisfied with the due diligence review on Qingdao Xinao and the approval of the relevant local foreign trade and economic co-operation department.
- (6) Based on the following assumptions, capital value of the property in existing state as at the valuation date is RMB340,000 (90% interest to be acquired by the Group: RMB306,000):

Assumptions

- (i) The State-owned Land Use Right Certificate has been granted by relevant Land Administration Bureau without any onerous conditions which might affect the land value;
- (ii) All consents, approvals and licenses from relevant government authorities for the development have been granted to the Group without any onerous conditions which might affect the property value;
- (iii) Building Ownership Certificate(s) has(have) been granted by relevant Real Estate Administration Bureau without onerous conditions which might affect the property value;
- (iv) The property can be freely transferable to local and overseas purchasers in the open market.

- (7) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B is currently applying for the State-owned Land Use Right Certificate. There is no legal impediment for Party B in obtaining the State-owned Land Use Right Certificate.
 - (ii) The construction works on the property have not completed the requisite construction work planning and commencement procedures. Party B should obtain the relevant construction work planning permit and construction work commencement permit.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

| | |
|--|-----|
| Joint Venture Contract | Yes |
| State-owned Land Use Right Certificate | Yes |
| Business Licence | Yes |
| Article of Association | Yes |
| Acquisition Agreement | Yes |

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|--|
| 36. A parcel of land located at North of Jialingjiang Road West of Changbeishan Road Qingdao Shandong Province The PRC | The property comprises a plot of level site with an area of approximately 2,164 sq.m. (23,293 sq.ft.) located at North of Jialingjiang Road and West of Changbeishan Road amid the eastern portion of Qingdao. | The property is currently a vacant site. | No commercial value (90% interest to be acquired by the Group: No commercial value) |

Notes:

- (1) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證99年第13號 issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau) to 青島經濟技術開發區熱電燃氣總公司 (referred hereinafter to as "Party A") on August 1999, Party A is permitted to use the land with a total site area of approximately 2,164 sq.m. to construct a pipeline gas station.
- (2) Pursuant to a notice issued by 青島經濟技術開發區規劃土地局(Qingdao Economic and Technical Development Zone Planning and Land Bureau) the transfer procedure of the land use rights of the aforesaid land is in progress.
- (3) Pursuant to the Article of Association dated 18 October 2000, 新奧集團股份有限公司 (referred thereafter as "Party B") and Party A agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 青島新奧燃氣有限公司
(Qingdao Xinao Gas Company Limited)
 - (ii) Registered capital : RMB20,000,000
 - (iii) Proportion of capital contribution : Party B – RMB18,000,000
Party C – RMB2,000,000 by injection of assets, including the property
- (4) Pursuant to the Business Licence (Registration No.3702111801764) issued by 青島市工商行政管理局 on 30 October 2000, 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) is incorporated with registered capital of RMB20,000,000 with a term of operation commencing from 30 October 2000.
- (5) Pursuant to the acquisition agreement entered into between Huangdao BVI and XGCL dated 31 January 2001, XGCL agreed to sell, and Huangdao BVI agreed to purchase XGCL's entire interest in Qingdao Xinao on the satisfaction of certain conditions, including Huangdao BVI is satisfied with the due diligence review on Qingdao Xinao and the approval of the relevant local foreign trade and economic co-operation department.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

According to a confirmation issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau), 青島新奧燃氣有限公司 is now applying for the grant of the land use right certificate of the aforesaid land. Upon payment of the land premium, there is no legal impediment for 青島新奧燃氣有限公司 in obtaining the land use right certificate.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
 - (i) Joint Venture Contract Yes
 - (ii) Construction Land Use Planning Permission Certificate Yes
 - (iii) Article of Association Yes
 - (iv) Acquisition Agreement Yes

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|---|---|--|--|
| 37. A parcel of land located at Tunjie Road Qingdao Shandong Province The PRC | The property comprises a plot of level site with an area of approximately 17,089 sq.m. (183,946 sq.ft.) located at Tunjie Road amid the eastern portion of Qingdao. | The property is currently a vacant site. | No commercial value (90% interest to be acquired by the Group: No commercial value) |

Notes:

- (1) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證 2000121 號 issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau) to 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited, referred hereinafter to as "Party A") on 6 March 2000, Party A is permitted to use the land with a total site area of approximately 17,089 sq.m. for construction of urban public facilities purpose.
- (2) Pursuant to a notice issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau), the land grant procedure of the aforesaid land is in progress.
- (3) Pursuant to the Article of Association dated 18 October 2000, 新奧集團股份有限公司 (referred thereafter as "Party B") and 青島經濟技術開發區熱電燃氣總公司 (referred thereafter as "Party C") agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited)
 - (ii) Registered capital : RMB20,000,000
 - (iii) Proportion of capital contribution : Party B – RMB18,000,000
Party C – RMB2,000,000 by injection of assets, including the property
- (4) Pursuant to the Business Licence (Registration No.3702111801764) issued by 青島市工商行政管理局 on 30 October 2000, 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) is incorporated with registered capital of RMB20,000,000 with a term of operation commencing from 30 October 2000.
- (5) Pursuant to the acquisition agreement entered into between Huangdao BVI and XGCL dated 31 January 2001, XGCL agreed to sell, and Huangdao BVI agreed to purchase XGCL's entire interest in Qingdao Xinao on the satisfaction of certain conditions, including Huangdao BVI is satisfied with the due diligence review on Qingdao Xinao and the approval of the relevant local foreign trade and economic co-operation department.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

According to a confirmation issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau), Party A is now applying for the grant of the land use right certificate of the aforesaid land. There is no legal impediment for Party A in obtaining the land use right certificate.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
 - (i) Joint Venture Contract Yes
 - (ii) Construction Land Use Planning Permission Certificate Yes
 - (iii) Article of Association Yes
 - (iv) Acquisition Agreement Yes

Group VI – Property interests leased by the companies to be acquired by the Group in the PRC

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|---|
| 38. Level 16 Hualin Building Qingdao Shandong Province The PRC | <p>The property comprises the whole floor of level 16 in a 19 storey office building completed in 1998.</p> <p>The gross floor area of the property is not specified in the tenancy agreement.</p> <p>The property is held under a lease agreement for a term of 3 years commencing from 23 November 2000 at a monthly rental of RMB140,000 in the first year, RMB150,000 in the second year and RMB150,000 in the third year, all inclusive of service charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following informations:–
- (i) The property is subject to a lease agreement dated 23 November 2000 made between 中國建築土木工程公司路橋分公司 (China Construction Civil Engineering Company – Road and Bridge) (the "Landlord") and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) ("the Tenant");
 - (ii) No building ownership certificate of the landlord and leasing permit is provided. The format and the terms of lease agreement complies with PRC laws. If the Landlord has the building ownership right of the property, the Landlord should have the right to lease the property and the lease agreement will be binding between the parties thereto. The Landlord should arrange for the lease agreement to be registered with the relevant government authority.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|--|---|
| 39. Rooms 101 and 102 Building No. 9 Group A Tangdao Bay Qingdao Shandong Province The PRC | <p>The property comprises two units in a 2 storey building completed in 1996.</p> <p>The total gross floor area of the property is 236.00 sq.m. (2,540 sq. ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term of 3 years commencing from 18 October 2000 at a monthly rent of RMB2,000 exclusive of service charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following informations:-
- (i) The property is subject to a lease agreement dated 18 October 2000 made between 侯香霞 (Hou Xin-xia) (the "Landlord") and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) ("the tenant");
 - (ii) No building ownership certificate of the landlord and leasing permit is provided. The format and the terms of lease agreement complies with PRC laws. If the Landlord has the building ownership right of the property, the Landlord should have the right to lease the property and the lease agreement will be binding between the parties thereto. The Landlord should arrange for the lease agreement to be registered with the relevant government authority.

| | | | |
|---|--|--|---------------------|
| 40. A unit at 8-1 Xiangjiang Road Developing District Qingdao Shandong Province The PRC | <p>The property comprises a unit in a single storey building completed in 1999.</p> <p>The total gross floor area of the property is 145.36 sq.m. (1,565 sq.ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term of 2 years commencing from 1 November 2000 at an annual rent of RMB75,000 for the 1st year and the rent of 2nd year is subject to both parties agreement exclusive of service charges.</p> | The property is occupied by the Group as office. | No commercial value |
|---|--|--|---------------------|

Note:

