安瑞科能源裝備控股有限公司

ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Placing

Global Coordinator, Bookrunner and Sponsor

China Everbright Capital Limited

Lead Manager

China Everbright Securities (HK) Limited

IMPORTANT

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

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ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED

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LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING

Number of Placing Shares	:	**120,000,000 Shares (subject to Over-allotment Option)**
Placing Price	:	**not more than HK$1.68 per Placing Share and expected to be not less than HK$1.12 per Placing Share**
Nominal value	:	**HK$0.01 per Share**
Stock code	:	**8289**

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The Stock Exchange and HKSCC 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 section headed "Documents delivered to the Registrar of Companies" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or the documents referred to above.

The Placing Price is expected to be fixed by agreement between the Company and China Everbright Securities (HK) Limited (for itself and on behalf of the Underwriters) on the Price Determination Date, which is currently scheduled on or before 12 October 2005. The Placing Price will not be more than HK$1.68 per Share and is expected to be not less than HK$1.12 per Share. If the Company and China Everbright Securities (HK) Limited (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by that date or such later date as agreed by the Company and China Everbright Securities (HK) Limited (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will not proceed.

The obligations of the Underwriters to procure applicants to subscribe for, or failing which themselves to subscribe for, the Placing Shares are subject to termination by China Everbright Securities (HK) Limited (for itself and on behalf of the Underwriters) if any of the events set forth in the section headed "Underwriting – Grounds for termination" in this prospectus including, without limitation, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out or any escalation of hostilities involving Hong Kong, the PRC, the United States occurs at any time before 8:00 a.m. on the Listing Date.

10 October 2005

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 the 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 GEM 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 GEM website in order to obtain up-to-date information on GEM-listed issuers.

	2005
Expected time of the Price Determination Date at or before	12:00 noon, Wednesday, 12 October
Announcement of the level of indication of interests in the Placing and whether the Over-allotment Option has been exercised to be published on the GEM website on or before	Friday, 14 October
Deposit of share certificate(s) into CCASS on or about *(Note 2)*	Monday, 17 October
Dealings in the Shares on GEM to commence on	Tuesday, 18 October

Notes:

1. All dates and times refer to Hong Kong local time.

2. Placees of Shares will receive the share certificates for the Placing Shares via CCASS. Share certificates are expected to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS on or about 17 October 2005 for credit to the respective CCASS participants' or investor participants' stock accounts designated by the Underwriters or the placees, as the case may be. **No temporary document of title will be issued. Share certificates for the Placing Shares will only become valid certificates of title at 8:00 a.m. on Tuesday, 18 October 2005 provided that (i) the Placing has become unconditional in all respects; and (ii) the Underwriting Agreement has not been terminated by the Lead Manager (for itself and on behalf of the Underwriters) in accordance with its terms at or before 8:00 a.m. on Tuesday, 18 October 2005, as further described in the section headed "Underwriting" in this prospectus.**

3. For details of the structure of the Placing, including its conditions, please see the section headed "Structure and conditions of the Placing" in this prospectus.

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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 in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, the directors of anyone of them, or any other person or party involved in the Placing.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus carefully 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 Company 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 Placing Shares.

BUSINESS OVERVIEW

The Group is one of the leading specialised gas equipment manufacturers in the PRC and an integrated business solutions provider in the gas energy industry in the PRC. The Group is principally engaged in the design, manufacture and sale of specialised gas equipment including compressors, pressure vessels and other gas equipment including gas refueling station trailers that are essential to the transportation, storage and distribution of natural gas in the gas energy industry. With the established experience in the development and manufacture of specialised gas equipment and knowledge in the energy sector, the Group also provides integrated business solutions to its customers in the gas energy industry.

The PRC Government's initiatives to promote the use of natural gas in the PRC have resulted in rising expenditures in the gas equipment market over the last few years. The substantial investments made by the PRC Government in respect of the construction of gas pipelines and LNG import terminals and port infrastructure are poised to have a significant impact on the supply and thus the widespread usage of natural gas in regions where such source of energy was generally unavailable before.

According to China's Energy Development Report 2003 issued by Beijing Academy of Economic Development Institution in 2004, the demand of natural gas is forecasted to increase to approximately 200.0 bcm by 2020, representing an increase of approximately 784.96% when comparing to a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand of natural gas in the PRC in 2020 will apply to the power generation sector and approximately 35.0% to the city gas sectors including natural gas vehicles. In view of the projected increasing demand in natural gas, the demand for gas equipment is also expected to increase.

With an anticipation of increasing demand of specialised gas equipment, the Group has efficiently utilised its production lines and established a strong research and development team for its development and manufacture of gas equipment. Furthermore, the Group has established sales network covering Beijing, Shanghai, Tianjin, Hebei province, Shanxi province, Jiangsu province, Zhejiang province, Anhui province, Guangdong province, Heilongjiang province, Jilin province, Liaoning province and Inner Mongolia Autonomous Region in the PRC and has, directly or through overseas sales agents, begun selling its products to overseas markets during the Track Record Period. In August 2004, the Group successfully obtained the certificate of registration for manufacturing of seamless pressure cylinder issued by the Ministry of Commerce, Industry and Energy of Korea. The Group has then commenced exporting its gas equipment to Korea since October 2004.

Although the Group commenced its development, manufacture and sale of specialised gas equipment in March 2002, the predecessor of the Group's development and manufacturing activities date back to the 1950s. In this respect, the predecessor company of Enric Compressor was Bengbu Compressor, a PRC state-owned enterprise owned by the People's Government of Bengbu, Anhui province and assets of which were acquired by the Group in March 2002 pursuant to the Bengbu Acquisition Agreement.

Over the Track Record Period, the Group had been actively engaged in the research and development of various types of gas equipment with the objective to better cater to the changing market demands through improving the quality and capability of its products. As a result, the Group has experienced significant growth in its business since its inception. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the Group recorded turnover of approximately RMB68.9 million, RMB252.4 million and RMB209.7 million respectively. Such turnover of the Group for the year ended 31 December 2004 and the six months ended 30 June 2005 represent an increase of approximately 266.3% and 153.0% when comparing the turnover of the Group for the year ended 31 December 2003 and the six months ended 30 June 2004 respectively.

In order to further expand the spectrum of the Group's gas equipment products and to establish the Group's brandname in the gas equipment market, the Group established Enric Gas Equipment in 2003 and pursuant to the Tripartite Agreement, part of the assets, amongst other things, previously owned by Xinao Shijiazhuang were injected into Enric Gas Equipment as capital contribution on 31 March 2004. The Group then advanced the manufacture and sale of pressure vessels and other types of gas equipment, including various standards of stationary or mobile pressure vessels in 2004. Through the expansion of the Group's specialised gas equipment capabilities, the Group is able to establish a consolidated platform to further develop and provide integrated business solutions to its customers, which are essential in assisting them with the implementation of projects in the gas energy industry.

The Group has adopted advanced manufacturing technique for its products and has formed strategic relationship with international natural gas technology provider by way of introducing patented natural gas technology in its products for use in the PRC market.

In order to further streamline the Group's gas equipment business, the Group established Enric Integration as a focused arm to develop and market its integrated business solutions to its customers in the gas energy industry.

The Directors believe that the Group has an established reputation within the PRC for its capabilities in providing specialised gas equipment, which is reliable and of superior quality, and customer-oriented after-sales services. By virtue of the Group's proven series of products in the gas equipment market, the Group strives to become a leading energy equipment and comprehensive integrated business solutions provider in the gas energy industry. The Group also plans to market and sell its energy equipment products and integrated business solutions in the international markets.

STRENGTHS OF THE GROUP

The Directors believe that the following principal strengths of the Group will ensure the Group's future success and fast growth:

- Specialised products tailored to satisfy expected demands pursuant to the future development of natural gas as a more prominent energy source;
- Advanced manufacturing techniques and foreign natural gas technology afford the Group with a technological advantage over competitors in the domestic market;
- Industry standards form high barrier to entry;
- Strong research and development capability and advanced technologies tailored to the PRC market;
- Comprehensive sales network and effective marketing strategies;
- Highly experienced management team; and
- Strong shareholder's background.

Specialised products tailored to satisfy expected demands pursuant to the future development of natural gas as a more prominent energy source

The Group is one of the leading specialised gas equipment manufacturers and an integrated business solution provider in the PRC with the focus of facilitating the storage, distribution and use of gas at different stages along the natural gas supply chain. In light of committed effort of the PRC Government to ensure more efficient energy usage and to identify alternative energy so as to tackle the possible energy shortage to be faced by the PRC, further development of the natural gas market has been designated as an initiative of the PRC Government to promote wider adoption of natural gas as fuel and to significantly increase its usage in the future. Accordingly, natural gas as an energy in the industrial and power generation, residential and vehicular sectors, is poised to be more prevalent and its market is expected to experience significant growth.

As the Group's gas equipment is designed to facilitate the transporting, compressing, storing and distributing of natural gas, the Directors believe that significant future development of natural gas market and its usage will inevitably result in significant increase in demand for the Group's products and services.

Further, the Directors believe that, by virtue of the favourable support from the PRC Government's policy, substantial investments in the infrastructure of the PRC's natural gas market, including the construction of natural gas pipelines and LNG ports etc, are likely to continue. As such, the Directors view that the downstream gas energy facilities that are necessary for the dispensation of natural gas to end-users, such as gas refueling stations, LNG trailers and CNG trailers, will experience growth in demand across China.

Advanced manufacturing techniques and foreign natural gas technology afford the Group with a technological advantage over competitors in the domestic market

The Group has obtained the ownership of the patented technologies for seamless pressure cylinders, gas storage cylinder group for use at gas refueling stations, and containers for seamless pressure cylinders. The Group has also obtained exclusive rights from Xinao Shijiazhuang to apply the technologies of Neogas for use in the Group's hydraulic refueling stations. Such technologies of Neogas have been granted a patent in United States while application has been made to the State Intellectual Property Office of the PRC for registration of such patent in the PRC. (Details of which are set out in sections headed "Business – Intellectual property – Patented technologies" and "Connected transactions" in this prospectus).

The Directors believe that such access to foreign technologies and advanced techniques affords the Group a technology edge over other manufacturers of pressure vessels and conventional refueling stations in the PRC.

Industry standards form high barrier to entry

The Group measures the quality of its products against international benchmark and has in place quality control system and procedures to ensure its products are of consistent and high standards that fulfill the requirements of both national and international standards. In addition to fulfilling the domestic industry standards and having obtained the relevant licences, the Group, at present, has further obtained the ASME certification from the U.S. and the certificate from Ministry of Commerce, Industry and Energy of Korea in order to improve the standards of and hence the competitiveness of its products.

The Directors believe that the high industry standards and strict regulations imposed on participants in the gas equipment manufacturing industry represent significant entry barriers to new entrants as the satisfaction of such industry standards require substantial up-front investment in the research and development of the gas equipment, coupled with stringent management and quality control system, all of which are results of years of manufacturing experience in the gas equipment industry and are difficult for new entrants to match.

Strong research and development capability and advanced technologies tailored to the PRC market

During the Track Record Period, the Group had achieved rapid growth through introduction of advanced foreign technologies to improve the performance of its products as well as continuous modification of its existing products to cater to the changing market needs. The Directors believe that such achievements were attributable to the Group's strong research and development team, comprising qualified professionals with years of specialised gas equipment industry experience. The Group's research and development team now consists of over 120 professionals.

As the PRC market has different characteristics from overseas, the Group's research and development team is responsible for the further development and enhancement of its imported technology in order to cater to the needs of the PRC market. For example, certain of the Group's products are tailor-designed to operate in low temperature environment in order to meet customers' special requirements in the PRC.

The Directors believe that the Group's research and development capability coupled with the Group's knowledge of the PRC market provides the Group with a competitive advantage over overseas competitors as it allows the Group to respond to the changing needs of the PRC gas equipment market promptly.

Comprehensive sales network and effective marketing strategies

The Group based its sales and marketing strategies on the concept of "Customers Come First". The Group has established a sales team of over 100 members and sale offices in 10 cities in the PRC, namely Shanghai, Bengbu, Guangzhou, ChongQing, Langfang, Xi'an, Zibo, Shenyang, Wuhan and Urumqi, in order to cover customers based in those cities and in the nearby regions. The Group's sales team provides technical support, product orientation and on-site order services to the Group's customers and assists them in the installation, operation and maintenance of the Group's products.

The Directors believe that an established sales and service network provides a competitive edge to the Group over its competitors, many of which are based overseas and thus slower in responding to the specific needs of the PRC customers.

Highly experienced management team

The Group's management team comprises experienced senior engineers and personnel with management, financial and legal skills. The team members are experienced in developing, manufacturing and selling specialised gas equipments and have the experience in the provision of integrated business solutions in the gas energy industry.

While the management team of the Group as a whole plays a significant role in the development of the Group's business, certain members of the team play key roles in the future success of the Company: Mr. Wang, the co-founder, chairman and one of the executive Directors of the Company, has over 18 years of experience in the investment in, and management of, the gas business in the PRC. The strategic leadership from Mr. Wang will be crucial to the Group's success due to his significant experience and knowledge in the natural gas industry in the PRC. Mr. Cai Hongqiu, the chief executive officer and an executive Director, has years of experience in managing industrial enterprises in the PRC. Mr. Cai, who holds a degree in Law and a master's degree in Science is fully responsible for the overall operations of the Group.

Strong shareholder's background

The Group strives to become a competitive and technologically advanced specialised gas equipment manufacturer and provider of integrated business solutions in the gas energy industry. Mr. Wang, a controlling shareholder of the Group and the co-founder, has substantial experience in the natural gas industry in the PRC. Apart from his interests in the Group, Mr. Wang also controls (i) Xinao Gas, one of the leading operators in gas transportation and distribution in the PRC and a company listed on the Main Board, with principal business of investing, operating and managing gas pipeline infrastructure and the sale and distribution of piped gas in the PRC; and (ii) XGCL Group, a private conglomerate engaged in various business activities including energy chemical and bio-chemical industry in the PRC (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). Mr. Wang, the chairman of XGCL and Xinao Gas, is the vice-chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce and a member of the Tenth National Committee of the Chinese People's Political Consultative Conference.

AWARDS AND HONOURS

As at the Latest Practicable Date, some of the major awards and honours received by the Group are set out as follows:

Date of grant	Awards and honours
March 2005	Chinese Customers Quality and Service Satisfaction Entity
September 2004	Famous Brand Award of Anhui province, the PRC
February 2004	The screw compressor was awarded the Science and Technology First Class Award of Bengbu City, Hebei Province, the PRC
December 2003	Excellent Technological Private Enterprise of Anhui Province, the PRC
August 2003	The screw compressor was awarded the 2003 New Product Award of Anhui Province, the PRC
July 2003	Top 100 Private Enterprises in 2002 of Anhui Province, the PRC

FINANCIAL INVESTOR

Pursuant to the Convertible Bond Subscription Agreement, EIGL issued to Investec, an Independent Third Party, a convertible redeemable bond in the principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000). The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan and the Share Option Scheme and the Over-allotment Option); and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8 a.m. on the Listing Date.

Upon the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of such agreement or otherwise, Investec will be allotted and issued such number of Shares which are expected to represent 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised) in accordance with the Convertible Bond Subscription Agreement. Based on the number of Shares which are expected to be in issue on the Listing Date, Investec is expected to be allotted and issued 51,840,000 Shares. The Redeemable Convertible Bonds will bear interest at a rate of 2.5% per annum, payable quarterly. The conversion price will be approximately HK$0.75 per Share, and representing approximately 33.0% discount to the lowest range of the Placing Price of HK$1.12 per Share and approximately 55.4% discount to the highest range of the Placing Price of HK$1.68 per Share. Such conversion price represents a price earning ratio of approximately 5.4 times of the unaudited pro forma fully diluted forecast earnings per Share of approximately HK$0.14. The Shares to be held by Investec will be subject to a moratorium period of six months from the Listing Date. The Directors consider that this conversion price is arrived at based on arm’s length negotiations after taking into consideration the reasons stated below and that Investec will be subject to a moratorium period.

Investec, an Independent Third Party, is a wholly owned subsidiary of Investec PLC. Investec PLC is an international investment and private banking group, the shares of which are listed on the London Stock Exchange. Investec Group provides corporate and investment banking, private banking, securities trading, asset management, property trading and management and trade finance services. In addition, Investec Group also engages in direct investment business. The net assets of Investec PLC were £980.45 million (equivalent to approximately HK$13.53 billion) as at 31 March 2005. Investec PLC recorded a net profit of £100.52 million (equivalent to approximately HK$1,387.2 million) for the year ended 31 March 2005. The market capitalisation of Investec PLC was approximately £1,591.19 million (equivalent to approximately HK$21.95 billion) as at 27 September 2005.

The Directors consider that the investment by Investec will enhance the Shareholders' base and promote corporate governance. In addition, following the Conversion, the Company's financial position, in particular its liquidity and gearing, will be further improved.

OVERALL BUSINESS OBJECTIVES AND STRATEGIES

The Group's overall business objectives and strategies are as follows:

Enhancing productivity through expanding and upgrading the Group's production and related facilities

In order to maintain the competitiveness of its products, the Group aims to enhance production efficiency and further improve the quality of its key products and components. The Group also aims to expand its production capacity for its core products such as the seamless pressure cylinder storage and transportation equipment series, the cryogenic liquid storage and transportation series and products relating to the Group's integrated business solutions.

In order to achieve the above objectives, the Group will upgrade its existing production and related facilities. The Group will carry out the following:

- construction of additional factories, warehouse and storage facilities to improve its manufacturing and logistics capabilities;
- investment in new facilities including production lines and processing systems;
- rationalisation of production facilities and techniques;
- purchase of more advanced and efficient equipment and facilities for production and enhancement of its quality control capability; and
- co-operation with international enterprises.

Strengthening research and development capability to further develop key product series and technologies

The Group plans to expand into the international market through introducing its seamless pressure cylinders of various specifications. One of the main areas of development is in relation to the application of the CNG transportation vehicles. Another area of development is to upgrade the technical standard of the temperature control system for the cryogenic liquid storage and transportation series. In addition, the Group plans to further develop the technical standard of gas refueling station system and natural gas transportation system. The 25MPa natural gas daughter refueling station and daughter refueling station transportation equipment will become one of the Group's main areas of development.

In relation to the development of compressors in its natural gas compressor series, the Group plans to focus on the development of natural gas compressors and general-purpose heavy duty compressors with higher performance standards. Natural gas compressors are specifically designed for use with natural gas. They are technologically more sophisticated, more complex to manufacture and thus, more competitive in the market. Heavy duty compressors are designed for use with other gases. They have higher discharge capacity and compression ratio than natural gas compressors. The Group believes that since most of its compressors are developed in accordance with the requirements of its customers, this effectively promotes the Group's further development and expansion of its products such as compressors used at gas mother refueling stations, gas standard refueling stations and gas daughter refueling stations.

In connection with the above, the Group plans to adopt the following strategies:

- adopt advanced technology and management systems for its manufacturing processes. In this connection, the Group plans to invest in relevant hardware and related facilities to raise the standard for product design and manufacturing techniques;

- expand the variety, improve the design and the technical standard of the Group's products;

- upgrade the technologies used in hydraulic gas refueling station and to broaden its usage and adaptability;

- develop high pressure valves and cryogenic valves to increase the standard of domestically produced accessories so as to lower cost; and

- develop natural gas compressors with large discharge capacity and higher compression rate.

Expanding sales and marketing network and efforts

The Group plans to expand its sales and marketing network and market coverage by increasing the number of sale offices in other provinces, selling its products through dealers, and providing more efficient customer services. The Group will also strengthen the promotion of its brand name through channels such as professional media advertisement, professional conferences and internet so as to increase the recognition and popularity of its brand name. Apart from the continuous expansion in the PRC market, the Group will establish its overseas sales network and gradually explore the international market. In addition, the Group will strengthen technological and economic co-operation with foreign companies and/or organisations. The Group's sales and marketing strategies are as follows:

- promoting the Group's website and expanding its functions as an e-commerce platform;

- selecting well-known magazines in the PRC gas industry to enhance the Group's profile and promote its products and services; and

- setting up overseas sales offices to move into international market gradually.

Upgrading business qualifications to reinforce leading position

The Group has obtained necessary qualifications in the PRC for the design and manufacture of certain of its products. The Group has also obtained the certificate of registration for manufacturing of seamless pressure cylinder issued by the Ministry of Commerce, Industry and Energy of Korea in August 2004. The Group has then commenced exporting its specialised gas equipment to Korea since October 2004. In January 2005, the Group has also obtained the manufacturing licence for pressure vessels issued by ASME.

The Group has plans to continue to upgrade the level of its qualifications in future and is in the process of applying for relevant certificates from DOT and the European Union CE certification so as to establish a foundation for its expansion into the international market, including the European countries and the United States.

Strategic business collaborations and acquisitions to accelerate growth

The Directors consider that strategic business collaborations and acquisitions will help strengthen and accelerate the future growth of the Group. In line with the development of its product lines, the Group intends to look for opportunities to enter into strategic partnerships and collaborations through joint ventures or mergers and acquisitions with other manufacturers in the gas equipment industry. In particular, the Group is interested in collaborations with manufacturers of high pressure transportation equipment, cryogenic gas equipment and specialised compressor. The Directors believe that this strategy will further enhance the competitiveness of the Group's existing products and will help expand the Group's productivity and product scale and sales network, which in turn enlarge its market share and fuel continuous growth. The Group will seek to finance the required funding by its own generated resources and banking facilities. As at the Latest Practicable Date, there was no specific target or detailed plan for strategic business collaborations and acquisitions.

TRADING RECORD

The following table summarises the Group's combined income statements for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 30 June 2005 respectively. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	Year ended 31 December		Six months ended	
			30 June	30 June
	2003	2004	2004	2005
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Turnover	68,943,423	252,375,698	82,878,653	209,724,253
Cost of sales	(40,771,008)	(177,790,799)	(56,169,505)	(143,756,435)
	28,172,415	74,584,899	26,709,148	65,967,818
Other revenue	5,846,076	5,109,203	2,635,564	575,290
Selling expenses	(7,633,349)	(12,803,532)	(5,118,139)	(8,966,704)
Administrative expenses	(11,636,603)	(23,110,803)	(8,708,109)	(19,834,140)
Other net income/ (expenses)	302,158	2,681,210	(93,427)	3,440
Profit from operations	15,050,697	46,460,977	15,425,037	37,745,704
Finance costs	(4,443,570)	(6,082,089)	(2,780,807)	(4,048,792)
Profit from ordinary activities before taxation	10,607,127	40,378,888	12,644,230	33,696,912
Taxation	–	(1,814,458)	(141,072)	(1,375,662)
Profit from ordinary activities after taxation	10,607,127	38,564,430	12,503,158	32,321,250
Attributable to:				
Equity holders of the Company	10,607,127	36,191,118	10,313,389	32,321,250
Minority interests	–	2,373,312	2,189,769	–
Profit from ordinary activities after taxation	10,607,127	38,564,430	12,503,158	32,321,250
Basic earnings per Share(1)	0.04	0.14	0.04	0.12

Note:

(1) The calculation of basic earnings per Share is based on the Group's profit attributable to equity holders of the Company for each of the years ended 31 December 2003 and 2004 and each of the six months ended 30 June 2004 and 2005 and the 260,160,000 Shares in issue and issuable, comprising 880 Shares in issue as at the date of the Prospectus and 260,159,120 Shares to be issued pursuant to the Capitalisation Issue as if these Shares were outstanding throughout the Track Record Period.

REASONS FOR THE PLACING AND THE USE OF PROCEEDS

The Directors consider that the net proceeds from the Placing are necessary for the financing of the Group's business strategies and help the Group consolidate its position as an active player in the gas energy industry in the PRC. Based on the indicative Placing Price of HK$1.40 per Placing Share (being the mid-point of the stated range of the Placing Price between HK$1.12 and HK$1.68 per Placing Share), the Company intends to raise approximately HK$168.0 million. The net proceeds from the Placing, after deducting related listing expenses and without taking into account any proceeds from the exercise of the Over-allotment Option, are estimated to amount to approximately HK$144.2 million which are intended to be applied as follows:

- as to approximately HK$80.0 million for enhancing the productivity of the Group through expanding and upgrading the Group's production and related facilities, breakdown of which includes: (i) as to approximately HK$21.3 million for improving product quality and production capacity of Enric Compressor; (ii) as to approximately HK$23.0 million for upgrading the production facilities to further improve the production capacity of Enric Gas Equipment; and (iii) as to approximately HK$35.7 million for constructing production facility and new product assembly line of Enric Integration;

- as to approximately HK$29.8 million for strengthening research and development capability of the Group to further develop key products and technologies, breakdown of which includes: (i) as to approximately HK$4.8 million for Enric Compressor to further develop the natural gas compressor product; (ii) as to approximately HK$8.3 million for Enric Gas Equipment to conduct research for the optimisations of the design of high pressure valves and cryogenic valves to raise performing efficiency, and to invest in the localisation of the raw materials of seamless pressure cylinders; and (iii) as to approximately HK$16.7 million for Enric Integration to further research and develop the system design of LNG and CNG refueling station and to enhance the quality and efficiency of services provided to customers;

- as to approximately HK$16.1 million for expanding the Group's sales and marketing efforts by increasing sales offices and promotion;

- as to approximately HK$3.9 million for upgrading the Group's business qualifications, in particular, the application for relevant certificates from DOT and the European Union CE Certification, so as to establish a foundation for its expansion into these markets with an aim to further consolidate its position; and

- as to approximately HK$14.4 million for general working capital of the Group.

To the extent that the net proceeds from the Placing are not immediately applied for in accordance with the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with banks or financial institutions in Hong Kong and/or the PRC.

In the event that the Placing Price is fixed at HK$1.68 per Share, being the highest point of the indicative range of the Placing Price, the net proceeds will be approximately HK$176.5 million, representing an increase of approximately HK$32.3 million. The Directors intend to apply approximately HK$29.1 million for implementation of business plan during the last period of the Forward Looking Period. Such amount will be applied to (i) approximately HK$18.0 million for enhancing the productivity of the Group; (ii) approximately HK$7.0 million for strengthening research and development capability of the Group; (iii) approximately HK$4.0 million for expanding the Group's sales and marketing efforts; and (iv) approximately HK$0.1 million for upgrading the Group's business qualification. The remaining HK$3.2 million of the net proceeds will be used as additional general working capital of the Group. In the event that the Over-allotment Option is exercised, the Directors expect to earmark the additional proceeds of approximately HK$19.0 million for its expanding and upgrading the Group's production and related facilities and research and development of new products, with the remainder of approximately HK$2.0 million as general working capital.

In the event that the Placing Price is fixed at HK$1.12 per Share, being the lowest point of the indicative range of the Placing Price, the net proceeds will be approximately HK$111.9 million, representing a reduction of approximately HK$32.3 million. In such circumstances, the Directors intend to apply the net proceeds of approximately HK$111.9 million from the Placing for the implementation of business plan up to 30 June 2007, amounting to HK$111.5 million. The Directors believe that the further funding requirement of approximately HK$18.3 million for the implementation of business plan during the six months ending 31 December 2007, being the last period of the Forward Looking Period, will be satisfied by the remaining net proceeds of HK$0.4 million and the Group's internal resources and the proceeds from the Redeemable Convertible Bonds issued to Investec and/or banking facilities then available. In the event that the Over-allotment Option is exercised, the Directors expect to apply such net proceeds of approximately HK$14.0 million to finance the above funding requirements pursuant to the six months ending 31 December 2007, and the remaining funding requirements pursuant to the six months ending 31 December 2007 will be financed by internal resources or banking facilities available. No proceeds will be used as general working capital.

The Directors believe that the net proceeds from the Placing together with the Group's internally generated cash flow will be sufficient to finance all planned and/or intended projects of the Group throughout the Forward Looking Period as described in the section headed "Statement of business objectives and strategies" in this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2005

Unaudited forecast combined profit after taxation attributable to equity holders of the Company *(Note 1)* .... Not less than RMB65,000,000 (approximately HK$62,500,000) *(Note 5)*

Unaudited pro forma forecast earnings per Share
– weighted average *(Note 2)* .... Not less than RMB0.22 (approximately HK$0.21) *(Note 5)*

– fully diluted (without the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 3)* .... Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*

– fully diluted (with the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 4)* .... Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*

Notes:

1. The unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 is based on the audited combined results for the six months ended 30 June 2005, the unaudited combined results of the Group for the two months ended 31 August 2005 and a forecast of the combined results of the Group for the four months ending 31 December 2005. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix IV to this prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and a weighted average number of 298,765,151 Shares in issue for the year ending 31 December 2005 after the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

3. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis (without the exercise of the options granted under the Pre-IPO Share Option Plan) is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and as if the Capitalisation Issue, the Conversion and the Placing had been completed on 1 January 2005 and a total of 432,000,000 Shares were in issue throughout the year, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

4. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis (with the exercise of the options granted under the Pre-IPO Share Option Plan) is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and as if the Capitalisation Issue, the Conversion and the Placing had been completed on 1 January 2005 and a total of 432,000,000 Shares were in issue throughout the year, as well as on the basis that the options granted under the Pre-IPO Share Option Plan were exercised in full on 1 January 2005, resulting in the issuance of 13,800,000 additional Shares, but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option.

5. The RMB figures are translated at an exchange rate of RMB1.04 to HK$1.00.

PLACING STATISTICS

	Based on the Placing Price of HK$1.12 per Placing Share	Based on the Placing Price of HK$1.68 per Placing Share
Market capitalisation *(Note 1)*	HK$483.8 million	HK$725.8 million
Prospective pro forma price/earnings multiple		
(a) weighted average *(Note 2)*	5.3 times	8 times
(b) fully-diluted *(Note 3)*	8 times	12 times
Unaudited pro forma adjusted net tangible asset value per Share *(Note 4)*	HK$0.47	HK$0.62

Notes:

1. The market capitalisation of the Shares is calculated on the basis of 432,000,000 Shares in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme.

2. The calculation of prospective pro forma price/earnings multiple on a weighted average basis is based on the unaudited pro forma forecast earnings per Share on a weighted average basis of approximately RMB0.22 (approximately HK$0.21) for the year ending 31 December 2005, and on the respective Placing Price of HK$1.12 and HK$1.68 per Placing Share. The RMB figures are translated at an exchange rate of RMB1.04 to HK$1.00.

3. The calculation of prospective pro forma price/earnings multiple on a fully diluted basis is based on the unaudited pro forma forecast earnings per Share of RMB0.15 (approximately HK$0.14) for the year ending 31 December 2005 and on the respective Placing Price of HK$1.12 and HK$1.68 per Placing Share. The RMB figures are translated at an exchange rate of RMB1.04 to HK$1.00.

4. The unaudited pro forma adjusted net tangible assets value per Share is calculated on the basis of 432,000,000 Shares in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing as if the Shares have been in issue for the whole year. The adjusted net tangible asset value per Share is based on an exchange rate of RMB1.04 to HK$1.00.

If the Over-allotment Option is exercised in full, the adjusted net tangible assets value per Share will be increased, while earnings per Share will be diluted correspondingly. The Directors believe that such increase and dilution will not be material.

SUMMARY OF RISK FACTORS

Risk factors relating to the Group

- Substainability of growth in turnover and profit
- Reliance on suppliers
- Reliance on key management
- Reliance on skilled employees
- Business licences, certificates and permits
- Bank loan guarantees provided by XGCL
- High gearing ratio
- Relatively long inventory turnover period
- Concentration of ownership
- Relationship with the controlling Shareholders
- Reliance on ultimate controlling Shareholder
- Production facilities held on lease term
- Legal risks on loan receivable of the Group
- Net current liabilities
- Product liability
- Environmental protection

Risk factors relating to the industry

- Changes in the gas equipment industry in the PRC
- Reliance on other related industries

Risk factors relating to the PRC

- Economic development of China and government policies
- Changes in laws, regulations and policies
- Foreign exchange and currency conversion
- Fluctuations in interest rates
- China's accession to the WTO
- Tax exemption and reduction

Risk factors relating to the Placing

- Proceeds obtained in the Placing may not be sufficient to finance the entire business plan
- Potential dilutive effect of the Pre-IPO Share Option Plan

Risk factors relating to the Shares

- Risks relating to Share price fluctuations after the Listing

STRUCTURE AND CONDITION OF THE PLACING

Under the Placing, the Company is initially offering 120,000,000 new Shares for subscription by way of placing. The Placing Shares will represent 27.78% of the Company's enlarged issued share capital immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme. The Placing is fully underwritten by the Underwriters, subject to the terms and conditions of the Underwriting Agreement. Further details are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

SHARE OPTION SCHEMES

The Company has adopted the Pre-IPO Share Option Plan and the Share Option Scheme. The principal terms of the Pre-IPO Share Option Plan and the Share Option Scheme are summarised in the sections headed "Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Plan" and "Share Option Schemes – Summary of the terms of the Share Option Scheme" respectively in Appendix VII to this prospectus.

The Company has granted options to five executive Directors, five members of the senior management and two employees of the Group under the Pre-IPO Share Option Plan to subscribe for an aggregate of 13,800,000 Shares, representing approximately 3.19% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme. The exercise price of these options is the Placing Price.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing is summarised below:

Shareholder	Date of first investment in the Group	Date of becoming Shareholder	Number of Shares held immediately upon the Listing (if Over-allotment Option is not exercised)	Approximate percentage of shareholding immediately upon the Listing (if Over-allotment Option is not exercised)	Approximate percentage of shareholding immediately upon the Listing (if Over-allotment Option exercised in full)	Lock-up period	Cost of investment	Cost of investment per Share
				% *(Note 4)*	% *(Note 4)*		*HK$*	*HK$*
INITIAL MANAGEMENT SHAREHOLDER								
XGII *(Note 1)*	14 March 2002 *(Note 12)*	12 October 2004 *(Note 12)*	234,144,000	54.20	52.59	12 months *(Note 5)*	106,707,000 *(Note 7)*	0.46
Mr. Wang *(Note 1)*	14 March 2002 *(Note 12)*	12 October 2004 *(Note 12)*	234,144,000	54.20	52.59	12 months *(Note 5)*	106,707,000	0.46
Ms. Zhao *(Note 1)*	14 March 2002 *(Note 12)*	12 October 2004 *(Note 12)*	234,144,000	54.20	52.59	12 months *(Note 5)*	106,707,000	0.46
SIGNIFICANT SHAREHOLDER								
Symbiospartners *(Note 2)*	31 January 2005	26 September 2005 *(Note 11)*	26,016,000	6.02	5.84	6 months *(Note 6)*	14,820,000 *(Note 8)*	0.57
Investec *(Note 3)*	6 September 2005 *(Note 9)*	18 October 2005 *(Note 9)*	51,840,000	12.00	11.64	6 months *(Note 6)*	39,000,000 *(Note 9)*	0.75
PUBLIC SHAREHOLDERS			120,000,000	27.78	29.93			
Total			432,000,000	100.00	100.00			

Notes:

1. The three references to 234,144,000 Shares relate to the same block of Shares. Such Shares are held by XGII which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. Ms. Zhao is the spouse of Mr. Wang and therefore both Mr. Wang and Ms. Zhao are deemed to be interested in such 234,144,000 Shares under the SFO.

2. Symbiospartners is an investment company incorporated in BVI on 2 January 2004 and is owned as to 50% by Symbiospartners Investment Limited, 35% by SinoBanker Group and 15% by Mr. Liang Zhengzhong ("Mr. Liang") respectively. Symbiospartners Investment Limited is a company

incorporated in BVI on 3 January 2003 and is indirectly owned as to approximately 81%, 14% and 5% by Mr. Hui Ching Lau ("Mr. Hui"), Mr. Liang and other independent securities and investment fund companies respectively. SinoBanker Group is a company incorporated in the Cayman Islands on 23 February 2000 and is owned as to approximately 56% and 44% by Mr. Liang and other independent securities and investment fund companies respectively. Accordingly, each of Mr. Liang and Mr. Hui holds approximately 41% interest in the issued share capital of Symbiospartners. Mr. Liang is also the founder, president and chief executive officer of SinoBanker Group. The principle business of each of Symbiospartners, Symbiospartners Investment Limited and SinoBanker Group is the investment in equities of listed and unlisted companies. Each of these companies do not have any interests in any company which competes or is likely to compete with the business of the Group. Each of Mr. Liang and Mr. Hui is an Independent Third Party. Symbiospartners will have no representation on the Board nor will it have any management functions in the Group.

3. Investec, an Independent Third Party, is a wholly owned subsidiary of Investec PLC. Investec PLC is an international investment and private banking group and the shares of which are listed on the London Stock Exchange. Investec Group provides corporate and investment banking, private banking, securities trading, asset management, property trading and management and trade finance services and direct investment business. Investec will have no representation on the Board nor will it have any management functions in the Group.

4. The shareholding percentages referred to in the above do not take into account any Shares which may be issued pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Plan and which may be granted under the Share Option Scheme. Please refer to the section headed "Outstanding options granted under the Pre-IPO Share Option Plan" in Appendix VII to this prospectus for details.

5. Each of XGII, Mr. Wang and Ms. Zhao is an Initial Management Shareholder and has entered into an undertaking with the Company and the Stock Exchange as described in the section headed "Substantial, Initial Management and Significant Shareholders – Restrictions on disposal of Shares by Initial Management and Significant Shareholders" in this prospectus not to dispose of the Shares during the Lock-up Period.

6. Each of Symbiospartners and Investec is a Significant Shareholder and has entered into an undertaking with the Company and the Stock Exchange as described in the section headed "Substantial, Initial Management and Significant Shareholders – Restrictions on disposal of Shares by Initial Management Shareholders and Significant Shareholders" in this prospectus not to dispose of the Shares for a period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date. In addition, Symbiospartners has voluntarily undertaken with EIGL not to dispose of its shares in EIGL or the company for 12 months after the Listing Date.

7. The total cost of investment by XGII in the Company mainly comprises of (i) the sale of 90% of the issued shares in EIGL to the Company in consideration of the issue of 791 Shares by the Company to XGII pursuant to a deed of sale and purchase dated 26 September 2005 (valued for this purpose at HK$58,647,057, representing 90% of the approximate net asset value of EIGL of HK$50,343,000 as at 31 December 2004 as adjusted by adding the capital contribution of US$1,900,000 by Symbiospartners pursuant to the subscription agreement dated 21 January 2005 between Symbiospartners, EIGL and XGII); and (ii) HK$40,500,000, being 90% of the cash advances due and owing by the Company to XGII in the sum of RMB45,000,000. Pursuant to the capitalisation agreement dated 26 September 2005 entered into between the Company and XGII, conditional upon the Listing, the Company will allot and issue a total of 260,159,120 Shares on capitalisation of the said advances from the shareholder, with 90% of such Shares being allotted and issued to XGII and 10% of such Shares being allotted and issued to Symbiospartners as nominated by XGII. Accordingly, only 90% of the said advances from the shareholder is taken into account in arriving at the total cost of investment by XGII.

8. The cost of investment by Symbiospartners in the Group consists of the sum of US$1,900,000 paid for the subscription of 88 shares in EIGL pursuant to the subscription agreement dated 21 January 2005 between Symbiospartners, EIGL and XGII, which shares were subsequently sold to the Company under a deed of sale and purchase dated 26 September 2005 in consideration of the issue of 88 Shares by the Company to Symbiospartners. As Symbiospartners was nominated by XGII to take up 26,015,912 Shares to be issued by the Company upon capitalisation of advances from the Shareholder due and owing by the Company to XGII pursuant to the capitalisation agreement dated 26 September 2005 entered into between the Company and XGII, there is no cost of investment by Symbiospartners in relation to the said 26,015,912 Shares.

9. The Company entered into the Convertible Bond Subscription Agreement with Investec, pursuant to which Investec subscribed redeemable convertible bonds in the aggregate principal amount of US$5,000,000 issued by EIGL, and conditional upon (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8 a.m. on the Listing date, the Redeemable Convertible Bonds will be mandatorily converted in Shares in full. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised). The Redeemable Convertible Bonds will bear interest at a rate 2.5% per annum, payable quarterly. Based on the aggregate subscription amount of US$5,000,000 and 51,840,000 Shares which are expected to be issued, the conversion price is approximately HK$0.75 per Share.

10. XGII, which is owned by Mr. Wang and Ms. Zhao as to 50% each, acquired one Share from the initial subscriber on 12 October 2004. On 26 September 2005, the Company allotted and issued 791 Shares to XGII pursuant to the deed for sale and purchase of the entire share capital of EIGL referred to in the section headed “Summary of material contracts” in Appendix VII to this prospectus. Conditional upon the Listing, the Company will allot and issue 234,143,208 Shares to XGII pursuant to the capitalisation agreement referred to in the section headed “Summary of material contracts” in Appendix VII to this prospectus.

11. On 26 September 2005, the Company allotted and issued 88 Shares to Symbiospartners pursuant to the deed for sale and purchase of the entire share capital of EIGL referred to in the section headed “Summary of material contracts” in Appendix VII to this prospectus. Conditional upon the Listing, the Company will allot and issue 26,015,912 Shares to Symbiospartners (at the direction of XGII) pursuant to the capitalisation agreement referred to in the section headed “Summary of material contracts” in Appendix VII to this prospectus.

12. XGII made its first investment in the Group by acquiring Bengbu Compressor’s main operating assets in March 2002 whereby Enric Compressor was set up as a wholly foreign owned enterprise of XGII in the PRC on 14 March 2002.

DIVIDEND POLICY

No dividend has been paid or declared by the Company since its incorporation.

Annual dividends, if any, will be declared by and subject to the discretion of the Board and must be approved at a general meeting of shareholders. In addition, the Board may from time to time pay to the shareholders such interim dividends as appear to the Board to be justified by the Group’s profits. The Company may pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including the Group’s results of operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors considered relevant by the Board. The Board currently intends to retain all of the Group’s earnings to finance the development and expansion of the business and therefore do not intend to declare or pay cash dividends.

In this prospectus, unless the context otherwise requires, the following expressions have the meanings set out below. Certain other terms are explained in the section headed "Glossary" in this prospectus.

"Anhui BVI"	Enric Anhui Investment Limited, an investment holding company incorporated in BVI with limited liability on 29 April 2002 and is wholly owned by EIGL
"Articles"	the articles of association of the Company
"ASME"	the American Society of Mechanical Engineers
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Bengbu Acquisition Agreement"	the acquisition agreement entered into between, among others, XGII and the People's Government of Bengbu, Anhui province regarding the acquisition of certain assets of Bengbu Compressor in March 2002
"Bengbu Compressor"	Bengbu Compressor General Factory in China* (蚌埠壓縮機總廠), the predecessor company to the business of Enric Compressor and a state-owned enterprise which was established in the PRC in 1950
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday) on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the conditional issue of Shares to be made to XGII and Symbiospartners upon the capitalisation of cash advances due by the Company to XGII as referred to in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCIEA"	China Chemical Industrial Equipment Association (中國化工裝備協會)
"CCS"	China Classification Society (中國船級社)

"China" or "PRC"	the People's Republic of China which, for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"China Everbright"	China Everbright Capital or China Everbright Securities as the context so requires
"China Everbright Capital"	China Everbright Capital Limited, a licenced corporation under the SFO for Type 1 regulated activity (dealings in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (corporate finance)
"China Everbright Securities"	China Everbright Securities (HK) Limited, a licenced corporation under the SFO for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management)
"CMIF"	China Machinery Industry Federation (中國機械工業聯合會)
"Company"	Enric Energy Equipment Holdings Limited (安瑞科能源裝備控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 September 2004 under the Companies Law
"Companies Law"	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"controlling Shareholder(s)"	XGII, Mr. Wang and Ms. Zhao
"Conversion"	the conversion of the Redeemable Convertible Bonds into Shares in full by Investec pursuant to the Convertible Bond Subscription Agreement
"Convertible Bond Subscription Agreement"	the agreement entered into between EIGL, Investec, the Company, XGII and Symbiospartners on 29 August 2005, pursuant to which Investec was issued the Redeemable Convertible Bonds by EIGL

"Director(s)"	the director(s) of the Company
"DOT"	Department of Transportation of U.S.
"EIA"	Energy Information Administration, a statistical agency of the U.S. Department of Energy. EIA provides energy data, forecast analysis and information on the main energy products, including petroleum, electricity and natural gas etc. Its major periodic releases of integrated information include the Monthly Energy Review, the Annual Energy Review, the Short-Term Energy Outlook, and the Annual Energy Outlook
"EIGL"	Enric Investment Group Limited, an investment holding company incorporated in BVI with limited liability on 1 May 2002 and is wholly owned by the Company
"Enric Compressor"	Enric (Bengbu) Compressor Company Limited* (安瑞科（蚌埠）壓縮機有限公司), which was incorporated with limited liability in the PRC on 14 March 2002, and was converted into a wholly foreign owned enterprise pursuant to the Reorganisation and was wholly owned by Anhui BVI on 8 July 2004 thereafter
"Enric Gas Equipment"	Shijiazhuang Enric Gas Equipment Company Limited* (石家莊安瑞科氣體機械有限公司), a Sino-foreign equity joint venture enterprise with limited liability incorporated in the PRC on 30 September 2003 which was owned as to 70% by Xinao Shijiazhuang and 30% by Shijiazhuang BVI, and was subsequently converted into a wholly foreign owned enterprise pursuant to the Reorganisation and was wholly owned by Shijiazhuang BVI on 16 July 2004 thereafter
"Enric Integration"	Enric (Langfang) Energy Equipment Integration Company Limited* (安瑞科（廊坊）能源裝備集成有限公司), a wholly foreign owned enterprise with limited liability incorporated in the PRC on 28 December 2004, which is wholly owned by Langfang BVI
"Forward Looking Period"	the period from the Latest Practicable Date to 31 December 2007
"GAQSIQ"	the General Administration Bureau of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)

"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GEM website"	the website of GEM with the domain name of *www.hkgem.com*
"Group"	the Company and its subsidiaries or where the context otherwise requires, any of the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party" or "Independent Third Parties"	person(s) or company(ies) which is/are independent of any members of the Group, the directors, the chief executives, the Initial Management Shareholders and the substantial shareholders of the Company, its subsidiaries and any of their respective associates
"Initial Management Shareholder(s)"	the initial management shareholder(s) (as defined in the GEM Listing Rules) of the Company, being XGII, Mr. Wang and Ms. Zhao as described in the section headed "Substantial, Initial Management and Significant Shareholders" in this prospectus
"Institutional Investor(s)"	Symbiospartners and Investec, each of them is a Significant Shareholder
"Investec" or "Financial Investor"	Investec Bank (UK) Limited, a company incorporated in the United Kingdom and a wholly owned subsidiary of Investec PLC, is an international investment and private banking group and the shares of which are listed on the London Stock Exchange
"Investec Group"	Investec PLC and its subsidiaries
"Korea"	Republic of Korea
"Langfang BVI"	Enric Langfang Investment Limited, an investment holding company incorporated in BVI with limited liability on 14 September 2004 and is wholly owned by EIGL

"Langfang Guofu"	Langfang Guofu Investment Company Limited* (廊坊國富投資有限公司), a company incorporated in the PRC with limited liability on 13 January 2000 and is owned as to 90% by Mr. Wang and 10% by Mr. Wang Baozhong, Mr. Wang's father, as the nominee for the benefit of Mr. Wang
"Latest Practicable Date"	6 October 2005, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
"Lead Manager"	China Everbright Securities
"Listing"	the listing of the Shares on GEM
"Listing Committee"	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
"Listing Date"	the date on which the tradings of the Shares commence on GEM, which is expected to be on or about 18 October 2005
"Lock-up Period"	commencing on the date of this prospectus and ending on the last day of the twelfth-month after the Listing Date (both dates inclusive)
"Main Board"	the securities market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Memorandum"	the memorandum of association of the Company
"MCON"	Ministry of Construction of the PRC (中華人民共和國建設部)
"MOC"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOFTEC"	Ministry of Foreign Trade and Economic Corporation of the PRC (中華人民共和國對外貿易經濟合作部), the predecessor of MOC
"Mr. Wang"	Mr. Wang Yusuo (王玉鎖先生), the chairman and an executive Director of the Company, and the spouse of Ms. Zhao
"Ms. Zhao"	Ms. Zhao Baoju (趙寶菊女士), a non-executive Director of the Company, and the spouse of Mr. Wang

"MT II"	Certificate of flaw detection by magnetic powder (II) issued in accordance with the Rules for Appraisement, Supervision over and Administration on the Personnel in Flaw Detection for Special Equipment (《特種設備無損檢測人員考核與監督管理規則》)
"MT III"	Certificate of flaw detection by magnetic powder (III) issued in accordance with the Rules for Appraisement, Supervision over and Administration on the Personnel in Flaw Detection for Special Equipment (《特種設備無損檢測人員考核與監督管理規則》)
"NDRC"	National Development and Reform Commission (國家發展與改革委員會)
"Neogas"	Neogas Inc., a U.S. company which develops and markets technologies to transport and deliver compressed natural gas, and an Independent Third Party
"Over-allotment Option"	the option granted by the Company to the Underwriters pursuant to the Underwriting Agreement, exercisable by China Everbright Securities (for itself and on behalf of the Underwriters) pursuant to which the Company may be required to allot and issue up to an aggregate of 13,200,000 additional new Shares, representing 11% of the Placing Shares, at the Placing Price to cover over-allocations in the Placing
"PBOC"	The People's Bank of China, the central bank of the PRC
"Placing"	the conditional placing of the Placing Shares at the Placing Price, subject to the Over-allotment Option, as described in the section headed "Structure and conditions of the Placing" in this prospectus
"Placing Price"	the final price per Placing Share (exclusive of brokerage fees, Stock Exchange trading fee, investor compensation levy and SFC transaction levy), being the price at which the Placing Shares are to be subscribed for and issued pursuant to the Placing, to be determined as described under the section headed "Structure and conditions of the Placing – The Placing Price" in this prospectus
"Placing Share(s)"	120,000,000 new Shares initially being offered by the Company for subscription under the Placing, together with, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option

"PRC Government" or "State"	the government of the PRC
"Pre-IPO Share Option Plan"	the share option plan adopted by the Company on 26 September 2005, a summary of the principal terms of which is set out in the section headed "Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Plan" in Appendix VII to this prospectus
"Price Determination Date"	on or around 12 October 2005 (or such other date as agreed by the Company and China Everbright Securities (for itself and on behalf of the Underwriters)), being the date on which the Placing Price is fixed for the purpose of the Placing
"Redeemable Convertible Bonds"	the redeemable convertible bonds issued by EIGL to Investec in the aggregate principal amount of US$5,000,000
"Relevant Securities"	has the meaning ascribed thereto under Rule 13.15 of the GEM Listing Rules
"Reorganisation"	the corporate reorganisation which the Group underwent in preparation of the Listing, particulars of which are set out in the section headed "Corporate reorganisation" in Appendix VII to this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SCE"	standard coal equivalent, which is calculated according to the data on the average coal consumption for generating electric power in the same year
"SETC"	State Economic and Trade Committee (國家經濟貿易委員會)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share Option Scheme"	the share option scheme conditionally adopted by the Shareholders on 26 September 2005, a summary of the principal terms of which is set out in the section headed "Share Option Schemes – Summary of the terms of the Share Option Scheme" in Appendix VII to this prospectus
"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company

"Shareholder(s)"	holder(s) of Share(s) in the Company
"Shijiazhuang BVI"	Enric Shijiazhuang Investment Limited, an investment holding company incorporated in BVI with limited liability on 29 April 2002 and is wholly owned by EIGL
"Shijiazhuang Chemical Equipment"	Shijiazhuang Chemical Equipment Company Limited* (石家莊化工機械股份有限公司), the predecessor of Xinao Shijiazhuang and a joint stock limited company established in February 1994 in the PRC
"Shijiazhuang JV Agreement"	the Sino-foreign equity joint venture agreement entered into between Xinao Shijiazhuang and Shijiazhuang BVI on 16 July 2003 in respect of the establishment of Enric Gas Equipment
"Significant Shareholder"	the significant shareholder (as defined in the GEM Listing Rules) of the Company, being Symbiospartners and Investec as described in the section headed "Substantial, Initial Management and Significant Shareholders" in this prospectus
"Sponsor" or "Global Coordinator"	China Everbright Capital
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Symbiospartners"	Symbiospartners Private Equity Limited, an investment holding company incorporated in BVI with limited liability on 2 January 2004 and is owned as to 50% by Symbiospartners Investment Limited, 35% by SinoBanker Group and 15% by Mr. Liang Zhengzhong
"Track Record Period"	the two years ended 31 December 2004 and the six months ended 30 June 2005
"Tripartite Agreement"	the agreement dated 31 March 2004 and entered into by Xinao Shijiazhuang, Shijiazhuang BVI and Enric Gas Equipment whereby, amongst other things, Xinao Shijiazhuang and Shijiazhuang BVI agreed on a list of assets and liabilities to be injected by Xinao Shijiazhuang into Enric Gas Equipment in relation to the establishment of Enric Gas Equipment by Xinao Shijiazhuang and Shijiazhuang BVI

"Underwriters"	the underwriters of the Placing whose names are set out in the section headed "Underwriting-Underwriters" in this prospectus
"Underwriting Agreement"	the underwriting agreement dated 10 October 2005 and entered into between, among other parties, the Company, the Sponsor, the Lead Manager, the Initial Management Shareholders, the executive Directors and the Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"United States" or "U.S."	the United States of America
"US$"	US dollars, the lawful currency of the United States
"WTO"	World Trade Organisation
"XGCL"	Xinao Group Company Limited* (新奥集團股份有限公司), a joint stock limited company incorporated in the PRC on 5 August 1997 and is ultimately owned as to approximately 72.97% by Mr. Wang and Ms. Zhao
"XGCL Group"	XGCL and its subsidiaries
"XGII"	Xinao Group International Investment Limited (formerly known as Easywin Enterprises Limited), an investment holding company incorporated in BVI on 18 July 2000 with limited liability, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao
"Xinao Gas"	Xinao Gas Holdings Limited (新奥燃氣控股有限公司*), an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability, the shares of which are listed on the Main Board by way of an introduction since 3 June 2002 and is indirectly controlled by Mr. Wang and Ms. Zhao
"Xinao Gas Group"	Xinao Gas and its subsidiaries
"Xinao Shijiazhuang"	Xinao Group Shijiazhuang Chemical Machinery Company Limited* (新奥集團石家莊化工機械股份有限公司), a joint stock limited company incorporated in the PRC and was first established in February 1994 and is indirectly controlled by Mr. Wang. Prior to the Reorganisation, Xinao Shijiazhuang held 70% equity interest in Enric Gas Equipment and is part of the XGCL Group

"bcm"	billion cubic meter, a measurement of volume. 1 billion m^3 equals to approximately 35.5 billion ft^3
"Btu"	British thermal unit, is the amount of heat required to raise the temperature of one pound of water from 60 degrees Fahrenheit to 61 degrees Fahrenheit at a constant pressure of one atmosphere
"ft"	foot, a measurement of distance. 1 ft equals to approximately 0.305 meter
"ft^3"	cubic foot, a measurement of volume. 1 ft^3 equals to approximately 0.028 m^3
"km"	kilometer, a measurement of distance. 1 km equals to 1,000 meters
"KVA"	kilovolt ampere, a unit of electrical power equal to 1,000 volt-ampere
"m^3"	cubic meter, a measurement of volume. 1 m^3 meter equals to approximately 35.5 ft^3
"min"	minute, a measurement of time
"MPa"	megapascal, a measurement of pressure. 1 MPa equals to 10 bars which is approximately 10.197 kilograms of force per square centimetre
"Nm^3"	standard cubic meter, a measurement of volume of gases under special conditions of pressure (1 atmospheric pressure) and temperature (0 degree centigrade)
"sq.ft."	square foot
"sq.m."	square meter
"%"	per cent.
"£"	the United Kingdom sterling pounds, the lawful currency of the United Kingdom
"*"	for identification purposes only

All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.