- (1) We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following informations:-
- (i) The property is subject to a lease agreement dated 31 October 2000 made between 張新華 (Zhang Xinhua) (the "Landlord") and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) ("the tenant");
 - (ii) No building ownership certificate of the landlord and leasing permit is provided. The format and the terms of lease agreement complies with PRC laws. If the Landlord has the building ownership right of the property, the Landlord should have the right to lease the property and the lease agreement will be binding between the parties thereto. The Landlord should arrange for the lease agreement to be registered with the relevant government authority.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|---|--|---|
| 41. Room 101 at West Block of Building No. 26 Zijinshan Estate Qingdao Shandong Province The PRC | <p>The property comprises a unit in a 6 storey composite building completed in 1999.</p> <p>The total gross floor area of the property is 120.35 sq.m. (1,295 sq.ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term of 3 years commencing from 18 October 2000 at a monthly rent of RMB1,000 exclusive of service charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following informations:—
- (i) The property is subject to a lease agreement dated 15 October 2000 made between 尤世瑞 (You Shi-ru) as authorised agent of 修兆彩 (Xiu Zhao-chai, the "Landlord") pursuant to an authorisation letter dated 15 October 2000 and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) ("the tenant");
- (ii) The Landlord has the right to lease the property. However, the Landlord shall register the lease agreement with the relevant government authority according to the legal requirement. The lease agreement is binding between the parties thereto. There is no legal impediment for the Landlord to register the lease agreement.

| | | | |
|---|--|--|---------------------|
| 42. West Wing of Level 2 Building No. 3 Quanting Estate Qingdao Shandong Province The PRC | <p>The property comprises a unit in a 5 storey composite building completed in 1999.</p> <p>The total gross floor area of the property is 105.00 sq.m. (1,130 sq.ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term commencing from 4 January 2001 and expiring on 4 January 2003 at a half year rent of RMB3,000 exclusive of service charges.</p> | The property is occupied by the Group as office. | No commercial value |
|---|--|--|---------------------|

Note:

- (1) We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following informations:—
- (i) The property is subject to a lease agreement dated 3 January 2001 made between 鄭淑華 (Zheng Shu-hua) as authorised agent of 高祀河 (Gao Ji-he, the "Landlord") pursuant to an authorisation letter dated 1 March 2001 and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) ("the tenant");
- (ii) The Landlord has the right to lease the property. However, the Landlord shall register the lease agreement with the relevant government authority according to the legal requirement. The lease agreement is binding between the parties thereto. There is no legal impediment for the Landlord to register the lease agreement.

| Property | Description and Tenancy Particulars | Particulars of Occupancy | Capital value in existing state as at 31 January 2001 |
|--|--|--|---|
| 43. Room 603 at Building No. 20 Zijinshan Estate Developing District Qingdao Shandong Province The PRC | <p>The property comprises a unit in a 6 storey residential building completed in 2000.</p> <p>The total gross floor area of the property is 109.00 sq.m. (1,173 sq.ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term of 1 year commencing from 1 November 2000 at an annual rent of RMB6,000 exclusive of service charges.</p> | The property is occupied by the Group as office. | No commercial value |

Note:

- (1) We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following informations:-
- (i) The property is subject to a lease agreement dated 10 November 2000 made between 秦景平 (Qin Jing-ping) (the "Landlord") and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) ("the Tenant");
 - (ii) The Landlord has mortgaged the property to a mortgage to secure mortgage loan. No mortgage document is provided for verification. If the mortgage document imposes restriction on leasing of the property, the Landlord shall obtain the mortgagee's consent before leasing the property. If no such restriction is imposed by the mortgage document, the landlord shall have the right to lease the property to the tenant but the Landlord shall register the lease agreement with the relevant government authority.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000 under the Companies Law (2001 Revision) of the Cayman Islands (the “Companies Law”) and, therefore, operates subject to the Cayman Islands law.

(A) CONSTITUTION OF THE COMPANY

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum”) and articles of association (the “Articles of Association”) of the Company, which comprise the constitution of the Company.

1. THE MEMORANDUM

The Memorandum was adopted on 28 March 2001 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted (including acting as a holding and investment company) and the Company shall have full power and authority to carry out any object not prohibited by any law as provided by section 7(4) of the Companies Law, that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit as provided in section 27(2) of the Companies Law and (in view of the fact that the Company is an exempted company) that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

The objects of the Company are set out in full in clause 3 of the Memorandum which is available for inspection at the address specified in Appendix VI in the section headed “Documents delivered and available for inspection”.

2. THE ARTICLES OF ASSOCIATION

The Articles of Association were adopted on 28 March 2001 and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares.

B. Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and the Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors may determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on the holders of any Shares or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulations from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors (the "Board") at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of Directors in respect of any contract or arrangement or any other proposal in which he has any material interest but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company, its holding company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself guaranteed or secured in whole or in part;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;

- (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director is interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his interest in Shares or debentures or other securities of the Company.

(g) ***Remuneration***

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as he may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a Director retiring at the meeting shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by some member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Board (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Board resolves that his office is vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being shall retire from office by rotation. Each Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. Subject to the provision of the Articles of Association, the Company may at each annual general meeting at which the Directors retire fill each of the vacated offices by electing a person thereto.

(i) ***Borrowing powers***

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) ***Proceedings of the Board***

The Directors may meet in any part of the world for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

C. Alteration to constitutional documents

No alteration to the Memorandum or the Articles of Association may be made except by special resolution.

D. Variation of rights of existing Shares or classes of shares

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the special rights attached to any class (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate general meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

F. Special resolution – majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled

to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Share registered in his name in the register of members of the Company.

In the case of joint holders of any share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

No member shall, unless the Directors otherwise determine, be entitled to vote, or be reckoned in a quorum, at any general meeting in respect of any Share unless he is registered as a shareholder of the Company at the date of such meeting and all calls which have been made by the Directors, or other sums presently payable by him, in respect of such Share have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or

- (b) at least two members present in person or by proxy and entitled to vote; or
- (c) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy and a person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual shareholder of the Company.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept accounting records sufficient to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any account or book or document of the Company except as conferred by the Companies Law or as authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting profit and loss accounts, balance sheets and the Directors' and the auditors' reports thereon. Copies of these documents which are to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of

the meeting, be sent to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send printed copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any Shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting and shall fix his or their remuneration provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notices from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing, the remuneration of the Directors and of the auditors;

- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

All transfers of shares may be effected by an instrument of transfer in the usual common form or in any other form which the Directors may approve.

The instrument of transfer of a Share shall be signed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer, when registered, shall be retained by the Company.

The Directors may decline to register any transfer of any Share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any other Shares unless:

- (a) the instrument of transfer is lodged at such place or places where the Board from time to time determines to keep a branch register of Shareholders and where (except where the Board otherwise determines) transfers of documents of title for Shares are to be lodged for registration and are to be registered, with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine (or such lesser sum as the Directors may from time to time require) is paid to the Company.

If the Directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers as the Directors may determine be suspended at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong or by any other recognised stock exchange.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no such dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Except in so far as the rights attaching to, or the terms of issue of, any Share otherwise provides:

- (a) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on the Share; and
- (b) all dividends shall be apportioned and paid pro rata according to the amounts paid upon the Shares during any portion or portions of the period in respect of which the dividend is paid.

The Directors may also pay any dividend which is payable on any Shares half-yearly or on any other dates, whenever the position of the Company, in the opinion of the Directors, justifies such payment.

The Directors may retain any dividends or other moneys payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

In respect of any dividend proposed to be paid or declared on the share capital of the Company, the Directors may resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class or classes as the class or classes already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class or classes as the class or classes already held by the allottee. The Directors may also, with the sanction of the members of the Company in general meeting, resolve and direct in respect of any particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right of members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend or bonus may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and to such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute good discharge by the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct payment or satisfaction of any dividend wholly or in part by the distribution of specific assets, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may issue fractional certificates, disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of

the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in any common form or in such other form as the Directors may approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the Shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his Shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time serve a notice on the holder of such Shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the day and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted, cancelled or otherwise disposed of.

A person whose Shares have been forfeited shall thereupon cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with interest thereon at such rate not exceeding 15% per annum (or such lower rate as the Directors may determine) from the date of forfeiture until payment, and the Directors may enforce payment without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the Shares respectively held by them. The register may, on notice being given by advertisement in such one or more newspapers as the Directors may determine, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding \$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Save as otherwise provided by the Articles of Association two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one shareholder of record the quorum shall be that one member present in person or by proxy.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of Shares of the Company is described in sub-paragraph D above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company, divide amongst the members of the Company in specie or kind

the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

The Company shall be entitled to sell any Shares of a member or the Shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspaper, giving notice of its intention to sell such Shares and a period of three months has elapsed since such advertisement and the recognised Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

(B) SUMMARY OF CAYMAN ISLANDS COMPANIES LAW AND TAXATION

Set out below is a summary of certain provisions of the Cayman Islands law, although it does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

A. INTRODUCTION

The Companies Law is derived, to a large extent, from the older Companies Law of England, although there are significant differences between the Companies Law and the current Companies Law of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

B. INCORPORATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

C. SHARE CAPITAL

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of

capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

D. DIVIDENDS AND DISTRIBUTIONS

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

E. SHAREHOLDERS' SUITS

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained has been applied and followed by the courts in the Cayman Islands.

F. PROTECTION OF MINORITIES

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

G. DISPOSAL OF ASSETS

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

H. ACCOUNTING AND AUDITING REQUIREMENTS

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

I. REGISTER OF MEMBERS

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

J. INSPECTION OF BOOKS AND RECORDS

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

K. SPECIAL RESOLUTIONS

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

L. SUBSIDIARY OWNING SHARES IN PARENT

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

M. RECONSTRUCTIONS

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

N. TAKE-OVERS

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

O. INDEMNIFICATION

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

P. LIQUIDATION

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Q. STAMP DUTY ON TRANSFERS

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

R. TAXATION

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 29 August 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

S. EXCHANGE CONTROL

There are no exchange control regulations or currency restrictions in the Cayman Islands.

T. GENERAL

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered and available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT THE COMPANY**(a) Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 July 2000. The Company has established a place of business in Hong Kong at Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong and was registered on 24 November 2000 as an overseas company in Hong Kong under Part XI of the Companies Ordinance, with Ms. Lam Hiu Ha of Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises the Memorandum and the Articles of Association. A summary of various parts of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

(b) Changes in share capital

As at the date of incorporation, the initial authorised share capital of the Company was HK\$100,000 divided into 1,000,000 Shares of nominal value of HK0.10 each. On 20 July 2000, two Shares were allotted and issued to the initial subscribers and each of such Shares was then transferred to Mr. Wang and Ms. Zhao, respectively on 21 August 2000. On 21 August 2000, the Company allotted eight Shares at par as to seven Shares to Mr. Wang and as to one Share to Ms. Zhao, all of which were issued for cash at par.

On 28 March 2001, the Company increased its authorised share capital from HK\$100,000 to HK\$300,000,000, by the creation of an additional 2,999,000,000 Shares and allotted and issued in aggregate 193,999,990 Shares to Easywin credited as fully paid at HK\$19,399,999 in total for the acquisition by the Company of the entire issued share capital of Xinao Gas Investment from Easywin.

Pursuant to the written resolutions of the sole Shareholder of the Company passed on 24 April 2001 and conditional on (i) the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option), and (ii) the obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by ICEA, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, the Directors were authorised to allot and issue 226,000,000 Shares, credited as fully paid to Easywin by capitalising RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin.

Assuming that the Placing becomes unconditional and the issue of the Placing Shares and the Capitalisation Issue mentioned herein are made, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK\$300,000,000 divided into 3,000,000,000 Shares and the issued share capital of the Company will be HK\$60,000,000 divided into 600,000,000 Shares fully paid or credited as fully paid, with 2,400,000,000 Shares remaining unissued. Other than pursuant to any options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

(c) Resolutions passed by the sole Shareholder of the Company on 28 March 2001 and 24 April 2001

On 28 March 2001, resolutions of the sole Shareholder of the Company were passed pursuant to which, among other things:

- (1) the authorised share capital of the Company was increased from HK\$100,000 to HK\$300,000,000 by the creation of an additional 2,999,000,000 Shares;
- (2) the Directors were authorised to allot and issue, credited as fully paid, a total of 193,999,990 Shares to Easywin as consideration for the acquisition by the Company of the entire issued share capital of Xinao Gas Investment from Easywin; and
- (3) the Company approved and adopted its existing Memorandum and Articles of Association.

On 24 April 2001, resolutions of the sole Shareholder of the Company were passed pursuant to which, among other things:

- (1) conditional on (i) the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option), and (ii) the obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by ICEA, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, in each case, on or before 25 May 2001, the Placing and the Over-allotment Option were approved and the Directors were authorized to allot and issue the Placing Shares and the Shares which may be required to be issued if the Over allotment Option is exercised;
- (2) conditional on (i) the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option), and (ii) the obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by ICEA, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, loans in the aggregate amount of approximately RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin shall be capitalised by allotting and issuing 226,000,000 Shares to Easywin credited as fully paid;
- (3) conditional on (i) the Stock Exchange granting listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any such option under the Share Option Scheme, and (ii) the obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by ICEA, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, the rules of the Share Option Scheme were approved and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;

- (4) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with, otherwise than by way of rights or an issue of Shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of (i) the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing and (ii) the total nominal value of share capital of the Company which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect until whichever is the earliest of:
- (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws to be held; and
 - (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (5) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% (i) the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing and (ii) the total nominal value of share capital of the Company which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect until whichever is the earliest of:
- (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws to be held; and
 - (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate; and
- (6) the general unconditional mandate mentioned in paragraph (4) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (5) above provided that such extended amount shall not exceed 10% of (i) the aggregate of the total nominal value of the share capital of the Company in issue immediately following

completion of the Placing and (ii) the total nominal value of share capital of the Company which may be issued pursuant to the Over-allotment Option.

(d) Corporate reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM, whereby the Company became the ultimate holding company of the Group. The Reorganisation involved the following:

- (1) On 30 July 2000, Miyun BVI acquired 80% of the entire equity interests of Beijing Xinao from XGCL in consideration for cash at RMB7,920,000 (equivalent to US\$956,500). *(Please refer to material contract (6) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix) (Note)*
- (2) On 1 August 2000, Langfang BVI acquired 50% of the entire equity interests of Langfang Xinao from XGCL in consideration for cash at US\$4,667,000. *(Please refer to material contract (3) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix) (Note)*
- (3) On 1 August 2000, Langfang BVI acquired 14.63% of the entire equity interests of Langfang Xinao from Langfang City Gas in consideration for cash at US\$1,365,300. *(Please refer to material contract (2) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix) (Note)*
- (4) On 1 August 2000, Langfang BVI acquired 30.37% of the entire equity interests of Langfang Xinao from Newstar in consideration of the allotment and issue of 320 shares of US\$1.00 each in Langfang BVI to Ms. Zhao credited as fully paid. On the same date, Langfang BVI allotted and issued 679 shares of US\$1.00 each to Xinao Gas Investment for cash at par. *(Please refer to material contract (1) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix)*
- (5) On 1 August 2000, Ms. Zhao transferred 320 shares in Langfang BVI to Xinao Gas Investment credited as fully paid in consideration of the allotment and issue of 238 shares of US\$1.00 each in Xinao Gas Investment to Ms. Zhao credited as fully paid. On the same date, Xinao Gas Investment allotted and issued 752 shares of US\$1.00 each to Easywin for cash at par. *(Please refer to material contract (8) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix)*
- (6) On 1 August 2000, Ms. Zhao transferred 238 shares in Xinao Gas Investment to Easywin credited as fully paid in consideration of the allotment and issue of 236 shares of US\$1.00 each in Easywin to Ms. Zhao credited as fully paid. On the same date, Easywin allotted and issued 754 shares of US\$1.00 each to Mr. Wang for cash at par.
- (7) On 3 August 2000, Huludao BVI acquired 90% of the entire equity interests of Huludao Xinao from XGCL in consideration for cash at RMB9,000,000 (equivalent to US\$1,087,000). *(Please refer to material contract (5) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix) (Note)*
- (8) On 7 August 2000, Liaocheng BVI acquired 90% of the entire equity interests of Liaocheng Xinao from XGCL in consideration for cash at US\$1,740,000 (equivalent to RMB14,400,000). *(Please refer to material contract (4) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix) (Note)*

- (9) On 18 August 2000, Mr. Wang transferred eight shares and Ms. Zhao transferred two shares both of US\$1.00 each in Xiniao Gas Investment to Easywin for a cash consideration of US\$8.00 and US\$2.00 respectively.
- (10) On 28 March 2001, Mr. Wang transferred eight Shares and Ms. Zhao transferred two Shares both of HK\$0.10 each in the Company to Easywin for cash consideration of HK\$0.80 and HK\$0.20 respectively.
- (11) On 28 March 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$300,000,000 by the creation of an additional 2,999,000,000 Shares.
- (12) On 28 March 2001, the Company acquired the entire issued share capital of Xiniao Gas Investment from Easywin in consideration of the allotment and issue of 193,999,990 Shares credited as fully paid at HK\$19,399,999 in total to Easywin. *(Please refer to material contract (30) referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix)*
- (13) Conditional on (i) the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Share which may be made available pursuant to the exercise of the Over-allotment Option), and (ii) the obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by ICEA, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, all the loans in the aggregate amount of approximately RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin were capitalised by the Company allotting and issuing to Easywin 226,000,000 Shares credited as fully paid. *(Note)*

Note: As advised by the Company's PRC legal adviser, the acquisitions of interests in Langfang Xiniao, Liaocheng Xiniao, Beijing Xiniao and Huludao Xiniao by foreign incorporated purchasers from PRC established vendors, which formed part of the Reorganisation in preparation for the listing of Shares on GEM, could not be effected by way of share swap and have to be settled in cash. The mode of settlement of the transfer of interests in Langfang Xiniao between foreign incorporated vendor and purchaser is not restricted. The aggregate consideration payable by the Group in relation to the acquisition of interests in the Existing Project Companies from the PRC vendors amounted to US\$9,815,800 were funded by an advance from Easywin and were translated at RMB8.29:US\$1.00 and stated at approximately RMB81,374,000 in the books of the Group.