Unless otherwise specified in this prospectus, amounts denominated in RMB, US$ and £ have been translated, for the purpose of illustration and the preparation of the Track Record Period results only, into Hong Kong dollars as follows:

HK$1.00	=	*RMB1.06*
US$1.00	=	*HK$7.80*
£1.00	=	*HK$13.80*

No representation is made that any amounts in RMB, HK$, US$ or £ could have been or could be converted at the above rate or at any other rates or at all.

English names of the PRC incorporated companies and entities have been included in this prospectus for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

GLOSSARY

This glossary contains certain definitions and other terms as they relate to the Group and as they are used in this prospectus. As such, these definitions may not correspond to standard industry definitions.

"airend"	the chamber where air is compressed
"CAD"	computer-aided design, a type of graphical application for complex modeling and design needs
"CE"	the CE marking, an obligatory product safety mark for the European market. Products bearing the "CE" mark can be sold in the member countries of the European Union and are not required to comply with the separate requirements of each member country within the European Union
"centrifugal force"	a constant force balancing another force which acts on an object under a circular motion and pushing it toward the centre of the circular path
"CNG"	natural gas that is compressed to high density through application of high pressure to facilitate the ease and efficiency of storage and transportation
"CNC Milling Machines"	computerised numerical controlled machines
"Distributed energy" or "DE"	a variety of small, modular power-generating technologies that can be combined with energy management and storage systems and used to improve the operation of the electricity delivery system. It encompasses a range of technologies consisting primarily energy generation and storage systems placed at or near the point of use or the end-users.
"DNV"	Det Norske Veritas, an independent international certification body
"gateway"	a point or a measuring station at which a gas distribution company receives gas from a pipeline company or transmission system
"integrated business solutions"	the customised solutions and comprehensive services provided by the Group, including without limitation, the design of complete system, the manufacture of related equipments, on-site installation, commissioning and testing, training for the customers' staff, technical support and services in relation to management and operation of such business mode

"ISO"	the international organisation for standardisation
"LCNG"	liquefied to compressed natural gas process, being a process which use LNG as a feedstock to deliver CNG to vehicles
"LNG"	liquefied natural gas, being natural gas which is converted into liquid form through application of pressure
"LPG"	liquefied petroleum gas, being petroleum gas composed primarily of propane and butane, which is converted into liquid form through application of high pressure. LPG is extracted from crude oil
"mother-daughter storage tank"	a storage tank composed of an inner and an outer tank. The inner tank which is made up of several daughter tanks is assembled in the larger outer tank (namely the mother tank)
"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
"NGV"	natural gas vehicles
"non-positive displacement compressor"	a type of compressors which depend on motion to transfer energy from the compressor rotor to the air or gas and compression depends on the interaction between the mechanism and the air. It is also known as dynamic compressor
"piston force"	the power produced by the plunging or thrusting motion of a mechanical device. The device usually has a short solid piece of metal which moves up and down inside a cylinder to press the fuel into a small space and produce power
"PLC"	Programmable Logic Controller, which is a controller replacing relay logic
"positive displacement compressor"	a type of compressors which increase the pressure of air or gas by reducing its volume. It works by successively trapping a volume of air and reducing it, thereby increasing the pressure

"piped gas"	gas which is transported through pipes
"pressure vessels"	the containers that hold liquid, vapour or gas at a pressure other than atmospheric pressure at the same elevation. Pressure vessels include but are not limited to storage tanks, transportable containers and gas cylinders
"reciprocating compressor"	a positive displacement compressor which accomplishes compression by a piston within a cylinder as the compressing and displacing element. Compression occurs when the piston moves to the top of the cylinder
"rotor"	a revolving element of a compressor. It consists of the impeller and shaft, and could have shaft sleeves and a thrust balancing device
"screw compressor"	a positive displacement compressor that uses two contra-rotating rotors that turn in a synchronous mesh. As air enters the sealed chamber the rotors revolve, reducing the volume of trapped air and sending it compressed through the discharge port at the designated pressure level
"sliding vane compressor"	a positive displacement compressor with a rotor fitted with sliding vanes which ride on a film of oil. As the rotor rotates, centrifugal force forces the vanes from their slots forming compression cells. The pumping action of the vanes sliding in and out moves the air from the inlet side of the compressor to the outlet side
"stages of compression" or "compression stages"	a sequence of steps in the process of compressing air. Air is first compressed by the initial piston or rotor and then the second piston or rotor disc compresses more air

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

This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions, which involve risks and uncertainties. The Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below; as well as those discussed elsewhere in this prospectus.

RISK FACTORS RELATING TO THE GROUP

Sustainability of growth in turnover and profit

During the year ended 31 December 2004 and the six months ended 30 June 2005, the Group had experienced a growth rate in turnover of approximately 266.3% and 153.0% respectively and a growth rate in net profit attributable to equity holders of the Company of approximately 241.2% and 213.4% respectively (further details are set out in the section headed "Financial information" in this prospectus). Apart from the growth in sales of compressors in 2004, the substantial growth in turnover in 2004 was attributed to the injection of assets by Xinao Shijiazhuang to Enric Gas Equipment on 31 March 2004 pursuant to the Shijiazhuang JV Agreement (particulars of which are set out in the section headed "History and development — Corporate development" in this prospectus) which quickly advanced the Group's production capabilities in pressure vessels and enhanced the Group's platform in the provision of integrated business solutions in the gas energy industry. The Group's financial results in 2004 reflected the results of the two new product lines launched under Enric Gas Equipment. The substantial growth in the turnover and net profit for the six months ended 30 June 2005 as compared to the six months ended 30 June 2004 was primarily due to the increase in demand for natural gas and therefore there was a strong demand for the Group's specialised gas equipment. In addition, Enric Gas Equipment started operations on 1 April 2004 and accordingly the turnover and net profit for the six months ended 30 June 2004 only included Enric Gas Equipment's three months' operations whereas the turnover and net profit for the six months ended 30 June 2005 reflected the full six-month period operations of the Group. There is no assurance that the turnover or the net profit after tax and minority interests will continue to grow at these rates in the coming years.

The turnover and net profit after taxation and minority interests will depend, in part, on its ability to develop new products and services that address the varied needs of prospective customers. Thus the change in technology, industry standards and market condition from time to time could have a material adverse effect on the Group if it cannot adjust its marketing strategy in view of the changing environment or its new products cannot cope with customers' requirements.

Reliance on suppliers

For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, purchases from the largest supplier of the Group, accounted for approximately 10.7%, 20.3% and 26.0% of the total purchases of the Group respectively and the Group's purchases from the five largest suppliers accounted for approximately 36.6%, 37.8% and 48.3% of the total purchases of the Group respectively. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the Group's purchases from related parties accounted for approximately 11.8%, 31.1% and 0.05% of the total purchases of the Group respectively. In addition, the Group also purchased from other suppliers products manufactured in Germany, Italy and Holland. If any of the Group's major suppliers cease to supply to the Group or increase the price of the materials drastically, the operation and profitability of the Group may be adversely affected.

In addition, the Group currently outsources the processing of certain parts and components, principally steel pipes, pressurised soft pipes and pressurised valves, for its major products. A reliable supply of outsourced parts and components, which are subject to price fluctuations, is crucial to the operations of the Group. The outsourced parts and components accounted for less than 1% of the total purchases of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005. Whilst the Directors confirmed that the Group had not experienced any material interruptions, delays or shortages in the supply of outsourced parts and components during the Track Record Period, there is no guarantee that the Group will not suffer from any interruptions, delays or shortages in the supply of these parts and components in the future. As such, potential investors should be aware that any interruptions, delays or shortages in the supply of any type of outsourced parts and components or any significant fluctuations in any of the prices of these outsourced parts and components may have an adverse impact on the Group's operation and profitability.

Reliance on key management

To a certain extent, the Group's success is attributable to, among other things, the technical expertise and experience of the Group's key management team (particulars of which as stated in the section headed "Directors, senior management and staff" in this prospectus), in particular, Mr. Wang and Mr. Cai Hongqiu, both being executive Directors. Mr. Wang is the co-founder and chairman of the Company. He is responsible for overseeing the Group's overall strategic planning. Mr. Cai is the chief executive officer of the Company. He is fully responsible for the overall operations of the Group.

Each of the executive Directors has entered into a service agreement with the Group for an initial term of three years commencing on 1 October 2005. The service agreement may be terminated by the executive Director giving not less than six months' notice in writing, provided that such notice is not to be given at any time prior to the six months before expiry of the initial term. Each of the key technical and management personnel (as referred to in the section headed "Directors, senior management and staff – Senior management" in this prospectus) has entered into a service agreement with the Group for a fixed term of at least two years subject to termination by the personnel's giving not less than three months' notice in writing. Each of the executive Directors has undertaken not to engage in a competing business against the Company during and for two years after the termination of his appointment thereof; and not to divulge or communicate confidential information of the Group during and after the termination of his appointment thereof without limit in point of time except authorised or required by his duties. However, there is no assurance that the Group is able to retain member(s) of the key management team or further recruit competent personnel for its future development. If any of the executive Directors or the key 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 agreements and the Group fails to find immediate and adequate replacement or if the Group is unable to further recruit competent successors or competent personnel for its future development, the implementation of the Group's business strategies may be affected and may lead to certain adverse impact on the operations and business of the Group.

Reliance on skilled employees

The Group requires skilled employees in the manufacture of its products. In order to maintain its competitiveness, it has successfully trained a group of experienced and skilled employees to engage in the Group's production process. Although the Group had remunerated salary and benefits or offer career development opportunities to these skilled employees annually throughout the Track Record Period, other competitors may attract such employees through offering more attractive salaries and/or fringe benefits, and the loss of services of such skilled employees may have an adverse effect on the operations and business of the Group. Therefore, there can be no assurance that the Group can retain its skilled employees or that it can attract more of such employees and retain them in the future. If the Group fails to retain and recruit the necessary employees, the Group's operation and business may be adversely affected.

Business licences, certificates and permits

As certain specialised gases could be highly dangerous when mishandled, the gas equipment industry is heavily regulated in general and supervised by specific governmental organisation such as the GAQSIQ in the PRC. Under the current industry regulations, the Group is required to obtain, or periodically renew, all relevant and necessary licences, certificates or permits for the design and manufacture of its products. Although the operating subsidiaries of the Group have success in obtaining or renewing the requisite licences, certificates or permits in the past for their respective activities, there is no assurance that they (or any other member of the Group when it becomes necessary) will be able to obtain or renew these licences, certificates or permits in the future. Any failure or delay of the Group in this respect might adversely affect the Group's future business, operation and financial conditions.

Bank loan guarantees provided by XGCL

As at 31 August 2005, the Group had total outstanding bank borrowings amounting to RMB140.0 million which was repayable within one year, and comprising term loans amounting to RMB65.0 million and utilised banking facilities amounting to RMB75.0 million. Out of the total term loans of RMB65.0 million, RMB55.0 million were guaranteed by XGCL, a connected party to the Company under the GEM Listing Rule, and the remaining RMB10.0 million was guaranteed by Enric Compressor, a subsidiary of the Company. In addition, the Group had aggregate banking facilities of RMB85.0 million, of which RMB75.0 million had been utilised. The banking facilities of RMB85.0 million are also guaranteed by XGCL. Details of these guarantees have been set out in the section headed "Financial information – Borrowings, securities and banking facilities" in this prospectus. Regarding to the term loans and the banking facilities guaranteed by XGCL, although the Company has obtained in principle consents from the relevant banks to replace such guarantees with those from the Group upon or prior to the Listing, the Group has been dependent upon XGCL to obtain financing from banks. As such, without the guarantees from XGCL or other related companies, it is uncertain if the Company can obtain bank loans of similar size in the future, which in turn may adversely affect the financial condition of the Group.

High gearing ratio

The Company generally finances its operation with internally-generated cashflow, term loans and banking facilities provided by its principal bankers in the PRC. As at 31 December 2003, 31 December 2004 and 30 June 2005, the gearing ratios (defined as the total bank loans plus amount due to related parties (non-trade) of the Group divided by the total assets of the Group) were approximately 63.8%, 58.7% and 42.9% respectively. In general, such high gearing ratio is due to rapid expansion of the Group's production and operation scales and acquisition of production facilities and machinery which was not met by a comparative growth rate of internal financial resources. There is no guarantee that the existing banking facilities will be continued. In the event that the Group is unable to obtain other financing arrangements or the Group's bankers become reluctant to continue extending the loans, the Group's operation and financial position may be adversely affected.

Relatively long inventory turnover period

The average inventory turnover days of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 were 194, 110 and 124 respectively. Taking into account the relatively long inventory turnover days, should the Group fail to manage its inventory properly, which might lead to stock obsolescence and stock provision, the liquidity and performance of the Group might be adversely affected.

Concentration of ownership

Mr. Wang and/or Ms. Zhao is/are the controlling shareholder(s) of many related parties of the Group. Some of these companies are engaged in gas related businesses and provide the Group with rights, services and facilities that are necessary for the Group's business activities, including the following:

- provision of piped gas, LPG and other raw materials;
- provision of gas connection services;
- leasing of properties;
- provision of property management services;
- provision of finance lease.

These related party transactions will continue after the Listing. If the provision of these rights, services and facilities is terminated, the Group will have to relocate or seek alternative means of securing comparable services and facilities.

The Group also sells its products and provides services to some of these related companies, including the following:

- provision of repair and maintenance services for the gas equipment manufactured by the Group; and

- supply of gas-related machinery and equipment.

These related party transactions will continue after the Listing. If the provision of products and services to these related parties is terminated, the performance and profitability of the Group may be adversely affected.

Relationship with the controlling Shareholders

Immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, XGII will control approximately 54.20% of the total issued share capital of the Company, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme. Accordingly, XGII will, for the foreseeable future, exercise substantial influence over the Group's operations and business strategy. Such voting control may discourage certain types of transactions, including those involving an actual or potential change of control of the Company. In the event that there is a divergence of the Group's strategic and other interests from those of XGII in the future, there can be no assurance that XGII will not use its influence over the affairs of the Group in a manner which is not in the best interests of the Group.

Reliance on the ultimate controlling Shareholder

The Group has been and will continue to carry out certain connected transactions with companies controlled, directly or indirectly, by Mr. Wang, in particular sales of products to Xinao Gas Group and Hebei Finance Leasing Company Limited.

For the year ended 31 December 2003, the sales of products by the Group to Xinao Gas Group, amounted to approximately RMB1.0 million, representing approximately 1.5% of the total turnover of the Group for the corresponding period.

For the year ended 31 December 2004, the sales of products by the Group to Xinao Gas Group, amounted to approximately RMB28.7 million, representing approximately 11.4% of the total turnover of the Group for the corresponding period.

For the six months ended 30 June 2005, the sales of products by the Group to Xinao Gas Group, amounted to approximately RMB42.8 million, representing approximately 20.4% of the total turnover of the Group for the corresponding period.

The Directors estimate that the maximum amount of annual sales of products to Xinao Gas Group will not exceed RMB111 million, RMB185 million and RMB271 million for each of the three years ending 31 December 2007 respectively, representing approximately 44%, 73% and 107% of the Group's total turnover in 2004 respectively. As for sale of products to Hebei Finance Leasing Company Limited, the Directors estimate that the maximum amount of annual sales will not exceed RMB14 million, RMB23 million and RMB31 million for each of the three years ending 31 December 2007 respectively, representing approximately 6%, 9% and 12% of the Group's total turnover in 2004 respectively.

For further information on these connected transactions, please refer to the section headed "Connected transactions" in this prospectus. There is no guarantee that Xinao Gas Group and/or Hebei Finance Leasing Company Limited will continue to purchase products from the Group. In the event that Xinao Gas Group and/or Hebei Finance Leasing Company Limited cease to purchase products from the Group, the performance and profitability of the Group may be adversely affected.

Production facilities held on lease term

The Group is currently identifying a more suitable location in Langfang for its integrated business solutions' activities and hence has rented on a temporary basis a premises in Langsen Vehicle Industrial Zone as the workshop of Enric Integration, one of the operating subsidiaries of the Group. The term of the existing lease is one year which commenced on 1 November 2004 and will expire on 31 October 2005. On 26 April 2005, the Group entered into a renewal agreement, to extend the term of the lease for an additional year and the new term will expire on 31 October 2006. Further details of the leases regarding the Group's integrated business solutions' activities are set out in the sections headed "Business – Production" and "Financial information – Property interests" in this prospectus. In the event that a more suitable location is not identified and obtained on acceptable terms and Enric Integration fails to renew the existing lease when it expires, its business and operation may be adversely affected.

Legal risk on the loan receivable of the Group

Pursuant to the PRC General Rules of Loan (《貸款通則》) promulgated by PBOC on 28 June 1996 and the decision on how to give judgment for overdue loans by borrower of a corporate lending contract (《關於對企業借款方逾期不歸還借款應如何處理的批復》) issued by the High Court of the PRC on 23 September 1996, if a lending corporate is engaged in any litigation against the borrowers, the Court will protect the lender to the claim on the principal amount but not the interest elements. If such lending contract involves unlawful loans, the court may confiscate the total interest amount stipulated under such lending contract plus interest amount generated up to the date of the court's decision made. PBOC may also penalise the lender and the penalties by PBOC will be one to five times the interest accrued from the unsettled loans. In addition, pursuant to the Law for Implementation of the Administrative Punishment (《行政處罰法》), if such lending of unlawful loans has not been discovered within two years from the date after the principal amount is repaid, the penalties will be withdrawn.

As the Group had no outstanding loans receivable as at 31 December 2004 and 30 June 2005 and was not involved in any litigation proceedings in relation to uncollected loans receivable, the PRC legal advisers to the Company expect the possibility for the Group to be penalised by PBOC on its unlawful loans receivable between related companies is remote.

During the Track Record Period, the interests accrued from the Group's loans was approximately RMB7.2 million in aggregate. Although the controlling Shareholder agreed to indemnify the Group for the possible penalty, in the event that PBOC decides to penalise the Group for its loans and the controlling Shareholder does not indemnify the Group for such penalties as agreed, the penalties will be up to approximately RMB36.0 million, being five times the interests accrued from the loans which has been received by the lender. In such event, the Group's future operations, working capital and cashflow position may be adversely affected.

Net current liabilities

As at 31 December 2004 and 30 June 2005, the Group had net current liabilities of approximately RMB75.1 million and RMB29.0 million respectively. As at 31 December 2004, the Group's current liabilities were mainly comprised of short-term bank loans of approximately RMB132.9 million, amounts due to related parties of approximately RMB65.2 million and trade payables of approximately RMB41.7 million. As at 30 June 2005, the Group's current liabilities were mainly comprised of short-term bank loans of approximately RMB125.0 million, amounts due to related parties of approximately RMB54.3 million and trade and bills payables of approximately RMB83.7 million. Details of indebtedness and liquidity, financial resources and capital structure of the Group are set out in the section headed "Financial information" in this prospectus.

In the event that the Group is unable to generate sufficient cash flow from its operations to meet its operating expenditure, the operations of the Group will have to be funded by other financing activities. In the unlikely event that the Group is unable to obtain adequate financing to fund its operations, the existing operations, performance and prospects of the Group are likely to be adversely affected.

Product liability

The products developed or to be developed by the Group are important to the operations of its customers. The Group has maintained product liability insurance to cover potential claims arising from or as a result of defects of certain of its products. However, the insurance only covers the personal injuries, illness, death and the relevant financial losses caused to the customers and other third parties by the products manufactured or sold by the Group but not other pure economic losses caused to the business of the customers and other third parties. Should there be any defect or error in such products that cause damage to operations and/or business of the customers and other third parties, the Group may have to incur additional expenses either to rectify the defect or error or to indemnify the customers for any losses that the customers may suffer as a result of such defect or error. Any occurrence of product liability claims arising from defects in the Group's products may have an adverse impact on the Group's business and financial position.

As at the Latest Practicable Date, so far as the Directors are aware, no legal claim was made against any members of the Group by any customers of the Group in relation to any products and services provided by the Group. Nevertheless, there is no assurance that such claim will not be made in the future.

Environmental protection

The Group's operations are subject to environmental protection laws and regulations promulgated by both national and local environmental protection authorities of the PRC. The Directors believe that all of the Group's facilities and operations are in material compliance with requirements of the relevant environmental protection laws and regulations. However, the amendment to existing laws or regulations may impose additional or more stringent requirements. In addition, the Group's compliance with such laws or regulations may require the Group to incur significant capital expenditures or other obligations or liabilities, which could create a substantial financial burden on the Group.

RISKS FACTORS RELATING TO THE INDUSTRY

Changes in the gas equipment industry in the PRC

The competitive landscape in the gas equipment industry may change due to the emergence of new entrants in the industry or the increase in production capacity of existing competitors.

As the gas equipment industry in the PRC continues to develop, the Group has to improve its existing products, develop new technologies, enhance product quality and production capacity to maintain competitiveness. Although some of the Group's technologies are unique, they may be copied or infringed by other competitors. As such, the long-term prospects of the Group will depend to a large extent on its ability to develop new or enhanced products at competitive prices. Any failure or delay in doing so may have a significant impact on the business and prospects of the Group.

Reliance on other related industries

The production and sale of the Group's major products are largely dependent on the development of related industries. For instance, the sales of facilities used in CNG refueling stations depend on each country's restrictions on the development of the natural gas industry; CNG trailers and LNG trailers are mainly used for the transportation of natural gas and the sale of such vehicles are affected by the locations of natural gas supply and consumption. In addition, the sale of different kinds of compressors are affected by the development of relevant industries using these compressors. Although the Group's major products are used in key industries that are encouraged by the PRC Government, if changes are made to existing government policies, the Group's sales to such industries may be adversely affected.

RISK FACTORS RELATING TO THE PRC

Since substantially all of the Group's business 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.

Economic development of China and government policies

In addition to the fast growth of China's economy, the PRC Government's initiatives to promote and increase the natural gas usage in the PRC have resulted in rising expenditures in the gas equipment market over the last few years. The substantial investments made by the PRC Government in respect of the construction of gas pipelines and LNG import terminals and port infrastructure are poised to have a significant impact on the supply of natural gas and thus the widespread usage of natural gas in regions where such source of energy was generally unavailable before. The PRC Government's policy on the pricing of natural gas or other sources of energy may also have an impact on the future development of the natural gas market, which could either be favourable or unfavourable to the Group.

Should there be any adjustments made to the above-mentioned economic policies or if there is any change of market demand, the Group's businesses may be affected.

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. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

In the PRC, the operation of the manufacturing business of gas equipment companies is under the supervision of a number of government ministries and departments, including NDRC and GAQSIQ. As such, the Group must comply with the relevant requirements of certain regulations, including without limitation, to Regulations for Safety Supervision of Pressure Vessels Made of Steel (《鋼製壓力容器安全監察規程》) and Regulations for Safety Supervision of Gas Cylinders (《氣瓶安全監察規程》).

The Directors believe that the reforms in the political, economic and social conditions, laws, regulations and policies of the PRC will generally have a positive effect on the Group's overall and long term development. However, there is no assurance that these reforms will not adversely affect certain aspects of the Group's business, operations and financial conditions.

Foreign exchange and currency conversion

RMB is not freely convertible into other currencies, except under certain circumstances. Since 1996, a number of rules, regulations and notices regarding foreign exchange control have been issued by the PRC Government which are designed to allow a degree of convertibility of RMB, under which foreign investment enterprises are permitted to convert RMB into foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks by complying with various procedural requirements. Control over the conversion of RMB into foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities), however, is more stringent and such conversion is subject to a number of restrictions. The PRC Government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit the Group from converting the Group's RMB sales into foreign currencies. If this were to occur, the Group might not be able to pay dividends or satisfy other foreign exchange requirements.

The value of RMB against other foreign currencies is subject to changes in the PRC's policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of RMB into foreign currencies, including HK$ and US$, has been based on rates set by the People's Bank of China, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of RMB into HK$ and US$ generally have been stable. On 21 July 2005, PBOC announced the RMB was unpegged from US$ and there would now be subject to a managed float against an unspecified basket of currencies, introducing a new level of flexibility into foreign exchange rates. Such announcement resulted in RMB appreciating against US$ and HK$ by approximately 2%. Should there be significant changes in the exchange rates of US$ against HK$ or RMB, the Group's financial condition and results of operations may be adversely affected.

Fluctuations in interest rates

Fluctuations in bank interest rates will affect the Group's investments and operations. At present, although price indices are stable, interest rates and cost of financing are relatively low in the PRC, as the Company funds part of its operation and expansion by bank borrowings, any significant increase in interest rate may have an adverse impact on the Group's business, operations and financial conditions.

China's accession to the WTO

The Group's products are superior in terms of technology and quality. Comparing with imported products, the Directors believe the Group's cost of production is lower. With China's accession to the WTO, certain tariffs will be lowered. This may lead to a reduction in the price of products produced in foreign countries. Potential investors should be aware of the risk that the price of the Group's products may not be as competitive as similar foreign products, which may affect the Group's business.

Tax exemption and reduction

The Group's operating subsidiaries, namely Enric Gas Equipment, Enric Compressor and Enric Integration, are wholly foreign owned companies and are entitled to a tax holiday permitting an initial two-year exemption from and a subsequent three-year 50% reduction of the national enterprise income tax in accordance with the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》) and The Detailed Implementing Rules of the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》) which are promulgated by the State Council in 1991. However, there is no assurance that these preferential tax treatments will continue to apply to these Group's subsidiaries with China's development in accordance with the global economy as well as its accession to the WTO. In the event of any unfavourable changes in relation to such preferential tax treatments, the Group's profitability and financial position may be adversely affected.

RISKS RELATING TO THE PLACING

Proceeds obtained from the Placing may not be sufficient to finance the entire business plan

The Group's business plans as scheduled up to the year ending 31 December 2007 are expected to be financed by the net proceeds from the Placing and Investec's investment and from internal resources and/or borrowings. If the Placing Price is fixed at HK$1.12 per Share, being the lowest point of the indicative range of the Placing Price, the net proceeds will be approximately HK$111.9 million, a short fall of HK$17.9 million requires for implementation of the Group's business plan. Other financing activities for additional funds raising will be expected to launch not until the last 6 months in 2007. In the event that the net proceeds, internal resources and/or borrowings are insufficient to finance the business plans of the Group and that the Group is unable to raise additional funds on acceptable terms through other financing activities, the business plans of the Group may not materialise or be executed as set out in this prospectus.

Potential dilutive effect of the Pre-IPO Share Option Plan

The Company has granted options over an aggregate of 13,800,000 Shares pursuant to the Pre-IPO Share Option Plan to a total of 12 participants (including five executive Directors, five members of the senior management and two employees of the Group).

Such options are all exercisable at an exercise price equal to the Placing Price. If the above options are exercised in full, the Shares to be issued would represent approximately 3.19% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing (without taking into account any exercise of the Over-allotment Option or the exercise of the options which have been granted under the Pre-IPO Share Option Plan and may be granted under the Share Option Scheme). Furthermore, if such options are exercised in full, the unaudited pro forma fully diluted earnings per Share will be approximately RMB0.15 (approximately HK$0.14), the amount of which is not significantly different when compared with the unaudited pro forma fully diluted earnings per Share without the exercise of the options granted under the Pre-IPO Share Option Plan. Full particulars of the options that have been granted pursuant to the Pre-IPO Share Option Plan are set out under the section headed "Summary of the terms of Pre-IPO Share Option Plan" in Appendix VII to this prospectus.

RISKS RELATING TO THE SHARES

Risks relating to Share price fluctuations after the Listing

Although the Placing Price is determined based on several factors, the market price for the Shares is likely to vary from the Placing Price after the commencement of trading in the Shares on GEM. This could result in substantial losses for investors. The market price of the Shares may fluctuate significantly in response to a number of factors, some of which are beyond the Group's control. Some of these factors include:

- changes in financial estimates by securities analysts;
- announcements by the Group or its competitors of new products and service offerings, significant contracts, acquisitions or strategic relationships;
- additions or departures of key personnel;
- any future sales of or offer for Shares or other securities; and
- stock market price and volume fluctuation of public traded companies in general, especially those engaged in similar business providing gas equipment products.

The Company has applied for waiver from the announcement and Shareholders' approval requirements as required under Rule 20.35 of the GEM Listing Rules for certain continuing connected transactions.

WAIVER APPLICATION

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

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the GEM Listing Rules for the purposes of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;

2. there are no other matters the omission of which would make any statement in this prospectus misleading; and

3. 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.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing which is sponsored by the Sponsor. The Placing Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement, subject to the Company and the Lead Manager (acting for itself and on behalf of the Underwriters) agreeing on the Placing Price. For more information about the Underwriters and the Placing and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

DETERMINING OF THE PLACING PRICE

The Placing Shares are being offered at the Placing Price which will be determined by the Company and China Everbright Securities (for itself and on behalf of the Underwriters) on the Price Determination Date. For full information relating to fixing of the Placing Price, please refer to the section headed "Structure and conditions of the Placing" in this prospectus.

RESTRICTIONS ON OFFER OF THE PLACING SHARES

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. The distribution of this prospectus and the offering of the Placing Shares in certain jurisdictions are restricted by law. Accordingly, and without limitation to the following, this prospectus may not be used for the purposes of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation. Persons who possess this prospectus are required by the Company, the Global Coordinator, the Sponsor, the Lead Manager and the Underwriters to observe such restrictions.

United States

The Placing Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), and may not be offered, sold, pledged or otherwise transferred within the United States or to or for the account or benefit of a U.S. person except pursuant to an exemption from or in a transaction not subject to the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S of the U.S. Securities Act.

The Placing Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Placing or the accuracy or adequacy in this prospectus. Any representation to the contrary is a criminal offence in the United States.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus may not be issued, circulated or distributed in Singapore nor may any of the Placing Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for any Placing Shares be made (i) to persons in Singapore other than under circumstances in which such invitation, offer or sale does not constitute an invitation, offer or sale of the Placing Shares to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 1 Part XIII of the Securities and Futures Act and to persons to whom the Placing Shares may be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Placing Shares to the public in Singapore.

United Kingdom

This prospectus has not been approved under Section 21 of the Financial Services and Markets Act 2000 ("FSMA") by a person authorised under FSMA in the United Kingdom. Without limitation to the other restrictions referred to herein, this prospectus is being distributed in the United Kingdom only to, and is directed only at (i) investment professionals, as defined in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "FSMA Order") being persons who have professional experience in matters relating to investments; and (ii) persons falling within Article 49(2)(A) to (D) ("high net worth companies, unincorporated associations etc") of the FSMA Order (all such persons together being referred to as "relevant persons"). This prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

The Placing Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom for the purposes of the FSMA or the Public Offers of Securities Regulations 1995. This prospectus has not been registered with the Registrar of Companies in the United Kingdom.

In addition, no person may issue or pass on to any person in the United Kingdom any document received by him in connection with the Placing or communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in relation to the Placing Shares unless the recipient is a relevant person.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented this prospectus Directive (each, a ''Relevant Member State''), with effect from and including the date on which this prospectus Directive is implemented in that Relevant Member State (the ''Relevant Implementation Date'') the Placing Shares may not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Placing Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with this prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of Placing Shares to the public may be made in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of this prospectus Directive.

For the purposes of the above, the expression an "offer of Placing Shares to the public" in relation to any Placing Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Placing Shares to be offered so as to enable an investor to decide to purchase or subscribe the Placing Shares, as the same may be varied in that Member State by any measure implementing this prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Japan

The Placing Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). The Placing Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to the applicable exemption from the registration requirements of the Securities and Exchange Law and in compliance with any other applicable requirements of Japanese law. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

Taiwan

The Placing Shares have not been and will not be registered with The Securities and Futures Commission of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Taiwan or to, or for the account of, any resident of Taiwan, except (a) pursuant to the requirements of the securities related laws and regulations in Taiwan and (b) in compliance with any other applicable requirements of Taiwanese laws.

PRC

This prospectus may not be circulated or distributed in the PRC and the Placing Shares may not be offered or sold, directly or indirectly, or offered or sold to any person for re-offering or re-sale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Cayman Islands

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

Each person acquiring the Placing Shares will be required to confirm, or deemed by its acquisition of the Placing Shares to have confirmed, that it is aware of the restrictions on the offer and sale of the Placing Shares described in this prospectus.

STRUCTURE AND CONDITIONS OF THE PLACING

Further details of the structure of the Placing are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme on GEM.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission of dealing is being or is proposed to be sought on any other stock exchange.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the application of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Listing Committee, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM is expected to commence on or about 18 October 2005. Shares will be traded in board lots of 2,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbroker or other professional adviser.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to, the Placing Shares, you should consult an expert. It is emphasised that none of the Company, the Directors, the Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other persons involved in the Placing accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Placing Shares.

STAMP DUTY

Dealings in the Placing Shares registered on the Hong Kong branch register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Name	Residential address	Nationality
Executive Directors		
Wang Yusuo (王玉鎖)	No. 18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	Chinese
Cai Hongqiu (蔡洪秋)	903C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	Chinese
Yu Jianchao (于建潮)	1503C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	Chinese
Zhao Xiaowen (趙小文)	101, 2-3, Jinhua Lane Jinsanjiao District Yinhe Street Langfang City Hebei Province The PRC	Chinese
Zhou Kexing (周克興)	603C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	Chinese
Non-executive Director		
Zhao Baoju (趙寶菊)	No. 18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	Chinese

Independent non-executive Directors

Gao Zhengping (高正平)	No. 1, Xinjianli Gansu Road Heping District Tianjin The PRC	Chinese
Shou Binan (壽比南)	No. 10-1-501, Zhiqiangbeiyuan North Taiping Zhuang Wai Haidian District Beijing The PRC	Chinese
Wong Chun Ho (王俊豪)	Flat E, 6th Floor Block 27, South Horizons Ap Lei Chau Hong Kong	Chinese

Global Coordinator, bookrunner and Sponsor	China Everbright Capital Limited 40th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Lead manager	China Everbright Securities (HK) Limited 36th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Underwriters	China Everbright Securities (HK) Limited 36th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
	BCOM Securities Company Limited 3rd Floor, Far East Consortium Building 121 Des Voeux Road Central Hong Kong
	China Merchants Securities (HK) Co., Limited 48th Floor, One Exchange Square Central Hong Kong
	Taiwan Securities (Hong Kong) Company Limited Rooms 4001-3, 40th Floor Tower Two, Lippo Centre 89 Queensway Central Hong Kong
	Barits Securities (Hong Kong) Limited Room 3406, 34th Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
	First Shanghai Securities Limited 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong

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Legal advisers to the Company

as to Hong Kong law:
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as to PRC law:
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Auditors and reporting accountants	KPMG Certified Public Accountants 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Property valuer	Sallmanns (Far East) Limited 22nd Floor, Siu On Center 188 Lockhart Road Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard, Cricket Square Hutchins Drive, P O Box 2681 GT George Town Grand Cayman British West Indies
Head office in the PRC	30 Hongrun Road Langfang Economic and Technical Development Zone Hebei Province The PRC
Principal place of business in Hong Kong	Rooms 3101-03, 31st Floor Tower One, Lippo Centre No. 89 Queensway Hong Kong
Company secretary	Cheong Siu Fai (張紹輝) *CPA, AAIA*
Compliance officer	Cai Hongqiu (蔡洪秋)
Qualified accountant	Cheong Siu Fai (張紹輝) *CPA, AAIA*
Audit committee	Wong Chun Ho (王俊豪) Gao Zhengping (高正平) Shou Binan (壽比南)
Authorised representatives	Cai Hongqiu (蔡洪秋) 903C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC Cheong Siu Fai (張紹輝) Flat D, 27th Floor, Block 2 Sunshine Grove Tak Yi Street, Shatin New Territories Hong Kong
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands

CORPORATE INFORMATION

Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	**Agricultural Bank of China** Jinyu Building 100 North Xisanhuang Lu Beijing 100037 PRC
	China Construction Bank 25 Financial Street Xicheng District Beijing PRC

Certain statistics and information provided in this section are derived from various government official sources. Although reasonable care has been exercised by the Directors and the Sponsor in the exercise of extracting and repeating such statistics and information, no independent verification has been carried out on them. None of the Company, the Sponsor and Underwriters, their respective directors and advisers of any other party involved in the Placing makes any representation as to the accuracy or completeness of such statistics and information.

OVERVIEW OF GLOBAL ENERGY INDUSTRY

Global primary energy consumption

The growth of world economy in recent years has fuelled the continuous growth in the consumption of primary energy. According to a research issued by EIA, world's primary energy consumption is forecasted to increase at an average annual rate of approximately 2.0% over the period from 2002 to 2025, higher than the corresponding rate of approximately 1.4% over the preceding 13-year period (1990 – 2002). The world's primary energy consumption in 2025 is expected to reach approximately 644.6 quadrillion Btu, representing an increase of approximately 56.6% from approximately 411.7 quadrillion Btu in 2002. The following table shows the amount of world's primary energy consumption by different types of energy sources in 1990 and 2002 and the forecasted amounted in 2025 respectively:

Primary energy consumption (history and projections)	Quadrillion Btu 1990	2002	2025	Share (%) 1990	2002	2025	Average annual growth rate(%) 1990-2002	2002-2025
Total	**348.2**	**411.7**	**644.6**	**100**	**100**	**100**	**1.4**	**2.0**
Oil	136.0	159.4	243.4	39	39	38	1.3	1.9
Natural gas	75.0	95.2	162.1	22	23	25	2.0	2.3
Coal	90.5	98.1	156.1	26	24	24	0.7	2.0
Nuclear	20.3	26.9	34.1	6	6	5	2.4	1.0
Other	26.4	32.1	48.9	7	8	8	1.6	1.9

*Source: **History**: EIA, International Energy Annual 2002, (Washington, DC, March 2004); **Projections**: EIA, Annual Energy Outlook 2005, (Washington, DC, February 2005).*

Global natural gas market

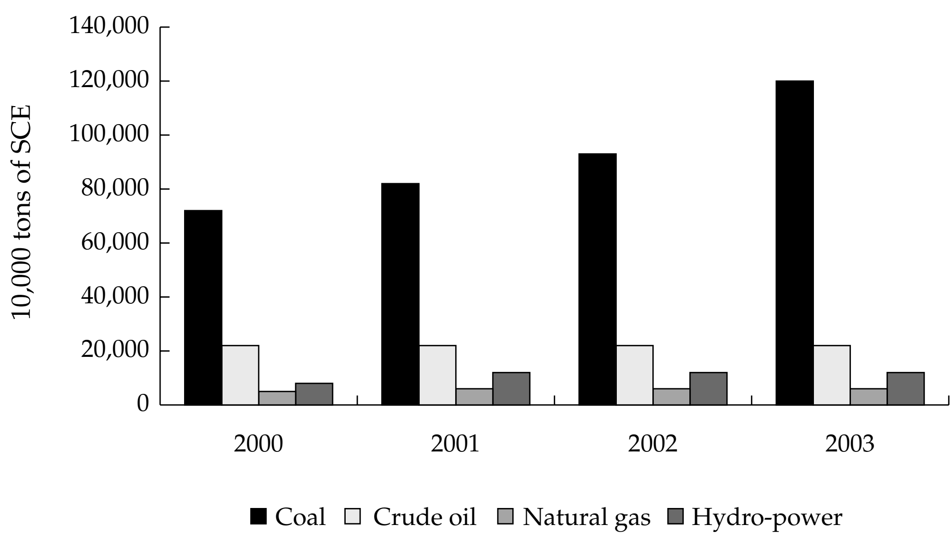
Natural Gas is an important energy source in the world, representing approximately 23% of the world's primary energy consumption in 2002. It is one of the cleanest, safest, and most useful of all energy sources. The Directors consider that as the pollutants emitted by natural gas are only a fraction of those emitted by many other energy sources such as coal and crude oil, natural gas is often regarded as a preferred energy source in future and an environmentally friendly alternative to other fossil fuels. Natural gas can apply to power generation, residential, industrial and vehicular use.

Global warming and erratic weather patterns have attracted the world's attention to the environmental problems caused by air pollution in recent years and discussions have taken place regarding the Group's consumption of the different types of energy. According to International Energy Outlook 2005 issued by EIA, consumption of natural gas is expected to increase continuously and such growth in consumption is driven by the continuous demand from developing countries. As indicated in the table set out in the section headed "Industry overview – Gobal primary energy consumption" in this prospectus, the consumption of natural gas is projected to increase by approximately 70.3% between 2002 and 2025, from approximately 95.2 quadrillion Btu in 2002 to approximately 162.1 quadrillion Btu in 2025.

OVERVIEW OF THE PRC ENERGY INDUSTRY

According to the International Energy Agency (IEA), the PRC is the world's second largest energy producer and consumer after the United States. Coal is currently the most important source of energy in the PRC in terms of consumption. It is considered that future economic development of the PRC might be hindered by the reliance of coal and oil as the major energy source and related environmental problem caused by the consumption of fossil fuels. While coal remains the dominant fuel in power generation in the PRC, its combustion causes air pollution and other damages to the environment. The PRC ranks second and first in CO_2 and SO_2 emission respectively. Furthermore, one third of PRC's current oil supply is dependent on import and this level is increasing. The following graph illustrates the composition of production supply of different energy source in the PRC from 2000 to 2003:

Total production of energy and its composition



Source: China Statistical Yearbook 2004, National Bureau of Statistics of the PRC, 2005.

In light of the PRC's anticipated demand for energy so as to accompany its continuous economic growth, the PRC Government is stepping up its effort to ensure efficient energy usage and to identify alternative energy sources to tackle any possible energy shortage. According to the 10th Five-Year Plan (2001-2005) of the Ninth National People's Congress for the energy sector, it is a priority for the PRC to rationalise the nation's energy supply and consumption structure, by increasing the production supply of clean and more efficient energy sources including natural gas, hydropower and other clean fuels and reducing the share of coal in selected end-uses. The share of coal in the PRC's primary energy supply is expected to drop from approximately 70% in 2000 to approximately 60% in 2030.

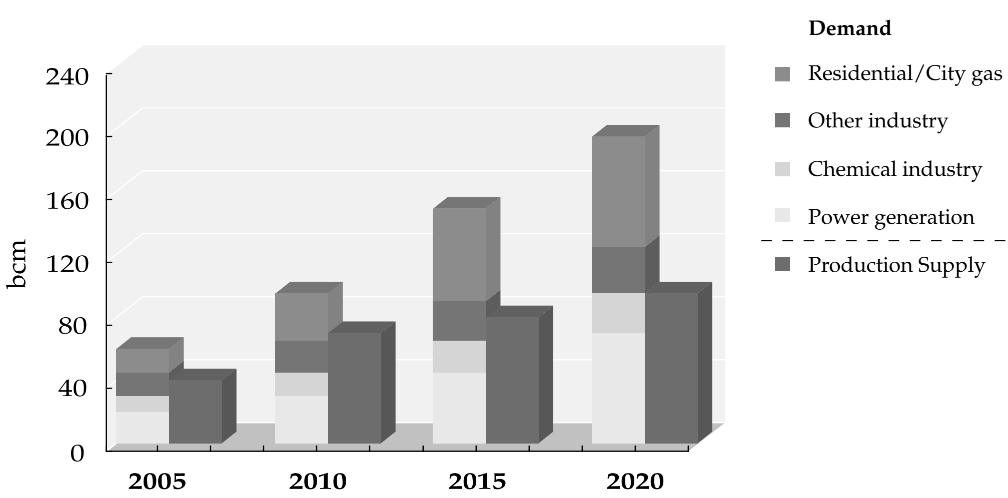
The PRC natural gas market

The production supply of natural gas accounted for approximately 3.2% in the total energy supply, while the consumption of natural gas accounted for approximately 2.7% of the total PRC primary energy consumption in 2002. Such consumption level of natural gas is far below the world average of approximately 25% to 30%.

In order to rationalise the energy supply and consumption structure, pursuant to the 10th Five-Year Plan of the Ninth National People's Congress, it is a priority to increase the share of natural gas in the composition of the PRC's energy supply. The PRC Government is targeting to increase natural gas consumption to approximately 6% of the total PRC primary energy consumption by 2010. The PRC Government has decided to construct natural gas infrastructure including the country's first LNG import terminal in Guangdong and the 4,000km-long "West-to-East Pipeline".

The graph below indicates the demand and production supply of natural gas in the PRC by sector application in 2005, 2010, 2015 and 2020 respectively:

Forecast of demand and production supply of natural gas by sector application of the PRC



Source: China's Energy Development Report 2003, Beijing Academy of Economic Development Institution, 2004.

It is expected that natural gas will continue to apply to the power, residential and industrial use (including chemical industry as feedstock and vehicular use).

By 2020, the demand of natural gas is forecasted to increase to approximately 200.0 bcm, representing an increase of approximately 785.0% when comparing to a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand of natural gas in the PRC in 2020 will apply to the power generation sector and approximately 35.0% is forecasted to apply to the city gas sectors including natural gas vehicles.

The State Environmental Protection Administration of the PRC has taken a series of measures to reduce the extent of air pollution including the launch of National Clean Vehicle Campaign (國家清潔汽車行動) to advocate the use of natural gas vehicles since 1999.

Currently, there are more than 20 cities in the PRC that have launched the reinstallation of gas engines and conversion to natural gas vehicles. The PRC have reinstalled more than 50,000 vehicles, with more than 160 related gas fuelling stations to facilitate the convenient use of natural gas vehicles. In addition, a number of cities such as Beijing, Shanghai and Chongqing, have also promulgated preferential policy to encourage the development of natural gas vehicles.

In Beijing, as the 2008 Olympic host city, all buses commenced conversion to run on CNG from 2001, and taxis and other vehicles fleet will gradually convert to run on CNG. In Shanghai, all taxis will be converted to natural gas vehicles before 2005. The Directors expect that within the next decade, diesel-driven buses will be phased out and most taxis will run on CNG in all large cities in the PRC. It is expected that demand for the construction of natural gas refueling stations and other related natural gas equipment will increase. As part of the support to the utilisation of natural gas vehicles, construction of natural gas refueling stations is being expedited.

Supply of natural gas in the PRC

According to the International Energy Agency, the PRC has proven reserves of approximately 1.5 trillion m^3.

The PRC Government has commenced the construction of a 4,000 km-long pipeline network since July 2002, known as the "West-to-East Pipeline" project, aiming to carry natural gas from deposits in the western Xinjiang province to Shanghai, and picking up additional gas in the Ordos Basin along the way.

Another supply source of natural gas will be from Kazakhstan. Construction of the Sino-Kazakh crude pipeline project has begun in 2004, aiming to transport gas from Kazakhstan to the PRC. It is a major land-based cross-border pipeline project with an investment of approximately US$3 billion. It is currently expected to complete in 2006.

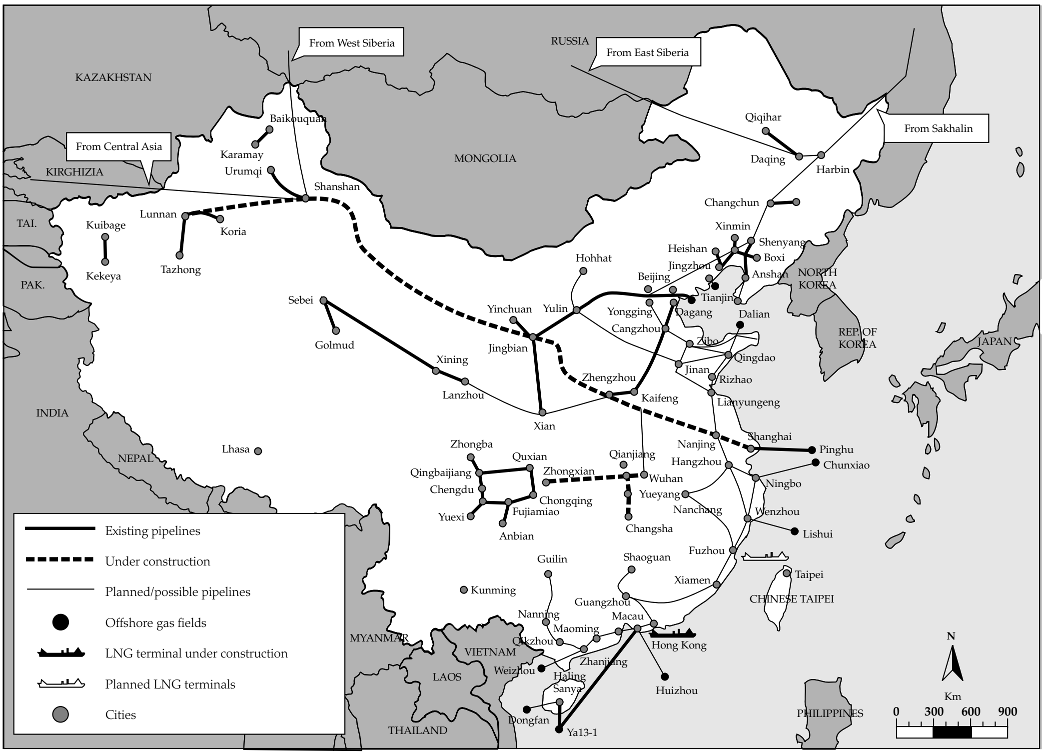
The PRC Government also intends to build LNG import terminals initially along the south-eastern coastal region of the PRC with an aim to import LNG for the supply of natural gas to the south-eastern area of the PRC. In March 2001, the plan to build the PRC's first LNG import terminal in Guangdong was announced and a supply contract has already been signed for the import of LNG from Australia. Such terminal is expected to begin operation by late 2005 and is designed to serve Guangdong province and the surrounding regions. A second LNG terminal is planned to be built in Zhangzhou, Fujian province. A supply agreement has been concluded for the import of LNG from Indonesia.