(e) Changes in the share capital of subsidiaries

The Company's subsidiaries are referred to in the accountants' report for the Company, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years preceding the date of this prospectus:

- (1) On 11 June 1999, Liaocheng Xiniao was incorporated with a registered capital of RMB8,000,000 and on 19 July 1999, the registered capital was increased from RMB8,000,000 to RMB16,000,000;
- (2) On 10 September 1999, Beijing Xiniao was incorporated with a registered capital of RMB9,900,000;
- (3) On 24 December 1999, Huludao Xiniao was incorporated with a registered capital of RMB10,000,000;

- (4) Following its incorporation on 4 January 2000, Xinao Gas Investment allotted and issued for cash at par 10 shares of US\$1.00 each as to eight shares to Mr. Wang and as to two shares to Ms. Zhao on 17 July 2000;
- (5) Following its incorporation on 21 February 2000, Langfang BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000;
- (6) Following its incorporation on 27 April 2000, Liaocheng BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000;
- (7) Following its incorporation on 27 April 2000, Miyun BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000;
- (8) Following its incorporation on 25 May 2000, Huludao BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000.
- (9) On 1 August 2000, Langfang BVI allotted and issued 320 shares and 679 shares, both of US\$1.00 each, to Ms. Zhao and Xinao Gas Investment credited as fully paid and for cash at par, respectively.
- (10) On 1 August 2000, Xinao Gas Investment allotted and issued 238 shares and 752 shares, both of US\$1.00 each, to Ms. Zhao and Easywin respectively credited as fully paid and for cash at par, respectively.
- (11) Following its incorporation on 10 August 2000, Zhucheng BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 11 December 2000.
- (12) Following its incorporation on 15 August 2000, Jingzhou BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 14 December 2000.
- (13) Following its incorporation on 15 August 2000, Chengyang BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 14 December 2000.
- (14) Following its incorporation on 19 December 2000, Pinggu BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 19 December 2000.
- (15) Following its incorporation on 19 December 2000, Huangdao BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 19 December 2000.
- (16) Following its incorporation on 19 December 2000, Changping BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 19 December 2000.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

(f) Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(1) *Regulations of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

(a) Shareholder's approval

All repurchases of securities on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to a resolution of the sole Shareholder of the Company passed on 24 April 2001, a general unconditional mandate (the "Buyback Mandate") was given to the Directors authorising any repurchase by the Company of Shares as described above in paragraph (5) of "Resolutions passed by the sole Shareholder of the Company on 28 March 2001 and 24 April 2001" in this Appendix.

(b) Source of funds

Any repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws of the Cayman Islands.

(c) Trading restrictions

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for shares in the Company representing up to 10 per cent. of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the result of the repurchases would be that the number of the listed securities in public hands would be below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange.

(d) Status of repurchased securities

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled, irrespective of whether or not such purchase took place on GEM and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(e) Suspension of repurchase

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of directors' decision until the price-sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's half-year report or a quarterly report, the company may not purchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if a company has breached the GEM Listing Rules.

(f) Reporting requirements

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange no later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, the company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the repurchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The annual report is also required to contain reference to the repurchase made during the year and the directors' reasons for making such repurchase. The company shall make arrangements with its broker who effects the repurchase to provide the company in a timely fashion the necessary information in relation to the repurchase made on behalf of the company to enable the company to report to the Stock Exchange.

(g) Connected parties

A company shall not knowingly repurchase shares on GEM from a connected person (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the company on GEM. As at the Latest Practicable Date and to the best of the knowledge of the Directors having made all reasonable enquiries, none of the Directors or their associates has a present intention to sell Shares to the Company.

(2) *Exercise of the Buyback Mandate*

Exercise in full of the Buyback Mandate, on the basis of 600,000,000 Shares in issue immediately after listing of the Shares and the Capitalisation Issue and taking no account of any Shares which may be allotted pursuant to the Over-allotment Option, could accordingly result in up to 60,000,000 Shares being repurchased by the Company during the period up to (a) the conclusion of the next annual general meeting of the Company; (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or (c) the revocation, variation or renewal of the Buyback Mandate by ordinary resolution of the Shareholders in general meeting, whichever occurs first.

(3) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(4) *Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles of Association and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(5) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules, the Memorandum, the Articles of Association and the applicable laws and regulations of the Cayman Islands.

No connected person of the Company has notified the Company that he has a present intention to sell Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase.

(g) Particulars of the Existing Project Companies

- (1) Name: Langfang Xinao
Nature: Sino-foreign equity joint venture
Date of joint venture contract: 29 July 2000
Term of joint venture: 30 years (from 28 March 1993 to 28 March 2023)
Total investment: US\$9,333,900
Registered capital: US\$9,333,900
Attributable interest of the Group: 95%
Capital contribution: Langfang BVI
– US\$8,867,205 representing 95% of the registered capital
Langfang City Gas
– Renminbi equivalent to US\$466,740 representing 5% of the registered capital
- Number of directors appointed by the Group: 4 out of 5
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (2) Name: Liaocheng Xinao
Nature: Sino-foreign equity joint venture
Date of joint venture contract: 29 July 2000
Term of joint venture: 30 years (from 8 August 2000 to 8 August 2023)
Total investment: RMB22,000,000
Registered capital: US\$1,932,400 (equivalent to RMB16,000,000)
Attributable interest of the Group: 90%
Capital contribution: Liaocheng BVI
– US\$1,740,000 representing 90% of the registered capital
聊城市熱力公司 (Liaocheng City Heating Company)
– RMB1,600,000 (equivalent to US\$192,400) representing 10% of the registered capital
- Number of directors appointed by the Group: 6 out of 7
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest

- (3) Name: Beijing Xinao
Nature: Sino-foreign equity joint venture
Date of joint venture contract: 29 July 2000
Term of joint venture: 30 years (from 8 August 2000 to 7 August 2030)
Total investment: US\$1,205,300
Registered capital: US\$1,195,600 (equivalent to RMB9,900,000)
Attributable interest of the Group: 80%
Capital contribution: Miyun BVI
– US\$956,500 representing 80% of the registered capital
北京市密雲化工公司(Beijing City Miyun Chemicals Company)
– Renminbi equivalent to US\$239,100 representing 20% of the registered capital
- Number of directors appointed by the Group: 5 out of 7
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (4) Name: Huludao Xinao
Nature: Sino-foreign equity joint venture
Date of joint venture contract: 27 July 2000
Term of joint venture: 30 years (from 7 August 2000 to 6 August 2030)
Total investment: US\$1,725,300
Registered capital: US\$1,207,700 (equivalent to RMB10,000,000)
Attributable interest of the Group: 90%
Capital contribution: Huludao BVI
– US\$1,087,000 representing 90% of the registered capital
葫蘆島市城市建設投資有限公司(Huludao City Urban Construction Investment Company Limited)
– Renminbi equivalent to US\$120,700 representing 10% of the registered capital
- Number of directors appointed by the Group: 6 out of 7
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest

(h) Particulars of the Acquisition Companies

| | |
|---|--|
| (1) Name: | Jinggu Xinao |
| <i>As at the Latest Practicable Date</i> | |
| Nature: | PRC joint venture |
| Date of establishment: | 11 August 2000 |
| Term of the PRC joint venture: | 30 years from 11 August 2000 |
| Registered capital: | RMB9,900,000 |
| Attributable interest of the Group: | nil |
| Capital contribution: | XGCL – RMB6,930,000 representing 70% of the registered capital 平谷縣液化石油氣公司(Pinggu County LPG Company) – RMB2,970,000 representing 30% of the registered capital |
| Number of directors | 9 |
| <i>Proposed terms after completion of the Acquisition Agreement (subject to amendment and approval by the relevant PRC authorities)</i> | |
| Nature: | Sino-foreign joint venture |
| Term of the Sino-foreign joint venture: | 30 years from the date of establishment of the Sino-foreign joint venture |
| Total investment: | RMB14,000,000 |
| Registered capital: | RMB9,900,000 (or its foreign currency equivalent) |
| Attributable interest of the Group: | 70% |
| Capital contribution: | Pinggu BVI (after XGCL transferring all its equity interest in Jinggu Xinao to Pinggu BVI pursuant to the Acquisition Agreement after the Placing) – RMB6,930,000 (or its foreign currency equivalent) representing 70% of the registered capital 平谷縣液化石油氣公司(Pinggu County LPG Company) – RMB2,970,000 representing 30% of the registered capital |
| Number of directors nominated by the Group | 6 out of 9 |
| Profit and loss ratio: | in accordance with the ratio of equity interest |
| Arrangement upon liquidation: | in accordance with the ratio of equity interest |