Apart from the above, other pipelines are being developed to link smaller natural gas deposits to consumers. A pipeline was completed in early 2002 linking the Sebei natural gas field in the Qaidam Basin to the city of Lanzhou in Gansu province, the PRC. Another project is planned to link gas deposits in Sichuan province in the southwest to Hubei and Hunan provinces in the PRC.

The Directors consider that the above projects contribute towards building the supply infrastructures which are necessary for the development of the natural gas market in the PRC.

Investments in natural gas infrastructure in the PRC

The PRC is aiming to lay down an effective natural gas supply system. The map below shows the current and expected gas distribution network and infrastructure:



Source: Developing China's Natural Gas Market, the International Energy Agency, 2002.

In terms of supply of natural gas, it generally refers to exploitation, storage, transportation and distribution and delivery. Natural gas can be stored in pressure vessels or gas tanks, while distribution and delivery will involve infrastructures such as gas-pressure regulating station, refueling station, compressors and pipelines. In terms of transportation, natural gas can be transported through pipelines, tank truck and trailers, and ocean tankers.

Regarding the LNG import terminals in the south-eastern area of the PRC, natural gas in the form of LNG is to be transported by large ocean tankers. Once the ocean tankers docked at the port/terminals, LNG is then collected and stored in large insulated tanks, awaiting for further processing and distribution in accordance with the customers need. Large storage and processing facilities are generally constructed at the terminals.

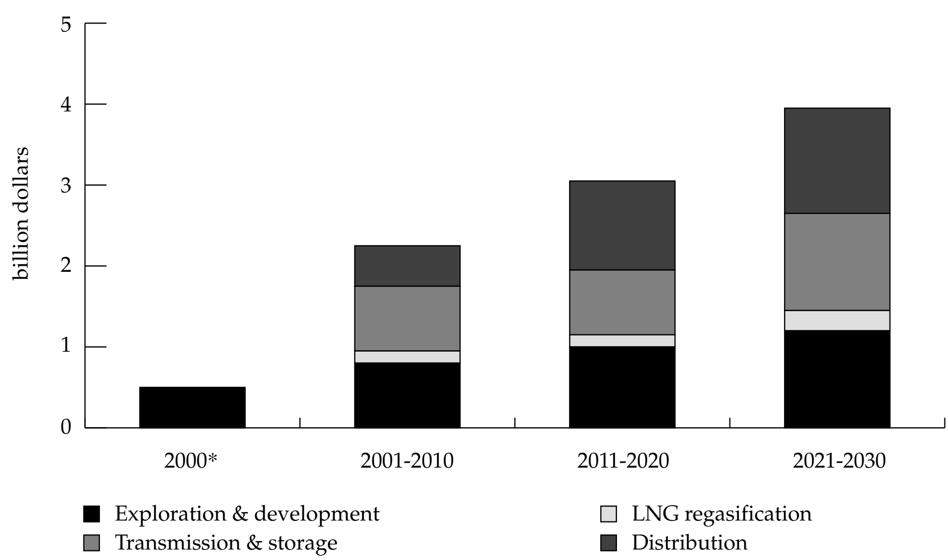
Regarding the "West-to-East Pipeline" project and the Sino-Kazakh crude pipeline project, natural gas is to be delivered onshore through the pipeline networks from gas fields to the depots where there are concentrated demands. Compression is required to deliver natural gas through the pipeline networks. Compressor stations are built at an interval of 40 to 100 miles along the pipeline in order to ensure the natural gas is safely delivered under constant pressure.

Large pipeline networks, ocean tankers and large storage and processing facilities at the import terminals are generally used to transport and deliver natural gas in large volume and long distances.

For comparatively shorter distance of delivery, natural gas, either in the form of LNG or CNG, can be delivered through pipeline networks or trailers or tank trucks. It is commonly regarded that CNG provides a convenient and economical way of delivery at place where pipeline networks to end users are not well established.

The Directors expect that as the PRC Government is committed to further develop the natural gas market, equipments, machinery and pipeline networks are necessary to be put in place for the purposes of exploitation, storage, transportation and distribution and delivery.

The PRC Government plans to invest approximately RMB220 billion in developing natural gas industry by 2020, including 50,000 kilometers of pipelines, LNG terminals and LNG/CNG transportation facilities. The PRC Government has been making a long-term plan to better exploit and utilise natural gas to enhance the national energy supply and consumption mix. The following chart shows the annual investment amount in association with the natural gas market in the PRC for the periods from 2000 to 2030:



Source: World Energy Investment Outlook 2003 Insight, International Energy Agency, 2003.

PRC regulations for manufacturing, designing and selling gas equipment

A series of regulations on quality and safety supervision for special gas products and equipment have been enacted by the PRC Government, including without limitation, the Supervision Administration Regulation for Manufacture of Boiler and Pressure Vessel《鍋爐壓力容器製造監督管理辦法》, the Regulation on Safety Supervision of Special Equipment《特種設備安全監察條例》, the Administrative and Qualifying Rules for the Design of Pressure Vessels and Pipelines《壓力容器壓力管道設計單位資格許可與管理規則》, Regulation For Compulsory Product Certification《強制性產品認證管理規定》,

Measures for the Administration of Manufacturing Licence for Industrial Products《工業產品生產許可證管理辦法》, the Notice Relating to the Reform of Vehicles Production Enterprises and Products Record Management (《關於車輛產品目錄管理改革有關問題的通知》), the Announcement regarding Vehicles Production Enterprises and their products《車輛生產企業及其產品公告》and Law of People's Republic of China on Prevention and Control of Radioactive Pollution《中華人民共和國放射性污染防治法》.

Pressure vessel

GAQSIQ is the authority responsible for safety supervision and administration of special equipment manufactured and used in the PRC. The Special Equipment Licensing Office of GAQSIQ is in charge of special equipment manufacturers' application for special equipment licence, generate survey for GAQSIQ to review, and maintain a licensing database of overseas and domestic special equipment manufacturers.

On 1 January 2003, GAQSIQ launched Supervision Administration Regulation for Manufacture of Boiler and Pressure Vessel《鍋爐壓力容器製造監督管理辦法》, which is aimed to regulate the manufacturing and sales of boilers and pressure vessels in the PRC and assure their compliance with safety performance standards of both human life and property. The three supporting documents, namely the Requirements for Boiler and Pressure Vessel Manufacture Licensing, the Procedures for Manufacture Licensing of Boiler and Pressure Vessel, and Supervisory Inspection Rule for Safety Performance of Boiler and Pressure Vessel Products took effect on 1 January, 2004. The key terms of these regulations include: (1) All boiler and pressure vessel products manufactured and/or used in the PRC, shall be subject to registration and mandatory supervisory inspection for safety performance; (2) manufacturers shall apply special manufacturing licences to sell their products in the PRC; (3), manufacturers must meet specific standards, and their products shall pass the required trial-production test to obtain licence; (4) manufacturers can only produce those product categories stated in its licences (currently, the Administrative and Qualifying Rules for the Design of Pressure Vessels and Pipelines classified all pressure vessels into four classes: A, B, C and SAD grade); (5) manufacturing licence is valid for a period of four years and subject to renewal; (6) safety performance of boilers and pressure vessels will be inspected in manufacturing process; and (7) manufacturing licence will be suspended or revoked if manufacturers' products have serious problems or cannot be in conformity with the requirements of manufacturing licence.

On 18 August 2002, GAQSIQ announced the Administrative and Qualifying Rules for the Design of Pressure Vessels and Pipelines. This regulation states that pressure vessels designing institutions and manufacturers must obtain the qualification required for conducting design activities of pressure vessels.

The State Council promulgated the Regulations on Safety Supervision of Special Equipment on 19 February 2003 to supervise the safety performance inspection of production process (including design, manufacture), the testing and examination process and the associated service (including installation, alternation, maintenance and repair) of special gas equipment including boilers, pressure vessels, pressure pipelines, etc.

The Group has obtained Manufacturing Licence for Pressure Vessel, Certificate of Registration for Manufacturing of Seamless Pressure Cylinder and Design Permit for Pressure Vessel to conduct its manufacture and design activities in relation to pressure vessel respectively.

According to the Notice Relating to the Reform of Vehicles Production Enterprises and Products Record Management (《關於車輛產品目錄管理改革有關問題的通知》) promulgated by the SETC on 22 May 2001, all automobile manufacturers and the models of vehicles manufactured by them must obtain the registration on the Nation-wide Catalogue of Enterprises engaged in the Production of Automobiles, Modified Automobiles and Motorcycles and Related products ("Approved Catalogue") before they can legally sell their products in the PRC. The automobile manufacturers and the model number of automobiles, which have been approved by SETC, will be published by way of the Public Notice. The Group has obtained relevant registration under the No. 40 Approved Catalogue published by NDRC dated 13 July 2004 for selling its trailer and tank truck products in the PRC.

Compressor

Measures for the Administration of Manufacturing Licence for Industrial Products ("Measures"), enacted by GAQSIQ on 19 April 2002, formulated the Catalog of Products subject to the System for Industrial Products ("Catalog"). Pursuant to the Measures, the manufacturing and selling of compressor products in the Catalog are required to obtained National Industrial Product Manufacturing Licence issued by GAQSIQ.

Integrated business solutions

As the integrated business solutions of the gas energy industry is a newly emerged business model which includes the provision of value-added service, such as system design, on-site installation and training program as well as the sale of gas equipment like natural gas compressors, pressure vessels and CNG trailers to the customers who are the operator of CNG refueling stations, so far only the regulations in relation to the gas equipment including compressors and pressure vessels as mentioned in this section above apply to this business as at the Latest Practicable Date.

As confirmed by the PRC legal advisers, the Group has obtained relevant licences, permits and certificates necessary to conduct its operations in the PRC and has complied in all material respect with all applicable laws and regulation in the PRC since its establishment.

INTRODUCTION

The Group is one of the leading specialised gas equipment manufacturers in the PRC and an integrated business solutions provider in the gas energy industry in the PRC. The Group is principally engaged in the design, manufacture and sale of specialised gas equipment including compressors, pressure vessels and other gas equipment including gas refueling station trailers that are essential to the transportation, storage and distribution of natural gas in the gas energy industry. With the established experience in the development and manufacture of specialised gas equipment and knowledge in the gas energy industry, the Group also provides integrated business solutions to its customers in the gas energy industry.

The Group has efficiently utilised its production lines and established a strong research and development team for its development and manufacture of gas equipment. Furthermore, the Group has established sales network covering Beijing, Shanghai, Tianjin, Hebei province, Shanxi province, Jiangsu province, Zhejiang province, Anhui province, Guangdong province, Heilongjiang province, Jilin province, Liaoning province and Inner Mongolia Autonomous Region in the PRC and has, directly or through overseas sales agents, begun selling its products to overseas markets during the Track Record Period. In August 2004, the Group successfully obtained the certificate of registration for manufacturing of seamless pressure cylinder issued by the Ministry of Commerce, Industry and Energy of Korea. The Group then commenced exporting its gas equipment to Korea since October 2004.

Although the Group commenced its development, manufacture and sale of specialised gas equipment in March 2002, the development and manufacturing activities of the predecessor of the Group date back to the 1950s. In this respect, the predecessor company of Enric Compressor was Bengbu Compressor, a state-owned enterprise owned by the People's Government of Bengbu, Anhui province and assets of which was acquired by the Group in March 2002 pursuant to the Bengbu Acquisition Agreement.

Over the Track Record Period, the Group had been actively engaged in the research and development of various types of gas equipment with the objective to better cater to the changing market demands through improving the quality and performance of its products. As a result, the Group has experienced significant growth in its business since its inception. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the Group recorded turnover of approximately RMB68.9 million, RMB252.4 million and RMB209.7 million respectively. Such turnover of the Group for the year ended 31 December 2004 and the six months ended 30 June 2005 represent an increase of approximately 266.3% and 153.0% when comparing with the turnover of the Group for the year ended 31 December 2003 and the six months ended 30 June 2004 respectively.

In order to further expand the spectrum of the Group's gas equipment products and to establish the Group's brandname in the gas equipment market, the Group established Enric Gas Equipment in 2003 and pursuant to the Tripartite Agreement, part of the assets, amongst other things, previously owned by Xinao Shijiazhuang were injected to Enric Gas Equipment as capital contribution on 31 March 2004. The Group then advanced the manufacture and sale of pressure vessels and other types of gas equipments, including various standards of stationary or mobile pressure vessels in 2004. Through the expansion of the Group's specialised gas equipment capabilities, the Group is able to establish a consolidated platform to develop and provide integrated business solutions to its customers, which are essential in assisting them with the implementation of projects in the gas energy industry.

The Group has adopted advanced manufacturing technique for its products and has formed strategic relationship with international natural gas technology provider by way of introducing patented natural gas technology in its products for use in the PRC market.

In order to further streamline the Group's gas equipment business, the Group established Enric Integration as a focused arm to develop and market its integrated business solutions to its customers in the gas energy industry.

The Directors believe that the Group has an established reputation within the PRC for its capabilities in providing specialised gas equipment, which are reliable and of superior quality, and customer-oriented after-sales services. By virtue of the Group's proven series of products in the gas equipment market, the Group strives to become a leading energy equipment and comprehensive integrated business solutions provider in the gas energy industry. The Group also plans to market and sell its energy equipment products and integrated business solutions in the international markets.

STRENGTHS OF THE GROUP

The Directors believe that the following principal strengths of the Group will ensure the Group's future success and fast growth:

- Specialised products tailored to satisfy expected demands pursuant to the future development of natural gas as a more prominent energy source;
- Advanced manufacturing techniques and foreign natural gas technology afford the Group with a technological advantage over competitors in the domestic market;
- Industry standards form high barrier to entry;
- Strong research and development capability and advanced technologies tailored to the PRC market;
- Comprehensive sales network and effective marketing strategies;
- Highly experienced management team; and
- Strong shareholder's background.

Specialised products tailored to satisfy expected demands pursuant to the future development of natural gas as a more prominent energy source

The Group is one of the leading specialised gas equipment manufacturers and an integrated business solution provider in the PRC with the focus of facilitating the storage, distribution and use of gas at different stages along the natural gas supply chain. In light of committed effort of the PRC Government to ensure more efficient energy usage and to identify alternative energy so as to tackle the possible energy shortage to be faced by the PRC, further development of the natural gas market has been designated as an initiative of the PRC Government to promote wider adoption of the gas as fuel and to significantly increase its usage in the future. Accordingly, natural gas as an energy in the industrial and power generation, residential and vehicular sectors, is poised to be more prevalent and its market is expected to experience significant growth.

As the Group's gas equipment is designed to facilitate the transporting, compressing, storing and distributing of natural gas, the Directors believe that significant future development of natural gas market and its usage will inevitably result in significant increase in demand for the Group's products and services.

Further, the Directors believe that, by virtue of the favourable support from the PRC Government's policy, substantial investments in the infrastructure of the PRC's natural gas market, including the construction of natural gas pipelines and LNG ports etc, are likely to continue. As such, the Directors view that the downstream gas energy facilities that are necessary for the dispensation of natural gas to end-users, such as gas refueling stations, LNG trailers and CNG trailers, will experience growth in demand across China.

Advanced manufacturing techniques and foreign natural gas technology afford the Group with a technological advantage over competitors in the domestic market

The Group has obtained the ownership of the patented technologies for seamless pressure cylinders, gas storage cylinder group for use at gas refueling stations, and containers for seamless pressure cylinders. The Group has also obtained exclusive rights from Xinao Shijiazhuang to apply the technologies of Neogas for use in the Group's hydraulic refueling stations. Such technologies of Neogas have been granted a patent in United States while application has been made to the State Intellectual Property Office of the PRC for registration of such patent in the PRC. (Details of which are set out in sections headed "Business – Intellectual property – Patented technologies" and "Connected transactions" in this prospectus).

The Directors believe that such access to foreign technologies and advanced techniques affords the Group a technology edge over other manufacturers of pressure vessels and conventional refueling stations in the PRC.

Industry standards form high barrier to entry

The Group measures the quality of its products against international benchmark and has in place quality control system and procedures to ensure its products are of consistent and high standards that fulfill the requirements of both national and international standards. In addition to fulfilling the domestic industry standards and having obtained the relevant licences, the Group, at present, has further obtained the ASME certification from the U.S. and the certificate from Ministry of Commerce, Industry and Energy of Korea in order to improve the standards of and hence the competitiveness of its products.

The Directors believe that the high industry standards and strict regulations imposed on participants in the gas equipment manufacturing industry represent significant entry barriers to new entrants as the satisfaction of such industry standards require substantial up-front investment in the research and development of the gas equipment, coupled with stringent management and quality control system, all of which are results of years of manufacturing experience in the gas equipment industry and are difficult for new entrants to match.

Strong research and development capability and advanced technologies tailored to the PRC market

During the Track Record Period, the Group had achieved rapid growth through successful introduction of advanced international technologies to improve the performance of its products as well as continuous modification of its existing products to cater to the changing market needs. The Directors believe that such achievements were attributable to the Group's strong research and development team, comprising qualified professionals with years of specialised gas equipment industry experience. The Group's research and development team now consists of over 120 professionals.

As the PRC market has different characteristics from overseas, the Group's research and development team is responsible for the further development and enhancement of its imported technology in order to cater to the needs of the PRC market. For example, certain products of the Group are tailor-designed to operate in low temperature environment in order to meet customers' special requirements in the PRC.

The Directors believe that the Group's research and development capability coupled with the Group's knowledge of the PRC market would provide the Group with a competitive advantage over overseas competitors as it allows the Group to respond to the changing needs of the PRC gas equipment market promptly.

Comprehensive sales network and effective marketing strategies

The Group based its sales and marketing strategies on the concept of "Customers Come First". The Group has established a sales team of over 100 members and sale offices in 10 cities in the PRC, namely Shanghai, Bengbu, Guangzhou, ChongQing, Langfang, Xi'an, Zibo, Shenyang, Wuhan and Urumqi, in order to cover customers based in those cities and in the nearby regions. The Group's sales team provides technical support, product orientation and on-site order services to the Group's customers and assists them in the installation, operation and maintenance of the Group's products.

The Directors believe that an established sales and service network would provide a competitive edge to the Group over its competitors, many of which are based overseas and thus slower in responding to the specific needs of the PRC customers.

Highly experienced management team

The Group's management team comprises experienced senior engineers and personnel with management, financial and legal skills. The team members are experienced in developing, manufacturing and selling specialised gas equipment and have the experience in the provision of integrated business solutions in the gas energy industry.

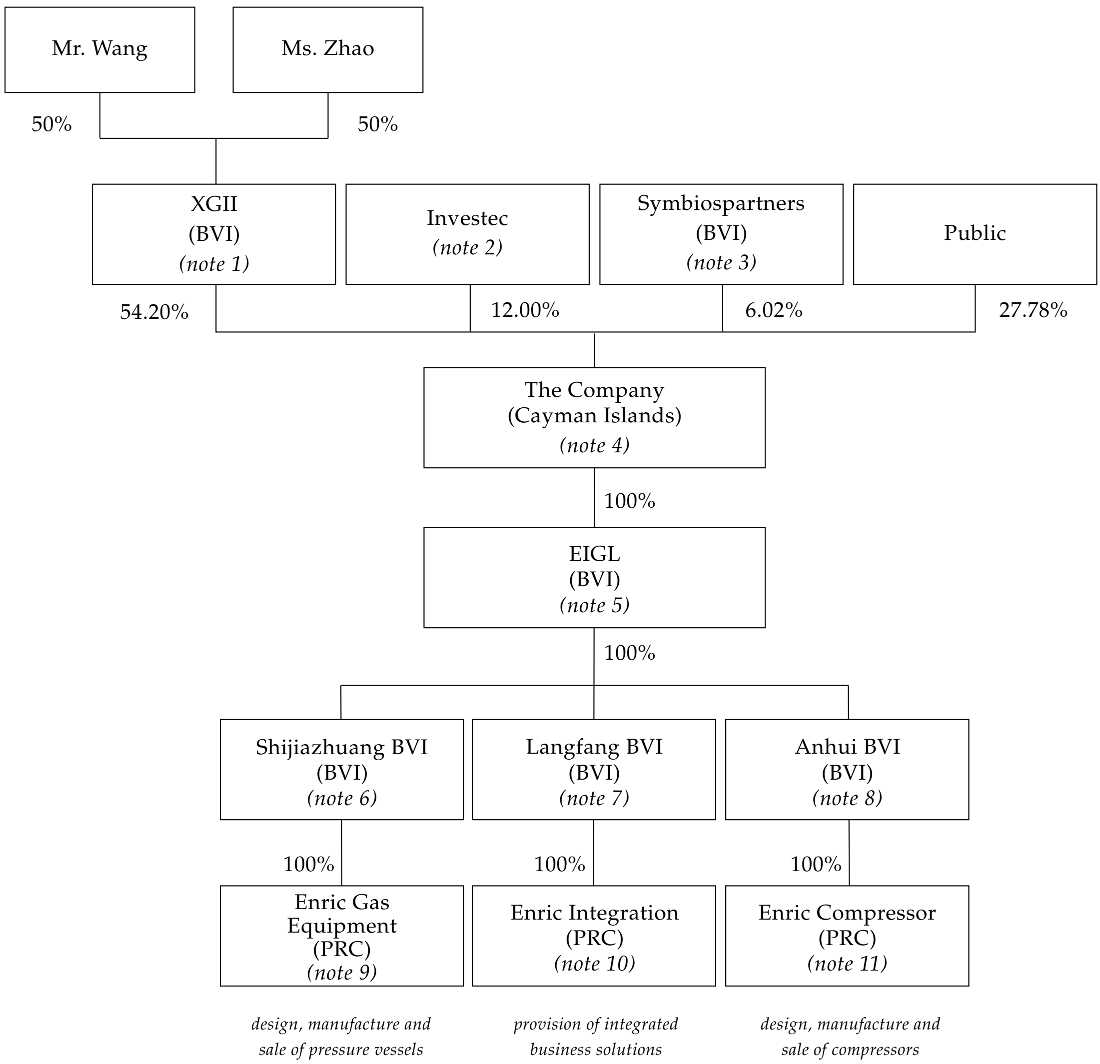
While the management team of the Group as a whole plays a significant role in the development of the Group's business, certain members of the team play key roles in the future success of the Company: Mr. Wang, the co-founder, chairman and one of the executive Directors of the Company, has over 18 years of experience in the investment in, and management of, the gas business in the PRC. The strategic leadership from Mr. Wang will be crucial to the Group's success due to his significant experience and knowledge in the natural gas industry in the PRC. Mr. Cai Hongqiu, the chief executive officer of the Company and one of the executive Directors, has years of experience in managing industrial enterprises in the PRC. Mr. Cai, who holds a degree in Law and a master's degree in Science, is fully responsible for the overall operations of the Group.

Strong shareholder's background

The Group strives to become a competitive and technologically advanced specialised gas equipment manufacturer and provider of integrated business solutions in the gas energy industry. Mr. Wang, a controlling Shareholder and the co-founder, has substantial experience in the natural gas industry in the PRC. Apart from his interests in the Group, Mr. Wang also controls (i) Xinao Gas, one of the leading operators in gas transportation and distribution in the PRC and a company listed on the Main Board, with principal business of investing, operating and managing gas pipeline infrastructure and the sale and distribution of piped gas in the PRC; and (ii) XGCL Group, a private conglomerate engaged in various business activities including energy chemical and bio-chemical industry in the PRC (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). Mr. Wang, the chairman of XGCL and Xinao Gas, is the vice-chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce and a member of the Tenth National Committee of the Chinese People's Political Consultative Conference.

SHAREHOLDING AND GROUP STRUCTURE

The following chart illustrates the shareholding structure of the Group immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme:



Notes:

1. XGII is a limited liability company incorporated in BVI on 18 July 2000. Since its incorporation, the shareholders of XGII have been Mr. Wang and Ms. Zhao. Mr. Wang and Ms. Zhao each beneficially owns 50% of the entire issued share capital of XGII.

2. Investec is a wholly owned subsidiary of Investec PLC. Investec PLC is an international investment and private banking group and the shares of which are listed on the London Stock Exchange. Investec Group provides corporate and investment banking, private banking, securities trading, asset management, property trading and management and trade finance services and engages in direct investment business. The net assets of Investec PLC was £980.45 million (approximately HK$13.53 billion) as at 31 March 2005. Investec PLC recorded a net profit of £100.52 million (approximately HK$1,387.2 million) for the year ended 31 March 2005. The market capitalisation of Investec PLC was approximately £1,591.19 million (approximately HK$21.95 billion) as at 27 September 2005. Investec is an Independent Third Party. Investec will have no representation on the Board nor will it have any management functions in the Group.

3. Symbiospartners is an investment holding company incorporated in BVI with limited liability on 2 January 2004, and is owned as to 50% by Symbiospartners Investment Limited, 35% by SinoBanker Group and 15% by Mr. Liang Zhengzhong ("Mr. Liang") respectively. Symbiospartners Investment Limited is a company incorporated in BVI on 3 January 2003 and is indirectly owned as to approximately 81%, 14% and 5% by Mr. Hui Ching Lau ("Mr. Hui"), Mr. Liang and other independent securities and investment fund companies respectively. SinoBanker Group is a company incorporated in the Cayman Islands on 23 February 2000 and is owned as to approximately 56% and 44% by Mr. Liang and other independent securities and investment fund companies. Accordingly, each of Mr. Liang and Mr. Hui holds approximately 41% interest in the issued share capital of Symbiospartners. Mr. Liang is also the founder, president and chief executive officer of SinoBanker Group. The principle business of each of Symbiospartners, Symbiospartners Investment Limited and SinoBanker Group is the investment in equities of listed and unlisted companies. However, these companies do not have any interests in any company which competes or is likely to compete with the business of the Group. Each of Mr. Liang and Mr. Hui is an Independent Third Party. Symbiospartners will have no representation on the Board nor will it have any management functions in the Group.