| | |
|---|---|
| (2) Name: | Qingdao Xinao |
| <i>As at the Latest Practicable Date</i> | |
| Nature: | PRC joint venture |
| Date of establishment: | 30 October 2000 |
| Term of the PRC joint venture: | 30 years from 30 October 2000 |
| Registered capital: | RMB20,000,000 |
| Attributable interest of the Group: | nil |
| Capital contribution: | XGCL <ul style="list-style-type: none"> – RMB18,000,000 representing 90% of the registered capital 青島經濟技術開發區熱電燃氣總公司(Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation) – RMB2,000,000 representing 10% of the registered capital |
| Number of directors | 5 |
| <i>Proposed terms after completion of the Acquisition Agreement (subject to amendment and approval by the relevant PRC authorities)</i> | |
| Nature: | Sino-foreign joint venture |
| Term of the Sino-foreign joint venture: | 30 years from the date of establishment of the Sino-foreign joint venture |
| Total investment: | RMB28,000,000 |
| Registered capital: | RMB20,000,000 (or its foreign currency equivalent) |
| Attributable interest of the Group: | 90% |
| Capital contribution: | Huangdao BVI (after XGCL transferring all its equity interest in Qingdao Xinao to Huangdao BVI pursuant to the Acquisition Agreement after the Placing) <ul style="list-style-type: none"> – RMB18,000,000 (or its foreign currency equivalent) representing 90% of the registered capital 青島經濟技術開發區熱電燃氣總公司(Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation) – RMB2,000,000 representing 10% of the registered capital |
| Number of directors nominated by the Group | 4 out of 5 |
| Profit and loss ratio: | in accordance with the ratio of equity interest |
| Arrangement upon liquidation: | in accordance with the ratio of equity interest |

| | |
|---|---|
| (3) Name: | Jingchang Xiniao |
| <i>As at the Latest Practicable Date</i> | |
| Nature: | PRC joint venture |
| Date of establishment: | 16 November 2000 |
| Term of the PRC joint venture: | 30 years from 16 November 2000 |
| Registered capital: | RMB9,900,000 |
| Attributable interest of the Group: | nil |
| Capital contribution: | XGCL – RMB7,920,000 representing 80% of the registered capital 北京市昌平市政經濟發展總公司(Beijing City Changping Urban Economic Development Head Corporation) – RMB1,980,000 representing 20% of the registered capital |
| Number of directors | 9 |
| <i>Proposed terms after completion of the Acquisition Agreement (subject to amendment and approval by the relevant PRC authorities)</i> | |
| Nature: | Sino-foreign joint venture |
| Term of the Sino-foreign joint venture: | 30 years from the date of establishment of the Sino-foreign joint venture |
| Total investment: | RMB14,000,000 |
| Registered capital: | RMB9,900,000 (or its foreign currency equivalent) |
| Attributable interest of the Group: | 80% |
| Capital contribution: | Changping BVI (after XGCL transferring all its equity interest in Jingchang Xiniao to Changping BVI pursuant to the Acquisition Agreement after the Placing) – RMB7,920,000 (or its foreign currency equivalent) representing 80% of the registered capital 北京市昌平市政經濟發展總公司(Beijing City Changping Urban Economic Development Head Corporation) – RMB1,980,000 representing 20% of the registered capital |
| Number of directors nominated by the Group | 6 out of 9 |
| Profit and loss ratio: | in accordance with the ratio of equity interest |
| Arrangement upon liquidation: | in accordance with the ratio of equity interest |

(i) Particulars of the New Project Companies

Proposed terms (subject to amendment and approval by the relevant PRC authorities) of the New Project Companies to be established pursuant to Project Chengyang, Project Jingzhou and Project Zhucheng respectively are set out as follows:–

- | | | |
|-----|---|--|
| (1) | Name: | Jingzhou Xinao |
| | Nature: | Sino-foreign equity joint venture |
| | Term of joint venture: | 30 years from the date of establishment of the Sino-foreign joint venture |
| | Total investment: | US\$15,000,000 |
| | Registered capital: | US\$6,000,000 |
| | Attributable interest of the Group: | 80% |
| | Capital contribution: | Jingzhou BVI – US\$4,800,000, representing 80% of the registered capital 荆州市城市建設投資開發公司(Jingzhou City Urban Construction Investment Development Company) – assets with value equivalent to US\$1,200,000, representing 20% of the registered capital |
| | Number of directors to be appointed by the Group: | 6 out of 9 |
| | Profit and loss ratio: | in accordance with the ratio of equity interest |
| | Arrangement upon liquidation: | in accordance with the ratio of equity interest |
| (2) | Name: | Chengyang Xinao |
| | Nature: | Sino-foreign equity joint venture |
| | Term of joint venture: | 30 years from the date of establishment of the Sino-foreign joint venture |
| | Total investment: | US\$2,300,000 |
| | Registered capital: | US\$1,600,000 |
| | Attributable interest of the Group: | 90% |
| | Capital contribution: | Xinao Gas Investment – US\$1,440,000 representing 90% of the registered capital 青島市城陽區建設工程監理處(Qingdao City Chengyang District Construction Engineering Supervisory Office) – Renminbi equivalent to US\$160,000, representing 10% of the registered capital |
| | Number of directors to be appointed by the Group: | 4 out of 5 |
| | Profit and loss ratio: | in accordance with the ratio of equity interest |
| | Arrangement upon liquidation: | in accordance with the ratio of equity interest |

- | | |
|---|--|
| (3) Name: | Zhucheng Xinao |
| Nature: | Sino-foreign equity joint venture |
| Term of joint venture: | 30 years from the date of establishment of the Sino-foreign joint venture |
| Total investment: | US\$6,000,000 |
| Registered capital: | US\$3,000,000 |
| Attributable interest of the Group: | 80% |
| Capital contribution: | Zhucheng BVI <ul style="list-style-type: none"> – US\$2,400,000 representing 80% of the registered capital 諸城市燃氣熱力總公司(Zhucheng City Gas and Heating Corporation) – assets with value equivalent to US\$600,000 representing 20% of the registered capital |
| Number of directors to be appointed by the Group: | 4 out of 5 |
| Profit and loss ratio: | in accordance with the ratio of equity interest |
| Arrangement upon liquidation: | in accordance with the ratio of equity interest |

II. FURTHER INFORMATION ABOUT THE BUSINESS

(a) Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (1) An agreement in Chinese dated 20 July 2000 between Newstar, Langfang BVI (then known as New Profound International Co. Ltd.), XGCL and Langfang City Gas whereby Newstar agreed to transfer 30.37% of the equity interests in Langfang Xinao to Langfang BVI as supplemented by a supplemental agreement in Chinese between the same parties dated 31 January 2001 regarding the number of directors of Langfang Xinao to be appointed.
- (2) An agreement in Chinese dated 20 July 2000 between Langfang City Gas, Langfang BVI (then known as New Profound International Co. Ltd.), XGCL and Newstar whereby Langfang City Gas agreed to transfer 14.63% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of US\$1,365,300 as supplemented by a supplemental agreement in Chinese dated 31 January 2001 regarding the number of directors of Langfang Xinao to be appointed.
- (3) An agreement in Chinese dated 20 July 2000 between XGCL, Langfang BVI (then known as New Profound International Co. Ltd.), Langfang City Gas and Newstar whereby XGCL agreed to transfer 50% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of US\$4,667,000.
- (4) An agreement in Chinese dated 24 July 2000 between XGCL, Liaocheng BVI (then known as New Profound Development Co. Ltd.) and 聊城市熱力公司 (Liaocheng City Heating Company) whereby XGCL agreed to transfer 90% of the equity interests in Liaocheng Xinao to Liaocheng BVI in consideration for cash in the sum of US\$1,740,000 (equivalent to RMB14,400,000).

- (5) An agreement in Chinese dated 25 July 2000 between XGCL, Huludao BVI (then known as New Profound Investment Co. Ltd.), and 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited) whereby XGCL agreed to transfer 90% of the equity interests in Huludao Xiniao to Huludao BVI in consideration for cash in the sum of US\$1,087,000 (equivalent to RMB9,000,000).
- (6) An agreement in Chinese dated 27 July 2000 between XGCL, Miyun BVI (then known as New Profound Capital Construction Development Co. Ltd.) and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company) whereby XGCL agreed to transfer 80% of the equity interests in Beijing Xiniao to Miyun BVI in consideration for cash in the sum of US\$956,500 (equivalent to RMB7,920,000).
- (7) An agreement dated 1 August 2000 between Ms. Zhao, Langfang BVI (then known as New Profound International Co. Ltd.) and Newstar regarding the allotment and issue of 320 shares of US\$1.00 each in Langfang BVI to Ms. Zhao as consideration for the sale and purchase of the shares in Langfang Xiniao as mentioned in the material contract (1) above.
- (8) An agreement dated 1 August 2000 between Ms. Zhao and Xiniao Gas Investment (then known as New Profound Rich Investment Co. Ltd.) regarding the sale and purchase of 320 shares of US\$1.00 each in Langfang BVI (then known as New Profound International Co. Ltd.) by Ms. Zhao to Xiniao Gas Investment in consideration for the allotment and issue of 238 shares of US\$1.00 each in Xiniao Gas Investment to Ms. Zhao.
- (9) An agreement in Chinese dated 30 September 2000 between XGCL and Langfang Xiniao whereby XGCL agreed to transfer a building erected at a site situated at the junction of Huaxiang Road and Hongrun Road, Langfang Economic and Technical Development Zone (“Langfang Development Zone”) to Langfang Xiniao in consideration of the sum of RMB47,900,000.
- (10) An agreement in Chinese dated 30 September 2000 between 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited) and Langfang Xiniao whereby Langfang Xincheng Property Development Company Limited agreed to transfer a piece of land at a site situated in Jinguang Road, Langfang Development Zone together with a building thereon to Langfang Xiniao in consideration of the sum of RMB7,600,000.
- (11) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xiniao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the northern outskirts of the Langfang city centre to Langfang Xiniao in consideration of the sum of RMB1,336,000.
- (12) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xiniao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the southern outskirts of the Langfang city centre to Langfang Xiniao in consideration of the sum of RMB576,000.
- (13) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xiniao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the Langfang Development Zone to Langfang Xiniao in consideration of the sum of RMB1,019,000.

- (14) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the Yongqing to Langfang's long distance pipeline to Langfang Xinao in consideration of the sum of RMB24,500,000.
- (15) An indemnity and undertaking in Chinese dated 20 December 2000 given by Langfang City Gas in favour of Langfang Xinao in relation to the various gas supply agreements entered into by Langfang City Gas on behalf of Langfang Xinao.
- (16) An agreement in Chinese dated 1 January 2001 between Langfang Xinao and XGCL whereby Langfang Xinao agreed to rent the 1st floor of the building in Langfang Development Zone as mentioned in material contract (9) above in consideration of the annual rental of RMB1,039,185 and an annual management fee of RMB263,920.
- (17) An agreement in Chinese dated 1 January 2001 between 廊坊新奧物業管理有限公司(Langfang Xinao Property Management Company Limited) and Langfang Xinao whereby Langfang Xinao Property Management Company Limited agreed to provide property management services in relation to the building in Langfang Development Zone as mentioned in material contract (9) above to Langfang Xinao at the consideration of the sum of RMB848,400 per annum.
- (18) An agreement in Chinese dated 1 January 2001 between XGCL and Xinao Gas Investment whereby XGCL agreed to grant a license to use two of its trademarks to the Group at no costs.
- (19) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Pinggu BVI as purchaser in relation to the acquisition of 70% equity interest in Jinggu Xinao.
- (20) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Huangdao BVI as purchaser in relation to the acquisition of 90% equity interest in Qingdao Xinao.
- (21) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Changping BVI as purchaser in relation to the acquisition of 80% equity interest in Jingchang Xinao.
- (22) A deed of assignment dated 28 February 2001 between XGCL as assignor, Easywin as assignee and Xinao Gas Investment in relation to the assignment of a loan amounted to approximately RMB4,775,518.
- (23) An agreement in Chinese dated 28 February 2001 between Liaocheng Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司(Langfang Development Zone Urban Construction Engineering Company Limited), XGCL and 廊坊新奧建築安裝工程有限公司(Langfang Xinao Construction and Decoration Engineering Company Limited) whereby Liaocheng Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB8,500,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Liaocheng Xinao; (b) to receive on its behalf loans in the sum of RMB2,000,000 owed by Langfang Xinao Construction and Decoration Engineering Company Limited to Liaocheng Xinao; and (c) to pay on its behalf to XGCL loans in the amount of approximately RMB5,096,814 owed by Liaocheng Xinao to XGCL; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB5,403,186 to Liaocheng Xinao.

- (24) An agreement in Chinese dated 28 February 2001 between Beijing Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司(Langfang Development Zone Urban Construction Engineering Company Limited), XGCL, 廊坊新城房地產開發有限公司(Langfang Xincheng Property Development Company Limited) and Langfang City Gas whereby Beijing Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB5,900,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Beijing Xinao; (b) to pay on its behalf to Langfang Xincheng Property Development Company Limited loans in the sum of RMB245,500 owed by Beijing Xinao to Langfang Xincheng Property Development Company Limited; (c) to pay on its behalf to XGCL loans in the sum of approximately RMB5,332,967 owed by Beijing Xinao to XGCL; and (d) to pay on its behalf to Langfang City Gas loans in the sum of RMB1,176,000 owed by Beijing Xinao to Langfang City Gas; and Beijing Xinao shall thereafter return the net proceeds received in the sum of approximately RMB854,467 to Langfang Xinao.
- (25) An agreement in Chinese dated 28 February 2001 between Huludao Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司(Langfang Development Zone Urban Construction Engineering Company Limited), and XGCL whereby Huludao Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB6,000,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Huludao Xinao; and (b) to pay on its behalf to XGCL loans in the sum of approximately RMB5,238,402 owed by Huludao Xinao to XGCL; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB761,598 to Huludao Xinao.
- (26) An agreement in Chinese dated 28 February 2001 between Qingdao Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司(Langfang Development Zone Urban Construction Engineering Company Limited), XGCL and Langfang City Gas whereby Qingdao Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB12,000,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Qingdao Xinao; (b) to pay on its behalf to XGCL loans in the sum of approximately RMB916,536 owed by Qingdao Xinao to XGCL; and (c) to pay on its behalf to Langfang City Gas loans in the sum of RMB219,000 owed by Qingdao Xinao to Langfang City Gas; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB10,864,464 to Qingdao Xinao.
- (27) An agreement in Chinese dated 28 February 2001 between Jingchang Xinao, Langfang Xinao and XGCL whereby Jingchang Xinao authorised Langfang Xinao to pay on its behalf to XGCL loans in the sum of approximately RMB10,130,215 owed by Jingchang Xinao to XGCL; and Jingchang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB10,130,215 to Langfang Xinao.
- (28) An agreement in Chinese dated 1 March 2001 between Jinggu Xinao, Langfang Xinao and XGCL whereby Jinggu Xinao authorised Langfang Xinao to receive on its behalf loans in the sum of approximately RMB1,447,365 owed by XGCL to Jinggu Xinao; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB1,447,365 to Jinggu Xinao.
- (29) An agreement in Chinese date 7 March 2001 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer a patent right to Langfang Xinao at no costs.

- (30) A deed for sale and purchase of shares in Xiniao Gas Investment dated 28 March 2001 between, among others, Easywin as vendor and the Company as purchaser in relation to the sale and purchase of the entire equity interest of Xiniao Gas Investment.
- (31) A deed of non-competition undertaking dated 28 March 2001 made by the Initial Management Shareholders and XGCL in favour of the Company whereby each of the Initial Management Shareholders and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the piped gas business of the Company.
- (32) A placing and underwriting agreement dated 3 April 2001 between the Company, Easywin, Mr. Wang, Ms. Zhao, executive directors of the Company, Rothschild and the underwriters named therein in relation to the placing of 180,000,000 shares of HK\$0.10 each in the capital of the Company (subject to adjustment).
- (33) A deed of indemnity dated 3 April 2001 between Easywin, Mr. Wang, Ms. Zhao and the Company for itself and as trustee for its subsidiaries, containing certain indemnities given by Easywin, Mr. Wang and Ms. Zhao in favour of the Company and its subsidiaries being, inter alia, the indemnities referred to in the paragraph headed “Other information – Estate duty and tax indemnity” in this Appendix and in respect of certain properties in the valuation report as set out in Appendix III to this prospectus.
- (34) A deed of non-competition undertaking dated 24 April 2001 by the Initial Management Shareholders, XGCL in favour of the Company whereby each of the Initial Management Shareholder and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the piped gas business of the Company.
- (35) A placing and underwriting agreement dated 26 April 2001 referred to in the paragraph headed “Placing – Placing arrangements and expenses” in this prospectus.