4. The Company is an exempted company incorporated in the Cayman Islands with limited liability on 28 September 2004 under the Companies Law.

5. EIGL is a limited liability company incorporated in BVI on 1 May 2002 and is wholly owned by the Company.

6. Shijiazhuang BVI is an investment holding company incorporated in BVI on 29 April 2002 and is wholly owned by EIGL.

7. Langfang BVI is an investment holding company incorporated in BVI on 14 September 2004 and is wholly owned by EIGL.

8. Anhui BVI is an investment holding company incorporated in BVI on 29 April 2002 and is wholly owned by EIGL.

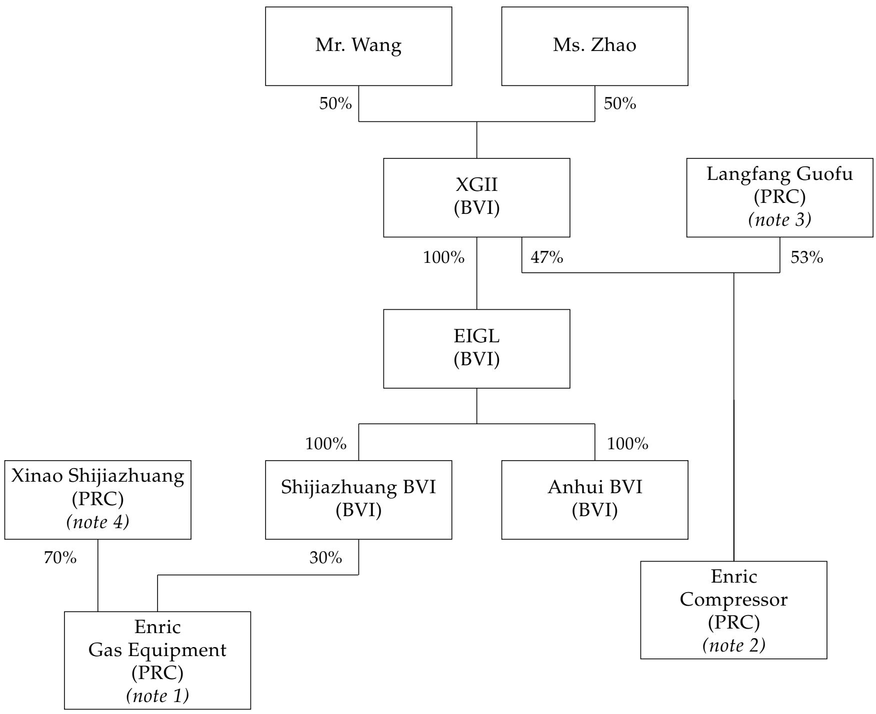
9. Enric Gas Equipment is a wholly foreign owned enterprise with limited liability incorporated in the PRC on 30 September 2003 and is wholly owned by Shijiazhuang BVI.

10. Enric Integration is a wholly foreign owned enterprise with limited liability incorporated in the PRC on 28 December 2004 and is wholly owned by Langfang BVI.

11. Enric Compressor is a wholly foreign owned enterprise with limited liability incorporated in the PRC on 14 March 2002 and is wholly owned by Anhui BVI.

REORGANISATION OF THE GROUP

Set out below is the shareholding structure of the Group prior to the Reorganisation (details of which are more particularly set out in section headed "Corporate reorganisation" in Appendix VII to this prospectus) and the introduction of Institutional Investors:



Notes:

1. Prior to 3 September 2004, Enric Gas Equipment was a Sino-foreign equity joint venture enterprise and was then owned as to 70% by Xinao Shijiazhuang and 30% by Shijiazhuang BVI.

2. Prior to 8 July 2004, Enric Compressor was a Sino-foreign equity joint venture enterprise and was then owned as to 53% by Langfang Guofu and 47% by XGII.

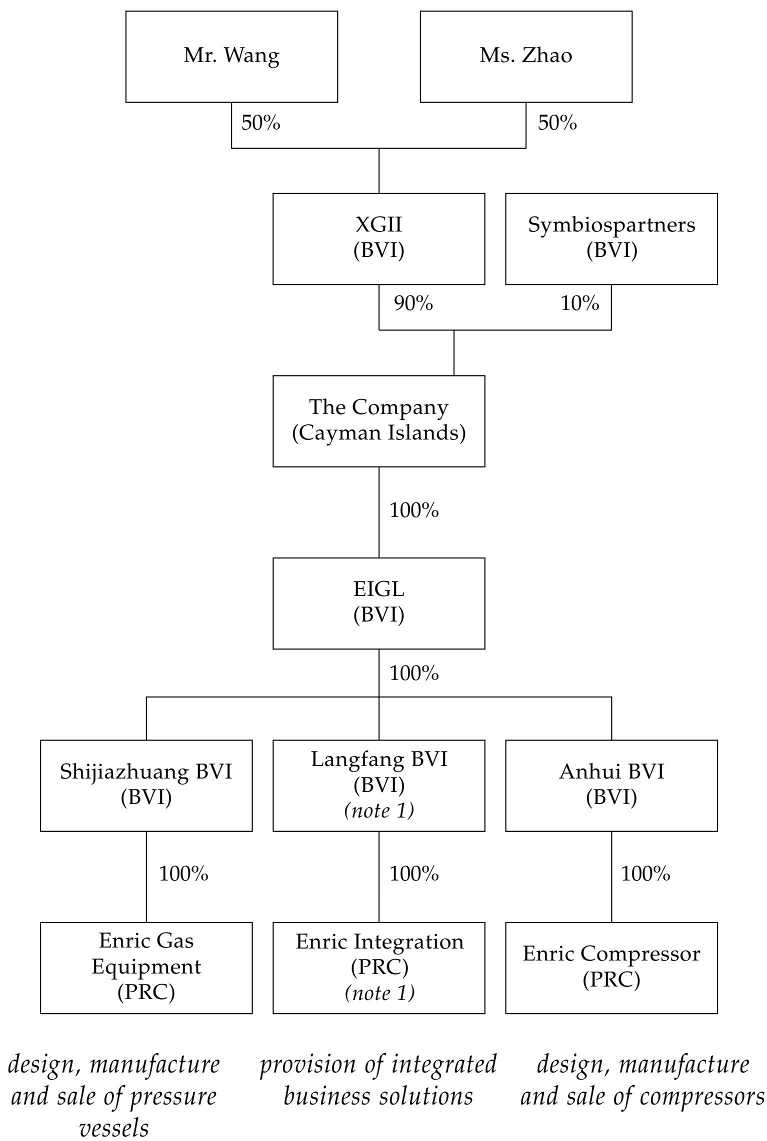
3. Langfang Guofu is a company incorporated in the PRC with limited liability on 13 January 2000 and beneficially owned as to 90% by Mr. Wang and 10% by Mr. Wang Baozhong, Mr. Wang's father, as nominee for the benefit of Mr. Wang.

4. Xinao Shijiazhuang is a joint stock limited company and was first incorporated in the PRC in February 1994. Further details of Xinao Shijiazhuang are set out in the section headed "History and development – Background of Xinao Shijiazhuang" in this section.

The Reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. As a result, the Company became the holding company of the Group. The major steps of the Reorganisation and the introduction of an Institutional Investor, Symbiospartners, into the Group are set out in the section headed "Corporate reorganisation" in Appendix VII to this prospectus.

Set out below is the shareholding structure of the Group after the Reorganisation and the completion of the allotment of Shares to Symbiospartners pursuant to the deed for sale and purchase of the entire share capital of EIGL dated 26 September 2005 entered into between, amongst other parties, the Company and Symbiospartners and immediately prior to the completion of the Capitalisation Issue, the Conversion and the Placing:



Notes:

1. Pursuant to the Reorganisation, Langfang BVI was incorporated in BVI on 14 September 2004 and Enric Integration was incorporated in the PRC on 28 December 2004.

2. The Company became the holding company of the subsidiaries within the Group on 26 September 2005 pursuant to the deed of sale and purchase of the entire issued share capital of EIGL entered into between XGII and Symbiospartners as vendors and the Company as purchaser dated 26 September 2005.

   Pursuant to the deed, the Company acquired 90% and 10% of the issued share capital of EIGL from XGII and Symbiospartners respectively. In consideration of the acquisition, the Company allotted and issued 791 and 88 Shares credited as fully paid to XGII and Symbiospartners respectively. After the allotment and issue of such Shares, XGII and Symbiospartners will hold 90% and 10% shareholding interests in the Company respectively. Pursuant to the capitalisation agreement dated 26 September 2005, Symbiospartners was nominated by XGII to take up 26,015,912 Shares to be issued by the Company. Symbiospartners will hold 26,016,000 Shares, representing approximately 6.02% of the issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing. The cost per Share held by Symbiospartners is therefore approximately HK$0.57, representing a discount to the Placing Price in the range of approximately 49.1% to 66.1% (depending on the Placing Price which has been set in a range of HK$1.12 to HK$1.68).

HISTORY AND DEVELOPMENT

Corporate development

The Group was founded by Mr. Wang who has extensive experience and in-depth knowledge of the gas business in the PRC.

Since 2000, it was decided by Mr. Wang and the then committee members of his businesses, which included Mr. Cai Hongqiu, Mr. Yu Jianchao and Ms. Li Xiufen, that Mr. Wang's businesses were to be divided into three major lines, namely gas distribution currently carried out by Xinao Gas Group, manufacture of gas equipment currently carried out by the Group and other business interests including investment in energy chemical and biochemical industry pursued by XGCL group.

Recognising the significance of high quality compressors in the process of natural gas exploitation, transportation and distribution, the Directors began conducting feasibility studies in 2001 on potential investments in the development and manufacture of compressors with an intention to fulfill the envisaged demands in the PRC.

On 1 March 2002, XGII and its subsidiary, entered into the Bengbu Acquisition Agreement with the People's Government of Bengbu city, Anhui province to acquire Bengbu Compressor's main operating assets, including without limitation, machineries, land, building, inventories and other assets, liabilities and interests generated as a result of the liquidation of Bengbu Compressor as well as other intangible assets such as trademarks, patents, licences, copyrights, technological and manufacturing know-hows of compressors and, to a certain extent, pressure vessels from Bengbu Compressor at a consideration of RMB35.0 million.

The terms (including without limitation, the consideration) of the Bengbu Acquisition Agreement were arrived at after arm's length negotiations between the parties and the consideration was determined with reference to the valuation of the assets acquired under the Bengbu Acquisition Agreement. Such assets and liabilities were valued at approximately RMB34.0 million, by a valuer which was an Independent Third Party to both parties of the agreement. In accordance with the regulations relating to the management and valuation of PRC state-owned assets, the valuer has conducted the valuation under the assumption of liquidation, and has adopted the price settlement method (清算價格法) and cost method (成本法) as a basis to value the assets and liabilities.

As at 31 December 2001, the unaudited net asset value of Bengbu Compressor was approximately RMB32.7 million.

The assets acquired under the Bengbu Acquisition Agreement included both non-current assets and current assets. The non-current assets included plants, machinery, equipment, construction materials, land use right and technical blueprint in relation to the design of compressors. The current assets included trade receivables, deposits, other receivables and prepayments and inventories. The net book value of total assets acquired was approximately RMB41.3 million in aggregate.

Certain liabilities were also acquired under the Bengbu Acquisition Agreement. Liabilities included receipt in advance of approximately RMB3.5 million, trade payable of approximately RMB0.4 million, welfare payable of approximately RMB0.5 million and other payables of approximately RMB1.9 million.

On 14 March 2002, Enric Compressor was set up in the PRC as a wholly foreign owned company of XGII to carry out the manufacturing business of compressors and to a certain extent, pressure vessels. A majority of the employees of Bengbu Compressor were retained by the newly established Enric Compressor, including a team of 55 employees for research and development.

Prior to the acquisition under the Bengbu Acquisition Agreement, Bengbu Compressor was designated as a manufacturer of compressors in respect of power, oil field and natural gas industries for the PRC Government. It was also affirmed by the China Machinery Industry Federation (國家機械工業部) as one of the key enterprises and a second-tier enterprise of the State (國家二級企業). Bengbu Compressor was amongst one of the 500 largest machinery manufacturers in the PRC.

Through the acquisition of Bengbu Compressor, which possessed 50 years of experience in the industry, the Group reinforced the foundation of the development of its compressor business.

Shijiazhuang BVI and Anhui BVI became the respective wholly owned subsidiaries of EIGL on 1 May 2002 by allotting and issuing 1 share to EIGL respectively.

To further capitalise Enric Compressor, Langfang Guofu (an investment holding company incorporated in the PRC on 13 January 2000), which was beneficially and wholly owned by Mr. Wang at the relevant time (as to 90% by Mr. Wang personally and 10% by Mr. Wang's father as a nominee for Mr. Wang), made a cash injection into Enric Compressor in September 2002. As a result, Enric Compressor was converted into a Sino-foreign equity joint venture enterprise on 18 October 2002 and its registered capital was increased from HK$10 million to HK$21.32 million. Upon the completion of the capital contribution, Enric Compressor was owned as to 47% by XGII and 53% by Langfang Guofu.

In order to broaden the spectrum of the gas equipment products offered by the Group and to establish a specialised arm and brandname in the provision of gas equipment (particularly, the pressure vessels) in the PRC, the Group through its wholly owned subsidiary, Shijiazhuang BVI, entered into the Shijiazhuang JV Agreement on 16 July 2003 with Xinao Shijiazhuang. According to Clause 14 of Administration Ordinance of Shijiazhuang Guo Xin District (《石家莊高新技術產業開發區管理條例》) and the Resolution of Further Expediting the Construction and Development of Shijiazhuang Gao Xin District (《關於進一步加快石家莊高新技術產業開發區建設和發展的決定》) authorised by the People's Government of Shijiazhuang Municipal, the Administrative Committee of Shijiazhuang Gao Xin District approved the Shijiazhuang JV Agreement and related articles of association on 18 September 2003.

Pursuant to the Shijiazhuang JV Agreement, Xinao Shijiazhuang would contribute by way of assets of land (valued at US$383,000), manufacturing equipment (valued at US$1,029,000), and buildings (valued at US$303,000) as registered capital, and Shijiazhuang BVI would contribute US$735,000 cash as registered capital in Enric Gas Equipment. Accordingly, Xinao Shijiazhuang and Shjiazhuang BVI owned as to 70% and 30% of the registered capital of Enric Gas Equipment respectively.

Sales contracts of Xinao Shijiazhuang were not included as part of the capital contribution because the Group intended to have a contribution of assets instead of an acquisition of the business of Xinao Shijiazhuang. Further, customers of Xinao Shijiazhuang were not target customers of the Group.

The business licence of Enric Gas Equipment was issued on 30 September 2003 and accordingly, Enric Gas Equipment was formally established as a Sino-foreign equity joint venture enterprise of the PRC, owned as to 70% by Xinao Shijiazhuang and 30% by Shijiazhuang BVI. Since its establishment, the Group had 30% equity interests in Enric Gas Equipment. As evidenced by the capital verification reports issued by Hebei Huacheng Accountants on 16 December 2003 and 1 April 2004, Shijiazhuang BVI contributed US$735,000 in cash and Xinao Shijiazhuang contributed RMB14,234,500 of assets. Further details of Xinao Shijiazhuang are set out in the section headed "Background of Xinao Shijiazhuang" in this section.

Due partly to the delay in the transfer of relevant titles and qualifications regarding the design and manufacture of pressure vessels, Xinao Shijiazhuang and Shijiazhuang BVI entered into an agreement (the "Shijiazhuang Revised Agreement") dated 28 December 2003 to amend the scope of assets to be contributed to a total of net assets of US$1,715,000 and the completion date of the capital contribution to within six months from the date of issue of business licence of Enric Gas Equipment. The Shijiazhuang Revised Agreement was properly approved by the Administrative Committee of Shijiazhuang Gao Xin District.

According to the PRC legal advisers to the Company, as the Shijiazhuang Revised Agreement had been approved by the board of Enric Gas Equipment and the relevant government authority, and the related joint venture contract and the articles of association have also been properly filed with the Shijiazhuang Industrial and Commerce Bureau, as provided under clause 14 of the Regulations for the Implementation of the Law of the People's Republic of China on Chinese-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法實施條例》), the Shijiazhuang Revised Agreement complied with relevant PRC law and regulations.

On 31 March 2004, Xinao Shijiazhuang, Shijazhuang BVI and Enric Gas Equipment and Shijiazhuang BVI entered into the Tripartite Agreement to effect the injection of, amongst other things, net assets of Xinao Shijiazhuang into Enric Gas Equipment on the same date. According to the capital verification report issued by Hebei Tianhua Accountants on 1 April 2004, Xinao Shijiazhuang completed the capital contribution of Enric Gas Equipment on 31 March 2004. Thereafter, Enric Gas Equipment commenced operation of its business in April 2004. The transfer of the registration on the Nationwide Catalogue of Enterprises engaged in the production of automobiles ("Catalogue") to Enric Gas Equipment, which formed part of the capital contribution, was subsequently completed in July 2004.

From the accounting perspective, the aforesaid amendment of the completion date of capital contribution has no financial impact to the preparation of the audited combined financial statements as set out in Appendix I to this prospectus during the Track Record Period. The capital contribution has been accounted for as and when it occurred in the audited combined financial statements, i.e. Enric Gas Equipment did not have any assets and liabilities before the capital contribution on 31 March 2004. During the period from 30 September 2003 to 31 March 2004, the Group had 30% equity interest in Enric Gas Equipment. Enric Gas Equipment did not have any revenue but there were expenses of approximately RMB99,000 incurred mainly for research and development purposes in relation to the preparation work for the sales of pressure vessels, these have been included in the Group's combined financial statements as set out in Appendix I to this prospectus.

Pursuant to an equity transfer agreement dated 10 June 2004 entered into between Enric Compressor as transferor and Langfang Guofu as transferee, Enric Compressor transferred all its equity interests of approximately 12.27% in XGCL to Langfang Guofu at a consideration of RMB26,190,000.

As part of the Reorganisation, Enric Compressor was converted from a Sino-foreign equity joint venture enterprise to a wholly foreign owned enterprise in the PRC by way of XGII and Langfang Guofu transferring their respective equity interests in Enric Compressor to Anhui BVI on 8 July 2004 at an aggregate consideration of approximately HK$21.3 million.

On 16 July 2004, Shijiazhuang BVI acquired 70% additional interest of Enric Gas Equipment from Xinao Shijiazhuang at a consideration of US$1,715,000, pursuant to the Reorganisation. On 3 September 2004, Enric Gas Equipment obtained its business licence and was converted from a Sino-foreign equity joint venture enterprise to a wholly foreign owned enterprise in the PRC. Upon Shijiazhuang BVI's acquisition of the 70% additional interests in Enric Gas Equipment from Xinao Shijiazhuang on 16 July 2004, Enric Gas Equipment has been accounted for as a wholly owned subsidiary of the Group since 16 July 2004.

In preparation for the Listing, the Company was incorporated in the Cayman Islands on 28 September 2004 as the holding company of the Group and was held as to 100% shareholding interests by XGII.

In order to streamline the Group's businesses, the Group established Enric Integration on 28 December 2004, as a specialised arm to conduct the integrated business solutions business which were mainly carried out by Enric Gas Equipment prior to the incorporation of Enric Integration. Enric Integration is a wholly foreign owned enterprise with registered capital of HK$10.0 million and wholly owned by Langfang BVI. Enric Integration commenced operation of the Group's business of integrated business solutions in February 2005.

On 21 January 2005, the Group entered into a subscription agreement with Symbiospartners for an issuance of 10% equity interests of EIGL for a consideration of US$1.9 million.

On 29 August 2005, the Company, amongst others, entered into the Convertible Bond Subscription Agreement with Investec, pursuant to which EIGL issued to Investec a redeemable convertible bonds in the aggregate principal amount of US$5,000,000. The Redeemable Convertible Bonds will be mandatorily converted into Shares in full upon (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8:00 a.m. on the Listing Date. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised). Based on the number of Shares which are expected to be in issue immediately upon the Listing, Investec is expected to be allotted and issued 51,840,000 Shares. The Directors believe that through introducing the Institutional Investors, the Group not only obtains new financing to fuel its on-going expansion plan prior to the Placing but also improves the Shareholders' base.

On 26 September 2005, the Company acquired the entire issued share capital of EIGL from XGII and Symbiospartners and became the holding company of the Group pursuant to a deed of sale and purchase of the entire share capital of EIGL. In consideration of the acquisition, the Company allotted and issued 791 and 88 Shares credited as fully paid to XGII and Symbiospartners respectively. After the allotment and issue of Shares, XGII and Symbiospartners will hold 90% and 10% shareholding interests in the Company respectively.

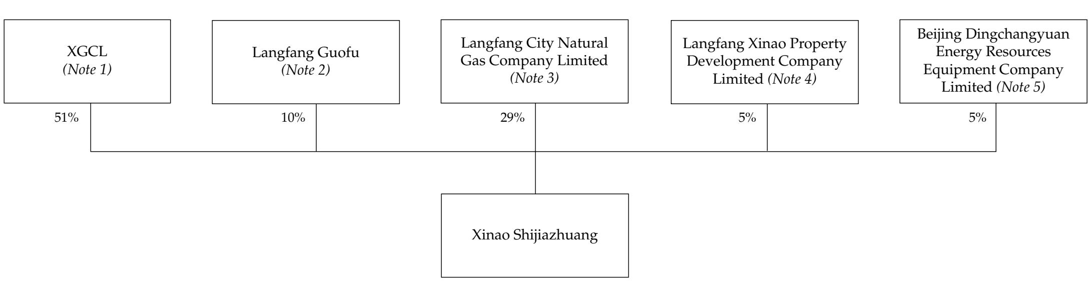
Conditional upon the grant of approval for the Listing and the Underwriting Agreement becoming unconditional and not being terminated, the cash advances in the sum of RMB45,000,000 due and owing by the Company to XGII were capitalised by the Company allotting and issuing a total of 260,159,120 Shares to XGII and Symbiospartners.

Background of Xinao Shijiazhuang

Xinao Shijiazhuang was established in February 1994 and was principally involved in the development and manufacture of petrochemical machinery, including without limitation, welded gas cylinder, steel cylinder, tank truck and storage tank for storage of different types of gas and customised equipment for chemical materials. Xinao Shijiazhuang was formerly known as Shijiazhuang Chemical Machinery Factory, a PRC state-owned enterprise with approximately 30 years of experience in the development, manufacture and sale of pressure vessels in the PRC, which was subsequently converted into a joint stock limited company and was renamed as Shijiazhuang Chemical Equipment.

On 20 November 2000, XGCL, Langfang Guofu, Langfang City Natural Gas Company Limited, Langfang Xincheng Property Limited and Beijing Dingchangyuan Energy Resources Equipment Company Limited (collectively the "SCE Buyers") and the then shareholders of Shijiazhuang Chemical Equipment, entered into a share transfer agreement under which the then shareholders of Shijiazhuang Chemical Equipment, namely the Labour Union of Shijiazhuang Chemical Equipment, Li Jianmin, Liu Da, Zhao Xiaohai, Wang Yankun and Ma Yongquan, all being Independent Third Parties, transferred their entire respective 87.76%, 4.49%, 2.38%, 2.14%, 1.86% and 1.37% shareholding interests in Shijiazhuang Chemical Equipment to the SCE Buyers. On 20 December 2000, Shijiazhuang Chemical Equipment was approved to be renamed as Xinao Shijiazhuang.

Although Xinao Shijiazhuang does not form part of the Group, set out below is the shareholding structure of Xinao Shijiazhuang immediately prior to and following the completion of the Shijiazhuang JV Agreement for reference only:



The shareholding structure of Xinao Shijiazhuang remained the same following the completion of the Shijiazhuang JV Agreement. Prior to the capital contribution of the Shijiazhuang JV Agreement, Xinao Shijiazhuang's assets primarily comprised buildings, lands, machineries, office equipment, vehicles and transportation equipment of which the value was approximately RMB46.6 million in aggregate. The buildings, lands, machineries and equipment were generally used for workshops and the vehicles were usually used by management for business purpose. The majority of assets that remained with Xinao Shijiazhuang following the completion of the Shijiazhuang JV Agreement mainly comprised buildings, office equipment and transportation equipments valued at approximately RMB3.0 million. Xinao Shijiazhuang began its new focus business on the NGV conversion business in March 2005. The NGV conversion business of Xinao Shijiazhuang involves the conversion of oil powered vehicles (for example, taxis and buses) into natural gas compatible powered vehicles, which can easily be delineated from the Group's business of manufacture of specialised gas equipment and provision of integrated business solutions in the PRC. The Directors are therefore of the view that there is no competition between the business of Xinao Shijiazhuang and the Group.

Notes:

1. XGCL (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus), a joint stock limited company established in the PRC on 5 August 1997 and is directly and/or indirectly owned as to approximately 72.97% by Mr. Wang and Ms. Zhao.

2. Langfang Guofu (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus), a company incorporated in the PRC with limited liability on 13 January 2000, is beneficially wholly owned by Mr. Wang (as to 90% by Mr. Wang personally and 10% by Mr. Wang's father as nominee for Mr. Wang).

3. Langfang City Natural Gas Company Limited* (廊坊市天然氣有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) is a company established in the PRC on 26 October 1992 and is controlled and wholly owned by Mr. Wang.

4. Langfang Xinao Property Development Company Limited* (廊坊新奧房地產開發有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus) is a company established in the PRC on 29 April 2002 and is owned as to 80% by XGCL and 20% by Langfang Guofu. The interest in Xinao Shijiazhuang was transferred from Langfang Xincheng Property Limited in May 2002.

5. Beijing Dingchangyuan Energy Resources Equipment Company Limited* (北京鼎昌源能源物資裝備有限公司), is a company incorporated in the PRC with limited liability on 6 September 2000. The Company is held as to 50% by Mr. Wang's father, on behalf of Mr. Wang through a trust agreement, and as to 50% by Mr. Zhao Yunsheng respectively. Mr. Zhao Yunsheng is Mr. Wang's father-in-law.