(b) Intellectual Property

As at the Latest Practicable Date, Xinao Gas Investment has obtained a license to use the following trademarks with the right to grant sub-licenses of these trademarks to any other members of the Group pursuant to the material contract (18) referred to in the paragraph headed “Further information about the business – Summary of material contracts” in this Appendix:

| Trademark | Place of registration | Class | Registration number | Expiry date |
|---|------------------------------|--------------|----------------------------|--------------------|
|  | PRC | 11 | 1175246 | 13 May 2008 |
| XINAO | PRC | 37 | 1159811 | 13 March 2008 |

In addition, Langfang Xinao is applying for the transfer of the following patent right (which will be assigned by Langfang City Gas upon registration of the transfer pursuant to the material contract (29)) referred to in the paragraph headed “Further information about the business – Summary of material contracts” in this Appendix:

| Patent | Place of registration | Patent number | Expiry date |
|---------------|------------------------------|----------------------|--------------------|
| CNG truck | PRC | ZL 99 2 43718.0 | 19 August 2009 |

(c) Regulatory permits held by the Group

| Name of company | Country of issue | Type of permit | Issue date | Expiry date |
|------------------------|-------------------------|--|-------------------|--------------------|
| Langfang Xinao | PRC | Certificate of competency in urban gas industry (城市燃氣企業資質證書) | 27 July 2000 | <i>Note 1</i> |
| | PRC | Permit of fire safety for inflammable chemicals (易燃易爆化學物品消防安全許可證) (<i>Note 2</i>) | 14 September 2000 | 13 September 2003 |
| | PRC | Certificate for competency in gas appliance installation and maintenance in Hebei (河北省燃氣器具安裝維修企業資質證書) | 13 February 2001 | 13 December 2002 |
| | PRC | Permit for the manufacturing of measurement equipment (製造計量器具許可證) | 9 April 2001 | 8 April 2004 |

| Name of company | Country of issue | Type of permit | Issue date | Expiry date |
|-----------------|------------------|--|------------------|---|
| Liaocheng Xinao | PRC | Certificate for the trial operation in urban gas industry (城市燃氣企業試運行證書) | 26 July 2000 | 25 July 2001 |
| | PRC | Approval in pricing for the sale of natural gas and installation of natural gas facilities (關於聊城新奧燃氣有限公司天然氣設施安裝價格的批覆) | 16 November 2000 | Connection reached 20,000 residential customers |
| | PRC | Certificate to operate gas appliance business (燃氣器具經營許可證) | 1 January 2001 | 31 December 2001 |
| Huludao Xinao | PRC | Permit of fire safety for inflammable chemicals (易燃易爆化學物品消防安全許可證) | 10 May 1999 | <i>Note 3</i> |
| | PRC | Certificate of competency in urban gas industry (城市燃氣企業資質證書) | 11 August 2000 | <i>Note 1</i> |
| | PRC | Fee collection permit (收費許可證) | 9 February 2001 | <i>Note 4</i> |

Notes:

- (1) There is no expiry date stated in the permit. However, according to the relevant PRC laws, such permits, when granted, will have a valid period of five years.
- (2) Subject to annual review.
- (3) There is no expiry date stated in the permit. However, according to the relevant PRC local regulations, such permit, when granted, will be valid until revoked or withdrawn by the relevant government authorities.
- (4) There is no expiry date stated in the permit. However, according to the relevant PRC laws, such permits, when granted, will be valid until revoked or withdrawn by the relevant government authorities.

III. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

(a) Directors

(1) Disclosure of Interests

The interests of each of the Directors in the equity securities of the Company and the associated corporations (within the meaning of the SDI Ordinance) of the Company which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or will be required,

pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows (assuming that their interests will remain unchanged after the Latest Practicable Date):

| Name of Company | Name of Director | Personal Interest | Family Interest | Corporate Interest | Other Interest | Total |
|-----------------|------------------|-------------------|-------------------|--|----------------|---------------------------|
| The Company | Mr. Wang | - | - | 420,000,000 Shares ⁽¹⁾ 70% | - | 420,000,000 Shares 70% |
| | Ms. Zhao | - | - | 420,000,000 Shares ⁽¹⁾ 70% | - | 420,000,000 Shares 70% |
| Langfang Xinao | Mr. Wang | - | - | 5% | - | 5% |
| | Ms. Zhao | - | 5% ⁽²⁾ | - | - | 5% |

Note:

- (1) The two references to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.
- (2) By virtue of Mr. Wang's holding of 5% interest in Langfang Xinao, Ms. Zhao as the spouse of Mr. Wang was taken to be interested in such company under the SDI Ordinance.

(2) *Particulars of service agreements*

- (i) Each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao, being executive Directors, has entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:
 - (a) each service contract is of an initial term of three years commencing on 1 March 2001 and expiring on 29 February 2004 and shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice;
 - (b) the annual salary for each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao from 1 March 2001 to 28 February 2002 shall be HK\$1,300,000, HK\$800,000, HK\$400,000, HK\$400,000, HK\$500,000 and HK\$400,000 respectively during the initial year. As from 1 March 2002, the annual salary of each executive Director shall be as determined by the Board, the increment of the annual salary shall not be more than 15% of the annual salary received by the executive Director for the immediate preceding year;
 - (c) each of the executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the "Net Profits") as the Board may approve provided that the aggregate amount of the management bonuses payable to all executive Directors of the Company in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year;

- (d) Mr. Wang and Mr. Yang Yu are also the directors of XGCL, and under the terms of their respective service agreement with the Company, each of them shall devote at least 70% of his working time and attention, and all of his skill to the discharge of duties of his office as an executive Director and, where relevant, as a director of such other members of the Group in which he holds the office of a director; and
 - (e) each of the executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the board of Directors regarding the amount of annual salary and management bonus payable to himself.
- (ii) Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (3) *Directors' remuneration*
- (i) The Company's policies concerning remuneration of executive Directors are:
 - (a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
 - (b) non-cash benefits may be provided to the Directors under their remuneration package; and
 - (c) the executive Directors may be granted, at the discretion of the board of Directors, options pursuant to the Share Option Scheme, as part of their remuneration package.
 - (ii) Approximately HK\$3,300,000 (excluding any management bonus which may be paid) as remuneration is expected to be paid to the Directors by the Group in respect of the financial year ending 31 December 2001 pursuant to the present arrangement.
 - (iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three financial years ended 31 December 2000 (a) as an inducement to join or upon joining the Company or (b) for loss of office as a director of any member of the Group or of any other notice in connection with the management of the affairs of any member of the Group.
 - (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years ended 31 December 2000.
 - (v) The non-executive Director and each of the independent non-executive Director has been appointed for a term of three years, commencing from 1 March 2001 and expiring on 29 February 2004 and thereafter are eligible for re-election. Save for directors' fees of HK\$60,000 per annum for each of the non-executive Director and the independent non-executive Directors, none of the non-executive Director and independent non-executive Directors is expected to receive any other remuneration for holding their office as non-executive Director or independent non-executive Director, respectively.

- (vi) No Director received any remuneration or benefits in kind from the Group for the three years ended 31 December 2000. Particulars of emoluments paid to the five persons who received the highest emoluments from the Group for the three year ended 31 December 2000 are set out in Note (h) to the section headed “Results” in the accountants’ report for the Company as set out in Appendix I to this prospectus.

(b) Disclaimers

Save as disclosed herein:

- (1) none of the Directors or chief executives has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange once such securities are listed on GEM;
- (2) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Other information – Consent of experts” in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (3) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Other information – Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (4) none of the persons whose names are listed in the paragraph headed “Other information – Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (5) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (6) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transaction as mentioned in this prospectus; and
- (7) so far as is known to the Directors, save as disclosed in Note 3(k) to the section headed “Results” in the accountants’ report for the Company as set out in Appendix I to this prospectus, none of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

IV. SHARE OPTION SCHEME**(a) Summary of terms**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by resolutions of the sole shareholder of the Company on 24 April 2001:

(1) Who may join

The board of Directors or a duly authorised committee thereof which shall include the independent non-executive Directors (and in so far as may be required under the GEM Listing Rules, the independent non-executive Directors of any holding company of the Company which is also listed on GEM or the main board of the Stock Exchange may, at its discretion, invite (a) any executive Directors of the Group and (b) any full time employees of the Group (“Employee(s)”), to take up options at HK\$1.00 per option to subscribe for Shares at a price calculated in accordance with sub-paragraph (4) below.

(2) Grant of Option

Any grant of options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results or quarterly results, no option should be granted until such information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules.

(3) Payment on acceptance of option offer

HK\$1.00 is payable by the Employee to the Company on acceptance of the option offer.

(4) Price of Shares

The subscription price for Shares under the Share Option Scheme will be a price determined by the board of Directors and notified to each grantee and will be the highest of (a) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities (“Trading Day”) and (b) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the date of offer; and (c) the nominal value of a Share.

(5) Maximum number of Shares

- (a) The Company may seek approval of the Shareholders in general meeting to authorize Directors to grant options under the Share Option Scheme and any other share option schemes of the Company in issue entitling the grantees to exercise up to an aggregate of 10% of the total number of Shares in issue from time to time (excluding (i) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)) unless the Company obtains a fresh approval from the Shareholders pursuant to sub-paragraph (b) below.