Business development

The Group strives to be a leading specialised gas equipment and integrated business solutions provider in the gas energy industry. The Group's business strategy model, which is being internationally accepted and adopted by other international operators, is the provision of specialised gas equipment and associated integrated business solutions in the natural gas market, which are essential to the complete natural gas supply chain comprising the transportation, storage and distribution of natural gas from well-head to end-users ("Group Business Model").

In order to competently pursue the Group Business Model, the Group has aimed to obtain and accumulate the requisite technical and manufacturing know-how of integral gas equipment (including but not limited to, pressure vessels and compressors) necessary and critical for the natural gas supply chain. More specifically, in possession of such technical and manufacturing know-how enables the Group to provide its customers with necessary equipment not only to compress natural gas but also to store such gas safely and in a form stable enough for transportation and subsequently, for distribution.

The management of the Group, ever since their determination of the Group Business Model as early as in 2000, has taken identifiable steps to rationally build up the Group and hence its business in accordance with the resolved strategy. Manufacturing and sale activities of gas equipment with targeted natural gas market, comprising mainly compressor and pressure vessels are different stages of continual development of the Group's one focused business line.

For materialising the envisaged business model, the Group, through the establishment of Enric Compressor, has begun to manufacture compressor and pressure vessel product for the customers in gas industry from early 2002. Enric Compressor also obtained its manufacturing and design licences for certain types of pressure vessels from relevant regulatory authorities in May 2002 and December 2003 respectively, which provided the Group with the necessary qualifications for conducting its manufacturing activities of full range of specialised gas equipment products. For the sake of further fulfilling the Group Business Model, Enric Gas Equipment was set up in 2004 as a specialised manufacturer of pressure vessels for the gas industry. Despite the difference in size or capacity, the pressure vessels produced by Enric Compressor and Enric Gas Equipment were in fact comparable in terms of function, types of gases stored, design, usage, nature as well as from regulatory perspective.

By building up the production platform of pressure vessels as well as compressors in its earlier stage, the Group committed in the gas equipment business as its integral business focus rather than on individual products. Prior to the commercial launch of the Group's integrated business solutions in May 2004, the Group has already commenced such services through Enric Compressor. The service includes on-site installation, design, testing and staff training service, provided to Enric Compressor's customers who purchase compressors for use in gas refueling stations. Although the results of integrated business solutions were only financially identifiable on the Group's books in 2004, the Group has been actively engaged in its development activities over the Track Record Period.

For the period from 14 March 2002 to 31 December 2002

The Group first obtained its ISO9001:2000 (2000 version) certificate and was issued with, amongst others, the permit for design of certain types of pressure vessels, permit for manufacturing of pressure vessels and licence for operating of radioactive equipment at the workplace, by the relevant authorities at the national and provincial level.

The Group invested approximately RMB2.64 million to renovate and upgrade its production facilities such as its technology centre and office buildings and equipments.

Upon the establishment of Enric Compressor, the Group adopted new management system and techniques that led to the Group's achieving satisfactory results in its inception year. The Group was also awarded the Top 100 Private Enterprise of Anhui province, the PRC.

Since August 2002, Enric Compressor started to record revenue from sales of pressure vessels, apart from its revenue generated from sale of compressors.

For the year ended 31 December 2003

To raise the Group's competitiveness and its market share, it injected approximately RMB7.3 million into expanding and upgrading its production facilities in Bengbu, including installing eight units of CNC milling machines, as well as setting up the facilities for polishing process using shot-blasting metal pellets and the automated spray painting facilities. The Group also invested approximately RMB265,100 on the purchase of CAD graphic design software and related equipments to enhance its design capabilities.

The Group also expended approximately RMB1.9 million for the research and development of its products. The Group's screw compressor was subsequently awarded the New Product Award of Anhui province.

The Group started to provide its customers with value-added services mainly including on-site installation, design, testing and staff training services which were conducted by Enric Compressor through its sale of gas compressor.

The Group commenced exporting its compressors to Sudan and Pakistan through its dealers since June 2003 and November 2003 respectively.

In September 2003, Enric Gas Equipment was established with the intention to conduct the Group's development and manufacturing activities in relation to pressure vessels, which enabled the Group to offer a wider spectrum of gas equipment to its customers.

For the year ended 31 December 2003, the Group recorded a turnover of approximately RMB68.9 million and profit attributable to equity holders of the Company of approximately RMB10.6 million.

For the year ended 31 December 2004

In 2004, Enric Gas Equipment commenced its operations in the development, manufacture and sale of pressure vessels and other type of gas equipment. As a result of the enhanced manufacturing capabilities, the Group provided a series of integrated business solutions to suit the requirements of its customers in the gas equipment industry. Since May 2004, the Group started to record revenue from sales of integrated business solution products.

In August 2004, the Group successfully obtained the certificate of registration for manufacturing of seamless pressure cylinder issued by the Ministry of Commerce, Industry and Energy in Korea.

The Group commenced exporting its seamless pressure cylinders to Korea and, through its dealer, to Brazil since October 2004 and July 2004 respectively.

During the year of 2004, the Group injected approximately RMB32.2 million into the expansion and improvement of the Group's production facilities, including increasing its existing power supply capacities to both of its production facilities in Bengbu and Shijiazhuang, installing new facilities and systems to improve productivity and efficiency of the Group's factories, and constructing new facilities for its cryogenic liquid storage and transportation equipment series.

The Group also expended approximately RMB4.2 million in the research and development of various new products such as the single row V series natural gas compressor with 6.5 tonnes piston force, as well as other products under the Group's cryogenic liquid storage and transportation equipment series, including the LNG container and LNG mother-daughter storage tanks.

The screw compressor of the Group was awarded the top award of Bengbu City's Science and Technical Award.

In order to attain a better product image, the Group established Enric Integration to carry out the business of providing integrated business solutions in order to carry on such business from the other activities of the Group.

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB252.4 million and profit attributable to equity holders of the Company of approximately RMB36.2 million, representing an increase of approximately 266.3% and 241.2% respectively over the same period in 2003.

Pursuant to the capital contribution to Enric Gas Equipment on 31 March 2004, the sales contracts of Xinao Shijiazhuang were not included as part of the capital contribution. There was no assignment of sales contracts from Xinao Shijiazhuang to Enric Gas Equipment pursuant to the establishment and capital contribution of Enric Gas Equipment. As such, upon Xinao Shijiazhuang's contribution of its production facilities to Enric Gas Equipment, Xinao Shijiazhuang had to purchase goods from Enric Gas Equipment as a temporary arrangement in order to fulfil the outstanding sales contracts entered into or negotiated between Xinao Shijiazhuang and its customers prior to April 2004. The aggregate of the above sales to Xinao Shijiazhuang accounted for 60% of Enric Gas Equipment's total sales from April to September 2004, and accounted for approximately 20.6% of the Group's total revenue in 2004.

New sales contracts were also entered into between Enric Gas Equipment and its own customers. Although Enric Gas Equipment only formally commenced operations in April 2004 upon the completion of the capital contribution, management of Enric Gas Equipment had already begun preparatory work for the planned business focus, which are consistent with the Group's overall focused line of business, during the period between September 2003 (establishment of Enric Gas Equipment) and April 2004 (commencement of operation of Enric Gas Equipment). Enric Gas Equipment had employed technical experts to perform research and development before April 2004. Accordingly, Enric Gas Equipment was able to commence production and sales activities almost immediately following the completion of the capital contribution. Enric Gas Equipment was therefore able to achieve significant sales in the first year of the launch of products.

The raw materials for manufacture of pressure vessels, such as steel, valves, components and accessories, held by Xinao Shijiazhuang, were also not included as part of the capital contribution of Enric Gas Equipment in March 2004. Such raw materials were being acquired by the Group from Xinao Shijiazhuang in stages as and when necessary.

The raw materials left in Xinao Shijiazhuang were kept for fulfillment of the outstanding sales contracts entered into or negotiated between Xinao Shijiazhuang and its customers prior to April 2004. The Group did not require such raw materials for its production as the products of the Group are of different focus from those of Xinao Shijiazhuang. Accordingly, the management of Enric Gas Equipment had not then considered taking up the said raw materials as part of the capital contribution from Xinao Shijiazhang.

For the six months ended 30 June 2005

During the six months ended 30 June 2005, the Group invested approximately RMB7.4 million on the purchase of various property, plant and equipment and carried out certain construction to further improve on its production facilities to enhance production capabilities, including purchase of shot-blasting metal pellets facilities, vacuum machineries, constructed a compressor testing platform and a compressor assembly workshop.

During the same period, the Group also incurred approximately RMB2.4 million in the research and development of various new products including 11 new models of natural gas compressors, double axle high pressure gas trailers, double and triple axle cryogenic liquid trailer and chemical storage tank truck, 100-150 m^3 LNG storage tanks and 1,500 m^3-50,000 m^3 LNG mother-daughter storage tanks.

In March 2005, the Group was awarded the Chinese Customers Quality and Service Satisfaction Entity by the Chinese Association for Quality, China Quality Service Science Association and China Product Safety Evaluating and Monitoring Centre.

For the six months ended 30 June 2005, the Group recorded a turnover of approximately RMB209.7 million and profit attributable to equity holders of the Company of approximately RMB32.3 million, representing an increase of approximately 153.0% and approximately 213.6% respectively, over the same period in 2004.

BUSINESS MODEL

A. Products Overview

The Group is a provider of specialised gas equipment and associated integrated business solutions. The Group's principal product is quality gas equipment which includes compressors and pressure vessels. The Group's compressors, pressure vessels and integrated business solutions accounted for approximately 46.0%, 47.2% and 6.8% of the Group's turnover respectively, for the year ended 31 December 2004, and approximately 28.5%, 52.7% and 18.8% of the Group's turnover respectively for the six months ended 30 June 2005.

The products and services offered by the Group are categorised as below:

Product/service	Product series
Compressors	Gas compressor series
	Special-purpose compressor series
	General-purpose compressor series
Pressure vessels	Seamless pressure cylinder storage and transportation equipment series
	Cryogenic liquid storage and transportation equipment series
	Chemical material storage and transportation equipment series
Integrated business solutions	Integrated business solution for CNG and LCNG refueling stations
	Integrated business solution for city gas projects

1. Compressors

Compressors are critical equipment used to produce compressed air or gases which are widely applied to various industries, such as marine navigation, aviation, aerospace, pharmacy, chemical engineering and food and beverage. Among the industries, compressed air or gases is normally used for combustion and process operations such as cryogenics, separation, refrigeration, filtration, dehydration and aeration. It is often used to power pneumatic tools, packaging and automation equipment and conveyors, etc.

In the energy sector in the PRC, compressors are used in the oil and gas exploration and petroleum refining. They are also essential tools for gas distribution along pipeline network and for the conversion of natural gas to a stable form necessary for its transportation, storage and distribution.

The compressors manufactured by the Group are mainly positive displacement compressors, which produce compressed air or gases by reducing gas volume in stages. According to their compression mechanisms, positive displacement compressors can be further classified into three types, namely reciprocating compressor, sliding vane compressor and screw compressor.

The reciprocating compressors manufactured by the Group employ imported technologies, which were modified and developed by the Group in order to address different customers' needs in areas such as discharge capacity, pressure level and temperature under which the compressors operate.

In connection with reciprocating compressors of the Group, they can be distinguished in several ways including:

- characteristics of cylinder arrangement (e.g. V-type, W-type or S-type);
- number of banks of cylinder (e.g. single row, double rows or multiple rows);
- characteristics of cooling method (e.g. water-cooling, air-cooling or a combination of the two systems);
- lubrication method (e.g. oil, low-oil or oil-free); and
- installation method (e.g. stationary, mobile, fitted on vehicles or mounted on a skid).

By different specifications and characteristics, these compressors vary in their performance and are suitable for different purposes under different circumstances.

Certain of the Group's compressors are certified new products at the national or provincial level in the PRC and have received awards for the Group's advanced technologies applied.

From a functional perspective, the compressors manufactured by the Group can be classified into three main categories as follows:

1.1 Gas compressor series (燃氣壓縮機系列)

The gas compressor series comprises natural gas compressor series and LPG compressor series. The natural gas compressor series includes a natural gas cylinder-refilling compressor which is used in different types of CNG refueling stations. The LPG compressor is designed for vapour recovery and is widely used in cities, towns, mines and LPG transportation stations.

The compressors in the gas compressor series have a discharge capacity ranging from approximately 0.2 m^3/min to 40 m^3/min and a discharge pressure ranging from 0.11 MPa to 25 MPa. The compressors are mainly stationary and skid-mounted and are commonly used to compress natural gas and petroleum gas. In addition, the compressors under this series are also used in the collection, delivery and infusion of natural gas and the exploitation process at oil fields. They are also used for pressure stabilisation as well as compression and delivery of gas in the petroleum industry.

1.2 Special-purpose compressor series (專用壓縮機系列)

The special-purpose compressors are compact and highly automated, featuring the production of high pressure, oil-free, dry and clean gas. They are commonly used to compress air, nitrogen, argon and carbon dioxide in various industries, including petroleum exploitation, scientific research, aerospace and aviation.

The compressors under this series have a discharge capacity ranging between 1.1 m^3/min and 20 m^3/min and a maximum discharge pressure of 40 MPa. The compressors are either water-cooling or air-cooling and can either be fitted on vehicle or skid-mounted to suit the specific requirements of customers.

1.3 General-purpose compressor series (通用壓縮機系列)

The compressors of this series are used to compress air and are commonly used in mining, construction of roads and bridges, manufacturing and pneumatic tools or instruments.

The discharge capacity of the general-purpose compressors ranges between 3 m^3/min and 100 m^3/min, and the discharge pressure can reach up to 1.2 MPa. The compressors under this series could either be stationary, fitted on a vehicle or mounted on a skid.

In particular, the Group's screw compressors utilise imported parts including airends and control valves. The Directors consider that the screw compressors with a well designed and compact structure, enjoy the advantages of high reliability and durability, low level of vibration and ease of maintenance.

1.4 Accessories (配件)

The Group manufactures most of the accessories, parts and components including crankshaft, connecting rod and pressure vessels which are required for the production of its own compressors and are also sold to customers as separate items. In connection with these accessories, the Group has obtained the manufacturing licence for BR1 pressure vessels in May 2002 and the licences for design of D1 type 1 and D2 type 2 pressure vessels in December 2002.

2. Pressure vessels series

The pressure vessels manufactured by the Group are classified into three main categories:

Classification of pressure vessels manufactured by the Group	
Category	Product series
Seamless pressure cylinder storage and transportation equipment series	Seamless pressure cylinder and gas storage cylinder group
	CNG trailer****
Cryogenic liquid storage and transportation equipment series	LNG trailer****
	LNG storage tank
	LNG mother-daughter storage tank
	LNG container**
Chemical material storage and transportation equipment series***	Liquid ammonia tank truck****
	LPG tank truck****
	Epoxy Dimethyl tank truck****
	Propylene tank truck****
	Liquid ammonia storage tank
	LPG storage tank

** *The LNG container is currently under development and testing stage.*

*** *Pressure vessels of the chemical material storage and transportation equipment series were also manufactured by Enric Compressor during the Track Record Period. The manufacturing of these pressure vessels, either produced by Enric Compressor or Enric Gas Equipment, is monitored and regulated by GAQSIQ. In addition, despite the differences in size or capacity (in terms of volume or pressurised level), the pressure vessels produced by both Enric Compressor and Enric Gas Equipment were in fact comparable in design, purpose (in terms of storage medium and usage) and nature.*

**** *The tractors used in the products, like LNG trailers and CNG trailers, are not manufactured by the Group nor purchased at the Group's expenses, but are provided by the Group's customers. In essence, the Group only purchases the tractors and manufactures the pressure cylinders which are used for assembling with the trailers into a final product before delivery to customers.*

2.1 Seamless pressure cylinder storage and transportation equipment series (高壓氣體瓶式壓力容器儲運設備系列)

In connection with the seamless pressure cylinder storage and transportation equipment series, the Group has obtained the exclusive rights to apply the technologies under the three patents issued by the State Intellectual Property Office of the PRC (中華人民共和國國家知識產權局) for technology on seamless pressure cylinders, gas storage cylinder groups for use at gas refueling stations and containers for seamless pressure cylinders.

This series is aimed at providing a complete set of equipment for storage and transportation of CNG, which comprises the CNG transportation vehicle, CNG seamless pressure cylinders and gas storage cylinder groups allowing CNG access to areas where gas supply pipelines could not or have not been built and to urban areas.

(i) Seamless pressure cylinder and gas storage cylinder group (高壓氣體瓶式壓力容器及儲氣瓶組)

Seamless pressure cylinders are made of seamless steel pipes and are structurally held together as a single unit to allow for safer use and transportation of CNG and other pressurised gases. The cylinders are manufactured according not only to relevant safety and technical standards, including the JB4732-95 standards of the Design Standards for Pressurised Vessels made of Steel《鋼制壓力容器－分析設計標準》 issued by the GAQSIQ but also to the various customers' need in specifications.

A gas storage cylinder group is a group of three seamless pressure cylinders, positioned either horizontally or vertically, in a space-saving flexible modular structure, which is easy for construction. The simple design and structure also reduces the likelihood of gas leakage, facilitates on-site maintenance and ease the discharge of residual liquid in the cylinders.

The gas storage cylinder group can be used at gas refueling stations for gas storage and the regulation of internal pressure level of a cylinder during the gas-refilling process for vehicles. The gas storage cylinder group system used in the CNG refueling stations has been developed in accordance with the CJJ84-2000 standards of the Technical Standards at Gas Refueling Stations for Cars《汽車用燃氣加氣站技術規範》issued by MCON.

The gas storage cylinder group is also used in various types of power stations.

Gas storage cylinder group

(ii) CNG trailer (CNG拖車)

CNG trailers are used for the transportation of high pressure gas and are produced by imported seamless steel pipes under spinning process, fitted with valves and safety devices imported from overseas as well as chassis and tractors provided by PRC manufacturers.

The design, manufacture, inspection and completion of CNG trailers are in compliance with the PRC Technical Requirements for Transportation Automobiles (GB7258-1997) issued by the GAQSIQ, the General Technical Requirements for Trailer (JB4185-1986) issued by the CMIF and the High Pressure Gas Trailer (Enterprise Standards Q/SHJ11-2001). The CNG trailer manufactured by the Group also meets the US Federal Standards of 4949 CFR 178.37 (3AA and 3AAX Seamless Steel Pipes) issued by DOT.

The CNG trailers are integral to the safe transportation of CNG from gas source to end users for the application in CNG daughter refueling stations, and in particular, areas and districts that are not within access of the gas pipeline network.

CNG trailer

2.2 Cryogenic liquid storage and transportation equipment series (低溫液體儲運設備系列)

The Group developed and launched the cryogenic liquid storage and transportation equipment series in order to cater for the diversified needs in the market. According to the demand of the natural gas market, the Directors believe that this series will become another revenue-driven product of the Group. Under this series, the Group has developed and commenced production of LNG trailers, LNG storage tanks and LNG mother-daughter storage tanks. The LNG containers are for the storage and transportation of LNG on vehicles and ships and are currently under development and in the testing stage.

This series includes the followings:

(i) LNG trailer (LNG拖車)

LNG trailers are designed for the transportation of large volume of LNG at low cost with a capacity of approximately 41 m^3.

(ii) LNG storage tank (LNG儲罐)

The Group manufactures two types of LNG storage tanks, namely the standard tank with a capacity of 50 m^3-100 m^3 and the cryogenic liquid storage tank with a capacity of 2 m^3-200 m^3.

The LNG storage tanks are designed specially for the storage of LNG or other similar types of cryogenic liquids. The customised cryogenic liquid storage tanks are manufactured according to the requirements of customers provided that such requirements comply with the national standards.

(iii) LNG mother-daughter storage tank (LNG子母罐)

The LNG mother-daughter storage tank is one of the main storage facilities of LNG, especially for large volume storage. It is a container comprising an inner tank, which is made up of three to seven daughter tanks, and an outer tank (namely the mother tank) which holds the inner tank. The volume of a LNG mother-daughter storage tank is normally ranges from 500 m^3 to 2,000 m^3 and its gas storage capacity is 1.5 million Nm^3.

(iv) LNG container (LNG 集裝箱)

LNG containers are designed for the storage and transportation of LNG on vehicles and ships. They are constructed with adiabatic material and there is vacuum space between the inner and outer wall, therefore their heat insolation performance is superior. The LNG containers are compact and are ideal for storage and transportation of LNG on land and at sea. The Group is currently applying for the relevant certificate from CCS for this product.

2.3 Chemical material storage and transportation equipment series (化工物料儲運設備系列)

This series of equipment comprises the following:

(i) Liquid ammonia tank truck (液氨槽車)

This truck is used for the storage and transportation of liquid ammonia of volume ranging from 5 to 27 tonnes.

(ii) LPG tank truck (LPG槽車)

This tank truck is used for the storage and transportation of LPG of volume ranging from 5 to 24 tonnes.

(iii) Epoxy dimethyl tank truck (環氧乙烷槽車)

This tank truck is used for the storage and transportation of Epoxy Dimethyl of volume ranging from 25 to 30 tonnes.

(iv) Propylene tank truck (丙烯槽車)

This tank truck is used for the storage and transportation of propylene of volume ranging from 28.36 m^3 to 57.5 m^3.

(v) Liquid ammonia storage tank (液氨儲罐)

This storage tank is used for storing liquid ammonia of four different capacities of 12 m^3, 25 m^3, 50 m^3, and 100 m^3 respectively.

(vi) LPG storage tank (液化石油氣儲罐)

This storage tank is used for the storage of LPG and has the capacity ranging between 5 and 40 tonnes.

The chemical material storage and transportation equipment series had been provided and manufactured by Enric Compressor and Enric Gas Equipment during the Track Record Period. The table below sets out the information as to the comparability of the products with further details of their technical specifications.

	Comparability of products	
Specification	**Enric Compressor**	**Enric Gas Equipment**
Tank diameter	150mm~1,600mm	1,500mm~3,000mm
Tank internal volume	0.25 m^3~10 m^3	0.25 m^3~100 m^3
Maximum internal pressure	0.12MPa~2.5MPa	0.12MPa~20MPa
Storage medium	LPG	LPG
Major equipment for quality inspection	Hydraulic testing machine, x-ray testing machine, magnetic powder testing machine etc.	Hydraulic testing machine, x-ray testing machine, magnetic powder testing machine etc.
Product usage	Liquefied gas	Liquefied gas

3. Integrated business solutions (集成業務)

Capitalising on its expertise in the development and manufacture of compressors and pressure vessels, the Group has expanded its scope of business to become a provider of integrated business solutions to customers who are engaged in the operation of gas refueling stations and gas distribution in cities and towns in the gas energy industry. The products in relation to the provision of integrated business solutions can be divided into two main categories as follows:

<table>
<tr><th colspan="5">Classification of the integrated business solutions developed by the Group</th></tr>
<tr><th>Category</th><th colspan="4">Product series</th></tr>
<tr><td rowspan="6">Integrated business solutions for CNG and LCNG refueling stations</td><td rowspan="4">CNG refueling station</td><td>CNG standard refueling station</td><td colspan="2"></td></tr>
<tr><td rowspan="3">CNG Mother-daughter refueling station</td><td>CNG mother refueling station</td><td></td></tr>
<tr><td rowspan="2">CNG daughter refueling station</td><td>CNG compressor daughter refueling station</td></tr>
<tr><td>CNG hydraulic daughter refueling station</td></tr>
<tr><td>CNG daughter refueling station trailer</td><td></td><td></td><td></td></tr>
<tr><td>LCNG refueling station**</td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Integrated business solutions for city gas projects</td><td colspan="4">Pressure-regulating station</td></tr>
<tr><td colspan="4">Pressure-regulating box</td></tr>
</table>

** *This product has not yet been launched.*

3.1 Integrated business solutions for CNG and LCNG refueling stations (CNG及LCNG加氣站集成業務)

The integrated business solutions for CNG refueling stations is a package of services covering consultation service on the design of an entire system, the manufacture of associated critical equipment, on-site installation, inspection and testing. In addition, the Group provides after-sales service, technical support and staff training service for the operation of gas stations.

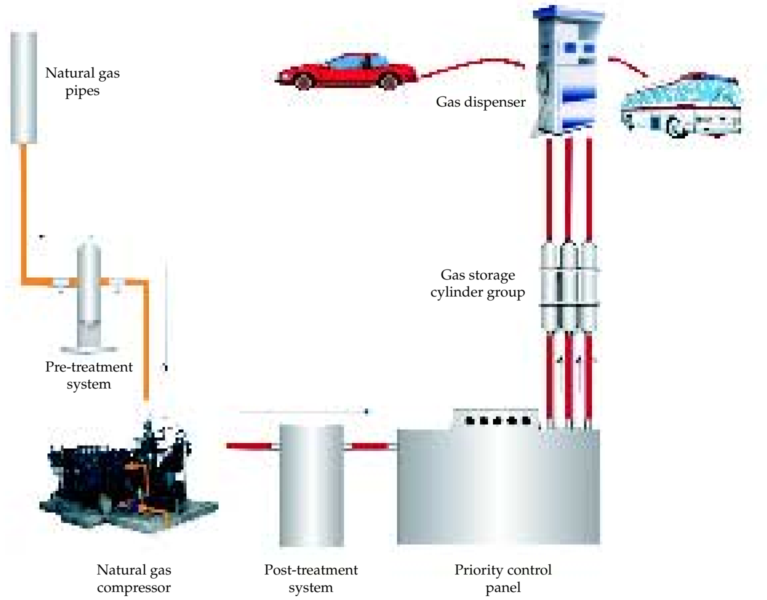
The principal products in relation to this service are as follows:

3.1.1 CNG refueling stations (CNG加氣站)

There are two types of CNG refueling station in terms of its usage, namely CNG standard refueling station and CNG mother-daughter refueling station.

(i) CNG standard refueling station (CNG標準加氣站)

CNG standard refueling stations are built to be directly connected to the gas pipeline network within the cities and towns. As the gas drawn from the pipeline network generally has a low pressure, standard refueling stations are used to measure and regulate the pressure of, purify, compress and store the gas. Through these processes the pressure of the gas is then increased to 20-25 MPa. Thereafter, the gas is ready to be dispensed to the vehicles.



Standard refueling station

(ii) CNG mother-daughter refueling station (CNG加氣子母站)

CNG mother-daughter refueling stations are applied to areas where gas pipeline network does not cover.

The CNG mother refueling station is constructed near the gateway of the city gas pipeline. Since gas in the city pipelines has been pressurised and the pressure generally ranges between 1.6-4.0 MPa, the gas is thus drawn from the pipelines after passing through a series of processes, such as pre-compression treatment, compression and storage by the CNG mother refueling station. CNG is then transported to CNG daughter refueling station by CNG trailers. Once the gas arrives at the CNG daughter refueling station, the gas is measured, compressed and passes through post-compression treatment facility and the PLC of the CNG daughter refueling station before dispensing to the end-users.

The mother-daughter refueling station has the flexibility in the locations where it is being set up, and accordingly, may overcome difficulties such as heavy investment in laying city pipeline networks, environmental protection and safety. Moreover, with its transportation flexibility and transportation volume, it is capable of supplying gas to residential users and vehicles.

The Group's CNG daughter refueling station is further classified into compressor daughter refueling station and hydraulic daughter refueling station. The integral part of the compressor daughter refueling station is the natural gas compressor system which performs the function of increasing the inlet pressure. Such system comprised the compressor, an electric motor, motor starter, cooler, PLC and dispenser.

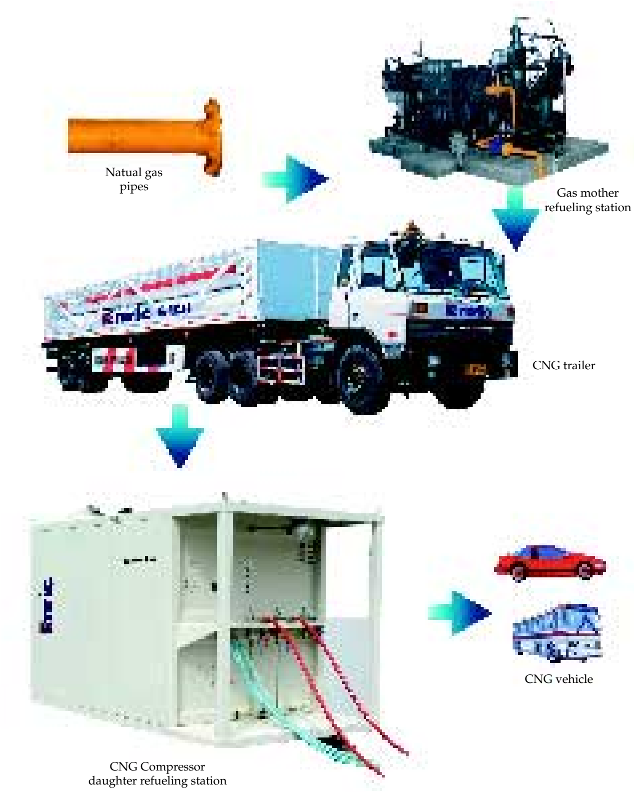
Unlike the compressor daughter refueling station series, the CNG hydraulic daughter refueling station series adopts an entirely different principle of operation. The hydraulic daughter refueling station series comprises four parts, namely, CNG daughter refueling station trailer, hydraulic system and automation system, all of which are manufactured by the Group, and gas dispensers, which are procured from other suppliers.

After delivery of gas from the CNG mother refueling station, the trailer is connected with the hydraulic pressure system, where hydraulic oil is injected into the pressurised cylinder on the trailer. This process forces the pressurised gas out of the cylinder and maintains the refueling pressure and increases refueling efficiency. Thereafter, the gas dispenser shall be able to provide refueling services to vehicles and end-users. The process is controlled by an automated control system.

The Group's hydraulic daughter refueling stations are manufactured by employing patented technology from the US to which the Group has made further development. The Directors consider that the further development improves the stability and performance of the refueling stations. For further details, please refer to the section headed "Intellectual property" in this section.

The hydraulic daughter refueling stations have the advantages of a more stable refueling pressure and a larger refueling volume which enable gas refueling to be carried out at a faster rate. The stations are also space-saving, require shorter construction period, produce low noise and conserve energy. Hence, the Directors consider that the hydraulic daughter refueling stations employ a preferential technology in converting a conventional gas station into a combined oil and gas station.

The following diagram illustrates the operation of the CNG mother-daughter refueling stations:



Mother-daughter refueling station

3.1.2 CNG daughter refueling station trailer (CNG加氣子站車)

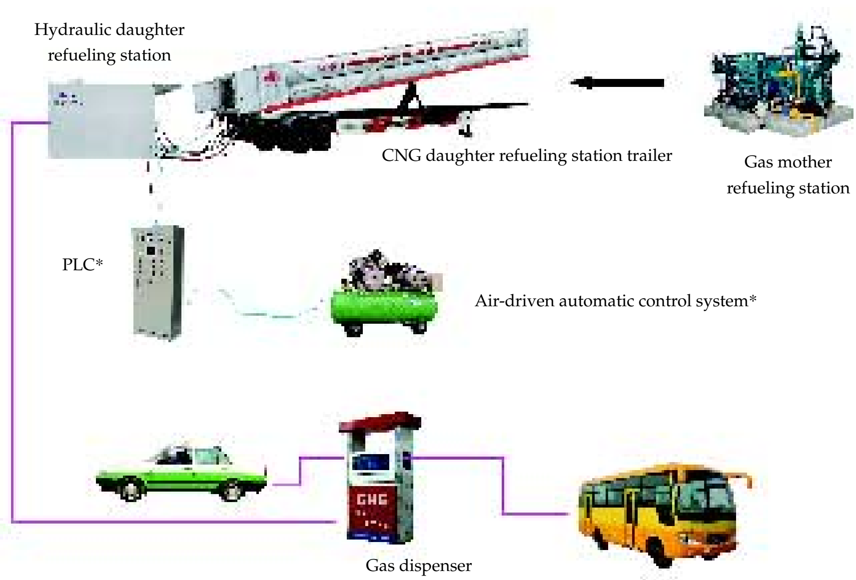
The CNG daughter refueling station trailer is developed based on the principle of CNG trailer. It consists of chassis and a group of seamless pressure cylinders, which can be tilted to different angles in order to facilitate the back flow of hydraulic oil inside the cylinders. The group of seamless pressure cylinders is made up of pressure vessels, automatic controlling valves and a high pressing pipe fitting system.

CNG daughter refueling station trailers store and transport CNG from CNG mother refueling stations to CNG daughter refueling stations and are generally used together with the hydraulic daughter refueling stations.

The Group's CNG daughter refueling station trailer is distinguished from its CNG trailer in terms of the installation of a tilting mechanism and an operation cockpit which embodies aerodynamic valves and other components used with the hydraulic refueling station system.

The CNG daughter refueling station trailer can also serve as a CNG trailer.

The following diagram illustrates the operation of a CNG mother-daughter refueling station system using a hydraulic refueling system and a CNG daughter refueling station trailer:



* *These components are installed inside the hydraulic refueling station*

CNG mother-daughter refueling station system

3.1.3 LCNG refueling station (LCNG加氣站)

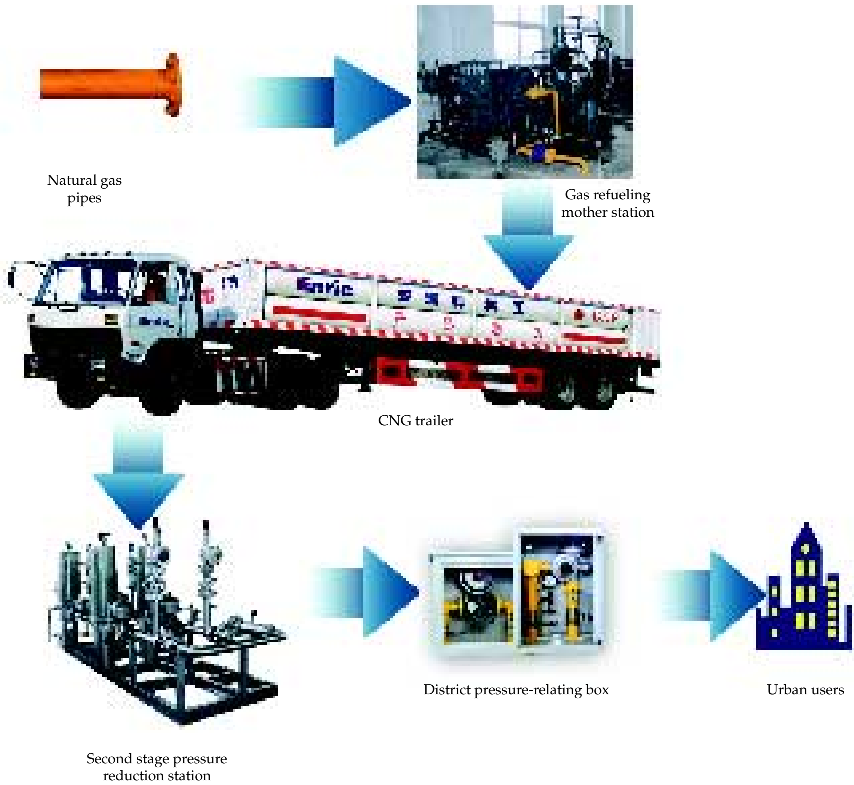
The Company is in the process of developing a LCNG refueling station system which uses LNG as a feedstock to deliver CNG to vehicles. The refueling station system carries out the processes of transportation, storage, pressurising and gasification which allow the regasification of LNG into CNG. The storage and transportation of natural gas to end users mainly involves LNG trailers, LNG storage tanks, pressure-regulating gasifiers, LNG cryogenic pumps and gas dispensers.

3.2 Integrated business solutions for city gas projects (城鎮氣化集成業務)

The Group has developed a complete set of integrated business solutions to enable gas distributors to implement city gas projects. The integrated business solutions include the design of an entire system, the manufacture of equipment, on-site installation, commissioning and testing, customers' staff training, technical support and operational consultation.

Integrated business solutions for city gas projects primarily refers to the transportation of CNG or LNG from natural gas mother refueling stations or LNG import terminals by CNG trailers or LNG trailers respectively, to cities, towns and residential districts where CNG or LNG is then distributed to end-users through the gas pipeline network after it is depressurised by pressure-regulating stations and pressure-regulating boxes. Alternatively, LNG is vapourised and then undergoes similar depressurisation processes, which is then distributed to end-users.

The following diagram illustrates the integrated business solutions for implementing the use of CNG in cities and towns:



Integrated business solutions city gas projects

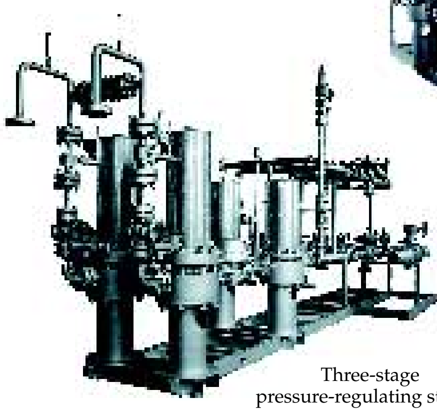
Although the Group has not commenced this particular business solution, it has already commenced the development, manufacture and sales of certain core equipment namely the pressure-regulating station and pressure-regulating box, both of which are critical to the implementation of the use in natural gas in cities and towns. These equipments are further described as follows:

(i) Pressure-regulating station (調壓站)

The Group's pressure-regulating stations have three different pressure levels, namely Grade I (25MPa), Grade II (10MPa) and Grade III (5MPa). These pressure-regulating stations are used for the regulation of pressure of piped pressurised natural gas which is of different pressure levels to form lower pressure natural gas for customers. The pressure-regulating stations are designed and manufactured in accordance with the requests of customers under the PRC standards for gas pressure-regulating devices.

One-stage
pressure-regulating station

Two-stage
pressure-regulating station



Three-stage
pressure-regulating station

Pressure-regulating station

(ii) Pressure-regulating box (調壓箱)

The pressure-regulating box is used for the regulation of gas pressure in buildings, city districts and facilities where there is direct gas supply. The Group's pressure-regulating box handles different kind of pressure regulation. The pressure-regulating box has a compact structure and complies with the PRC standards of gas pressure-regulating devices.

B. PRODUCT LICENCE, PERMITS AND REGULATIONS

Advanced technology applies to the Group's products including compressors and pressure vessels and provision of integrated business solutions. All Group's products are subject to rigorous testing to ensure their quality and safety. Certain of the Group's products are heavily regulated by the PRC authorities, in particular, the Group's pressure vessels are subject to mandatory inspection and approval by the Boiler and Pressure Vessel Safety Supervision Bureau of the GAQSIQ and the manufacture of these products requires specific licences, permits and registration, the obtaining of which are vital to the qualifications of companies in the gas equipment industry in the PRC.

A series of regulations on quality and safety supervision for special gas products and equipments have been enacted by the PRC Government, including without limitation, the Supervision Administration Regulation for Manufacture of Boiler and Pressure Vessel《鍋爐壓力容器製造監督管理辦法》, the Regulation on Safety Supervision of Special Equipment《特種設備安全監察條例》, the Administrative and Qualifying Rules for the Design of Pressure Vessels and Pipelines《壓力容器壓力管道設計單位資格許可與管理規則》, Law of People's Republic of China on Prevention and Control of Radioactive Pollution《中華人民共和國放射性污染防治法》, Measures for the Administration of Manufacturing Licence for Industrial Products《工業產品生出許可證管理辦法》and the Announcement regarding Vehicles Production Enterprises and their products《車輛生產企業及其產品公告》.

As confirmed by the Company's PRC legal advisers, the Group has obtained the relevant licences, permits and certificates necessary to conduct its operations in the PRC and has complied in all material respects with all applicable laws and regulations in the PRC since its establishment.

The Group has obtained the following licences, permits and registrations to operate its current business:

Licences, permits and registrations

Date of grant	Certificates	Issued to	Items covered	Certificate number	Issuing body	Valid until
January 2005	Manufacturing Licence for Pressure Vessel	Enric Gas Equipment	Pressure vessel	34,230 and 34,231	ASME	November 2006
December 2004	Manufacturing Licence for Pressure Vessel	Enric Gas Equipment	A1, A2, B1, C2 and C3 pressure vessels	TS2210113-2008	GAQSIQ	December 2008
December 2004	Licence to Operate Radioactive Equipment	Enric Gas Equipment	Operation of radioactive equipment	Yi Wei Jian Fang Zheng Zi (2004) No. 0110476	Hebei Province Bureau of Public Health	Subject to yearly review

Date of grant	Certificates/ Registration	Issued to	Items covered	Certificate number	Issuing body	Validity Period
August 2004	Certificate of Registration for Manufacturing of Seamless Pressure Cylinder[1]	Enric Gas Equipment	Seamless pressure cylinder	E8-27	Ministry of Commerce, Industry and Energy of Korea	Not applicable
July 2004	Registration on the Nationwide Catalogue of Enterprises engaged in the Production of Automobiles	Enric Gas Equipment	Not applicable	Not applicable	NDRC	Not applicable
September 2003	Manufacturing Licence for Industrial Products	Enric Compressor	Stationary reciprocating piston air compressor	XK06-110-00271	GAQSIQ	September 2008
September 2003	Manufacturing Licence for Industrial Products	Enric Compressor	Screw compressor	XK06-110-00272	GAQSIQ	September 2008
August 2003	Licence to Operate Radioactive Equipment	Enric Compressor	X-ray fault detection machines	Beng Bu Wei Jian She Zheng Zi (2003) No. 020386	Bengbu City Bureau of Public Health	August 2008
February 2003	Design Permit for Pressure Vessel	Enric Gas Equipment	A1, A2, C2, C3 and SAD	SPR (A、C、SAD) 003-2007	Boiler and Pressure Vessel Safety Supervision Bureau	February 2007
December 2002	Licence for Design of Special Equipment in the PRC	Enric Compressor	D1 type 1 pressure vessel D2 type 2 low-medium pressure vessel	TS1234009-2007	GAQSIQ	December 2007
May 2002	Manufacturing Licence for Pressure Vessel	Enric Compressor	BR1 pressure vessel	RZZ Wan 023-2006	Bureau of Quality and Technical Supervision of Anhui Province	December 2006

Note 1: The scope of items approved by the certificate includes seamless pressure gas cylinders (except for the cylinders of which the internal volume is less than 3 decilitres), valves and safety valves to be attached to the cylinder as well as storage tanks mounted on vehicles among the specified high-pressure gas equipment.

C. SALES AND MARKETING

Fuelled by the fast development of the natural gas industry in the PRC, the Group seeks to expand its customer base domestically and overseas. The Group continues promoting customers' awareness of the Group's brandname and expanding the Group's sales network in the PRC and overseas. The Directors believe that through leveraging the Group's capabilities in the provision of gas equipment and its knowledge in the gas equipment market, the Group is capable of providing a series of integrated business solutions to its customers in response to their needs. The Directors intend to further build the Group's brandname as a leading specialised gas equipment and integrated business solutions provider in the gas energy industry.

As at the Latest Practicable Date, the Group had a sales and marketing team of over 100 members, who are responsible for the Company's marketing activities within the PRC. The Group has established sales offices in ten cities in the PRC, namely Shanghai, Guangzhou, Chongqing, Bengbu, Xi'an, Zibo, Shenyang, Langfang, Urumqi and Wuhan. Besides general marketing function, the sales team is also responsible for providing its customers with timely after-sale and consultancy services.

While the Group's products have been sold in many regions within the PRC, including Hebei, Henan, Shandong, Jiangsu and Shanxi provinces, during the Track Record Period, the Group aimed to further expand its sales network in order to better cover its customers in other regions.

As for sale of the Group's products overseas, the Group mainly exported its products directly to Korea and through its dealers, to Pakistan, Sudan and Brazil. The Group has five dealers for the export of its compressors and gas storage cylinder group. Except Xinao Group International Economic Development Company Limited (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus), all of these dealers are Independent Third Parties.

The Group exported its products to the customers in Brazil through Xinao Group International Economic Development Company Limited by selling such products to Xinao Group International Economic Development Company Limited for its onward selling to those customers in Brazil. Xinao Group International Economic Development Company Limited has not received any fees, charges or commissions from the Group nor sold such products at a premium during the course of the above arrangement. The Group's reliance on Xinao Group International Economic Development Company Limited for exporting its products will cease to exist after the Listing.

After the Reorganisation, all operating subsidiaries of the Company in the PRC are wholly foreign owned enterprises which have the right to export without the need to obtain export licence. The Group will also establish an international business department in order to enhance its exporting business. Further, the experience of exporting that the Group gained during the Track Record Period allows the Group to carry out its exporting business independently in the future.

The Group pays commission to the dealers, which is calculated based on the basic applicable discount rate, normally 8% to 15%, of the different products. The dealers generally settle by bank acceptance.

The total amount of export sale through dealers amounted to approximately 2.9%, 2.2% and 2.6% of the total amount of sale of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The Group also plans to revamp its website and establish an e-commerce platform to facilitate future sales to the Group's overseas customers.

According to the Circular of the Ministry of Commerce of the PRC for Foreign-funded Enterprise on the Issue of Registration and Putting Record of the Right to Import and Export Operation ("Circular") (《關於外商投資企業外貿權備案已登記有關問題的通知》) dated 17 August 2004, enterprises with foreign investment shall be exempt from registration with respect to their export of the products which they produce.

In view of this, the Group's export arrangement with Xinao Group International Economic Development Company Limited will cease to exist after the Listing, instead an international business department will be set up in order to conduct its own exporting business. The Directors believe that the sale-through-agent or distributor strategy allows the Group's relatively standard gas equipment products a broader reach to its customer. The arrangement with distributors is only made for the Group's compressor products as the Directors believe that the Group is able to effectively market and sell its other products without such distribution arrangement and network.

Accordingly, the Group has a total of 11 distributors for the sale of its compressors. A standard form of contract has been entered into between the Group and each of the distributors. Pursuant to the contract, the distributors are not allowed to sell compressors manufactured by other companies which are of the same type as the Group's compressors. The contract also stipulates the geographical restriction as to the provinces in which the distributors may sell the Group's compressors, the minimum amount of sale, the price, and after-sales services, etc. Generally, products are delivered to the distributors against payment of the invoiced amount. However, they may, with the Group's approval, pay by bank acceptance of which the period must not exceed six months. The Group sells its products to the distributors with incentives ranging normally from 5% to 15%, depending on different products.

The sale to distributors amounted to approximately 0.6%, 0.2% and 0.04% of the total sales of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively.

In addition to its sales team and existing network of distributors and agents, the Group aims to further promote its products and enhance its brand recognition through (i) participating and attending domestic and international professional exhibitions in relation to natural gas and gas equipment; (ii) advertising in professional journals, magazines and related websites; (iii) distributing product catalogues and compact discs with information relating to the Group's products; (iv) outdoor advertisements and (v) holding regular meetings and seminars with key customers in order to obtain in-depth understanding of their needs and preferences.

Customer service and after-sales service

The Group is committed to ensure consumers' satisfaction with its products. A customer service team is thus set up to establish and maintain frequent communication with its major customers through visits and holding periodical meetings with them.

The Group's sales team is required to respond to customers' enquiries within one to two hours and if necessary, to resolve problems on site within 24 hours if customer's location is within a 300 km radius; within 48 hours if within a 300-600 km radius; within 72 hours if customer's location is beyond the 600 km radius.

Top five customers of the Group

During the Track Record Period, the Group's sales to its largest customer accounted for approximately 4.6%, 20.6% and 14.6% of the Group's turnover respectively and the Group's sales to its five largest customers accounted for approximately 19.3%, 32.6% and 30.5% of the Group's turnover respectively.

For the year ended 31 December 2003, the Group's aggregated sales to Xinao Gas Group and XGCL Group accounted for approximately 1.5% and 1.1% of the Group's turnover respectively. For the year ended 31 December 2004, the Group's aggregated sales to Xinao Gas Group and XGCL Group accounted for approximately 11.4% and 22.1% of the Group's turnover respectively. For the six months ended 30 June 2005, the Group's aggregated sales to Xinao Gas Group, Hebei Finance Leasing Company Limited and other companies in XGCL Group accounted for approximately 20.4%, 2.1% and 0.1% of the Group's turnover respectively.

Save for Xinao Gas Development Company Limited (新奧燃氣發展有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus), representing approximately 14.6% of the Group's turnover for the six months ended 30 June 2005, the remaining four of the five largest customers of the Group are Independent Third Parties which comprised an engineering construction company, a Korean-base hydrogen manufacturer, a natural gas supplier and petroleum and a natural gas and chemicals provider. In addition, save for Xinao Shijiazhuang, Luquan Fuxin Gas Company Limited (鹿泉富新燃氣有限公司) and Beihai Xinao Gas Company Limited (北海新奧燃氣有限公司) (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus), representing approximately 20.6%, 3.9% and 3.4% of the Group's turnover for the year ended 31 December 2004 respectively, the remaining two of the five largest customers of the Group are Independent Third Parties which comprised a vehicular gas supplier and gas appliances provider and a Korean-base hydrogen manufacturer. Furthermore, the five largest customers of the Group for the year ended 31 December 2003 are all Independent Third Parties, which comprised oil extraction and exploitation companies including the holding company of Petrochina Company Limited, Petrochina Company Limited and China Petroleum & Chemical Corporation, military units and city gas supplier.

Pricing Policy

The Group's products are not subject to the State's fixed price items catalogue (國家政府產品定價目錄). Pricing for the Group's products are determined by, to a large extent, market demand. In respect to each of its products, the Group will determine the price of each of product after having considered the cost of manufacture, the expected return of the Group's products to its customers, the amount customers are willing to pay for the Group's products, the technological content of its products, the market conditions and the competition the Group faces in relation to the products.

Terms of Payment and Credit Policy

In relation to its compressor business, payment for the products may be made by way of bank telegraphic transfer, money order and banker's draft. Except for bank telegraphic transfers, the other payment methods are usually made by post, direct payment or collection by the Group's representative. Sales are transacted in Renminbi or US$. According to the Directors, subject to negotiation, credit terms ranging from three to 12 months are available for certain customers with well-established trading and payment records on a case-by-case basis. The management of the Group closely monitors the credit exposure and repayment conditions of its customers. Specific provisions will be made if the management believes that any customer is in financial difficulty and fails to repay its debts within a reasonable period or if certain customers fail to settle their debts within a reasonable period after several reminders and visits from the Group's representative.

In relation to its pressure vessels business, the general policy relating to payment is payment on collection of goods or payment by way of credit. Generally, the Group's credit policy does not provide credit period for customers involved in transactions of low monetary amount. In respect of customers with satisfactory financial background and good credit history, the Group's policy is to require payment of certain portion of the invoice amount upon delivery and allowing a credit period of three to 12 months for the remainder payment. With regards to sizeable and reputable customers such as large oil and gas enterprises, a credit period of up to 12 months will be allowed.

In relation to the business of integrated business solutions, the Group's credit policy is to require payment of part of the contract price upon signing of contract. The remainder payment will be obtained proportionally upon delivery, after installation and commissioning and upon expiry of warranty period respectively. The proportion of the contract price to be paid at each stage varies according to the situation of different projects and background of different customers. The warranty period varies according to the skills required by the projects.

As at 30 June 2005, the Group had provision for doubtful debts of approximately RMB4.8 million and the outstanding trade and bills receivables for the Group were approximately RMB52.9 million.

D. PRODUCTION

The Group's headquarters is located at 30 Hongrun Road, Langfang Economic and Technical Development Zone, Hebei province, the PRC. The Group's production facilities under Enric Compressor, Enric Gas Equipment and Enric Integration are located in Bengbu, Anhui province (the "Bengbu Facilities"), Shijiazhuang, Hebei province (the "Shijiazhuang Facilities") and Langfang, Hebei province (the "Langfang Facilities") respectively.

In the Bengbu Facilities, the Group has six workshops namely the first metal-processing workshop, the second metal-processing workshop, repairs work workshop, riveting and soldering workshop, thermal treatment workshop and assembly workshop. During the Track Record Period, the Group had increased three production lines, namely painting of metal sheets used for the outer surface of the compressor, polishing process by way of shot-blasting with metal pellets and spray painting for the entire compressor body. There are more than 400 sets of manufacturing equipment located in Bengbu Facilities, amongst which are three units of computerised numerical controlled processing facility and a number of CNC milling machines.

In the Shijiazhuang Facilities, the Group has six workshops namely CNG workshop, LNG workshop, metal working workshop, riveting and soldering workshop, assembly workshop and repairs workshop. The Shijiazhuang Facilities