- (b) The Company may seek approval of the Shareholders in general meeting to renew the 10% limit set out in (a) above such that the total number of Shares in respect of which options may be granted by the Directors under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% of the issued share capital of the Company from time to time (excluding (i) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)).
- (c) The Company may grant options to specified Employee(s) beyond the 10% limit if the grant of such options is specifically approved by the Shareholders of the Company in general meeting.

Notwithstanding the above, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the total number of Shares in issue from time to time (excluding (i) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)).

Immediately after completion of the Placing and the Capitalisation Issue and taking no account of Shares which may be issued pursuant to the Over-allotment Option, the total number of Shares which will be subject to the Share Option Scheme will be 60,000,000 Shares which represents 10% of the issued share capital of the Company at that time.

No Employee shall be granted an option which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued pursuant to all the options previously granted to him or her which have been exercised, and, issuable pursuant to all the options previously granted to him or her which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

(6) *Requirements on granting options to connected persons*

Any grant of options to an Employee who is a connected person of the Company must be approved by the independent non-executive Directors.

Where the board of Directors proposes to grant any option to an Employee who is a substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of his or her respective associates and such option which if exercised in full, would result in such Employee becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued, and issuable, to him or her pursuant to all the options granted to him or her in the 12 month period up to and including the date on which such proposal is made by the board of Directors (the "Relevant Date") :

- (a) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and

- (b) having a value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date and if the Relevant Date is not a Trading Day, the Trading Day immediately preceding the Relevant Date, in excess of HK\$5,000,000,

such proposed grant of options must be approved by the Shareholders in general meeting with the Employee concerned and all other connected persons of the Company abstaining from voting (except where any connected person intends to vote against such proposed grant).

(7) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not less than three years and not more than 10 years to be notified by the board of Directors to each grantee which period of time shall commence on the date of grant of the option and expire on the last day of such period as determined by the board of Directors.

(8) *Rights are personal to grantee*

An option may not be transferred or assigned and is personal to the grantee and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any options or enter into agreement so to do.

(9) *Rights on ceasing employment*

If the grantee of an option ceases to be an Employee for any reason other than death, misconduct or certain other grounds (including bankruptcy, insolvency or a conviction of criminal offence), the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of three months following the date of such cessation, which date shall be the grantee's last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not.

(10) *Rights on death*

If the grantee of an option dies before exercising the option in full and none of certain events which would be a ground for termination of his or her employment arises, the personal representative(s) of the deceased grantee may exercise the option in full (to the extent which has become exercisable and not already exercised) within a period of 12 months from the date of death.

(11) *Effects of alterations to capital*

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of the Company or the Company's independent financial adviser as fair and reasonable will be made in the subject matter of the option so far as unexercised the subscription price and/or the method of the exercise of the option, provided that no such alteration shall be made so that a Share would be issued at less than its nominal value or

which would give a grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares in the capital of the Company as consideration in a transaction.

(12) Rights on take-over

If a general offer (including any take-over) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becoming or are declared unconditional, the grantee (or the personal representative(s) of the deceased grantee) may by notice in writing to the Company exercise the option (to the extent which has become exercisable and not already exercised) to its full extent or to the extent specified in such notice at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(13) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and the Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to the grantee on the same date as it dispatches the notice to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or the personal representative(s) of the deceased grantee) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date two months thereafter and the date on which such compromise or arrangement is sanctioned by the court exercise any of his or her options (to the extent which has become exercisable and not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or the personal representative(s) of the deceased grantee) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as possible as would have been the case had such Shares been subject to such compromise or arrangement.

(14) Lapse of Option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of the periods referred to in sub-paragraph (9), (10) or (12) respectively;
- (c) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (13);

- (d) the date on which the grantee of an option ceases to be an Employee by reason of the termination of his or her employment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;
- (e) the date of the commencement of the winding-up of the Company; and
- (f) the date on which the grantee sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option (or enter into agreement so to do) in breach of the Share Option Scheme.

(15) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to the Articles of Association for the time being in-force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and issue and in particular will rank in full for all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of allotment and issue.

Unless the context otherwise requires, references to “Shares” in the Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(16) Cancellation of Options granted

Any cancellation of options granted but not exercised must be approved by the Shareholders (and also by shareholders of any holding company which is listed on GEM and/or the main board of the Stock Exchange) in general meeting, with participants and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(17) Period of Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on 24 April 2001 after which period no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(18) Alteration to Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the board of Directors except that the provisions of the Share Option Scheme relating to matters contained in rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of options or to the advantage of grantees or prospective grantees except with the prior approval of the Shareholders in general meeting (with participants and their associates abstaining from voting). No such alteration shall operate to affect adversely

the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the Articles of Association for the time being for a variation of the rights attached to the Shares.

Any alteration to the terms and conditions of the Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(19) Conditions of the Share Option Scheme

The Share Option Scheme shall take effect subject to the passing of the necessary resolution to adopt the Share Option Scheme by the Shareholders in general meeting and is conditional on (a) the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and granting listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and (b) the obligations of the Underwriters under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by ICEA on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise.

Application has been made to the GEM Listing Committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at Latest Practicable Date, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

V. OTHER INFORMATION

(a) Estate duty, tax and property indemnities

Each of Easywin, Mr. Wang and Ms. Zhao (the “Indemnifying Parties”) has pursuant to a deed of indemnity referred to in the paragraph headed “Further information about the business – Summary of material contracts” in this Appendix, given indemnities in connection with among others (1) any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Placing becomes unconditional; (2) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Placing becomes unconditional, other than any taxation chargeable in respect of profits or gains made in the ordinary course of business of members of the Group after 31 December 2000; (3) certain properties in the valuation report as set out in Appendix III to this prospectus.

Each of the Indemnifying Parties will, however, not be liable under the deed of indemnity for taxation where (1) provision or allowance has been made for such taxation in the audited combined accounts of the Company or the audited accounts of any member of the Group for the three years ended 31 December 2000 (the “Accounts”); (2) the taxation arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force

after the date of the deed of indemnity; (3) the taxation or liability would not have arisen but for any act, transaction, omission or delay by any member of the Group voluntarily effected after the date of the deed of indemnity (other than pursuant to a legally binding commitment created on or before the date of indemnity) without the prior consent of the Indemnifying Parties; and (4) provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the British Virgin Islands or the PRC, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

(b) Litigation

No member of the Group and none of the Acquisition Companies are engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group or the Acquisition Companies.

(c) Address for service of process and notices

Ms. Lam Hiu Ha has been nominated as the agent to accept service of process and notices of the Company. The address for service of process and notices is Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

(d) Sponsor

Rothschild has made an application on behalf of the Company to the GEM Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares falling to be issued pursuant to the exercise of options granted under the Share Option Scheme.

(e) Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$3,063 and are payable by the Company.

(f) Promoter

The promoter of the Company are the Founders. As at the Latest Practicable Date, the issued share capital of the Company was HK\$19,400,000 divided into 194,000,000 shares of HK\$0.10 each which are fully paid or credited as fully paid.

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

(g) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| Name | Qualification |
|--------------------------------|------------------------------------|
| Chesterton Petty Limited | Professional surveyors and valuers |
| Commerce & Finance Law Offices | PRC legal adviser |
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| Maples and Calder Asia | Cayman Islands attorneys-at-law |
| Rothschild | Registered investment adviser |

(h) Consents of experts

Each of Chesterton Petty Limited, Commerce & Finance Law Offices, Deloitte Touche Tohmatsu, Maples and Calder Asia and Rothschild has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

(i) Binding effect

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

(j) Commissions received

The Underwriters will receive an underwriting commission of 3.5% on the Placing Price of all the Placing Shares.

(k) Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as set out in Note (k) to the section headed “Results” in the accountants’ report for the Company as set out in Appendix I to this prospectus, the section headed “Waivers from compliance with the GEM Listing Rules” and the paragraph headed “The Group’s business – Transactions with connected persons” in this prospectus.

(l) Miscellaneous

(1) Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.
- (2) None of Chesterton Petty Limited, Commerce & Finance Law Offices, Deloitte Touche Tohmatsu, Maples and Calder Asia and Rothschild:
- (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (3) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (4) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

I. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus registered and filed by the Registrar of Companies in Hong Kong were the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus.

II. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Woo Kwan Lee & Lo, 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 10 May 2001:

- (a) the Memorandum and the Articles of Association of the Company;
- (b) the accountants’ reports prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this prospectus;
- (c) the letters, summaries of valuation and valuation certificates relating to the property interests of the Group and the Acquisition Companies prepared by Chesterton Petty Limited, the texts of which are set out in Appendix III to this prospectus;
- (d) the letter prepared by Maples and Calder Asia referred to in Appendix IV to this prospectus summarising certain aspects of Cayman Islands law;
- (e) the Companies Law;
- (f) the rules of the Share Option Scheme;
- (g) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus, together with the service contracts with the executive Directors referred to in the paragraph headed “Particulars of service contracts” in Appendix V to this prospectus; and
- (h) the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus.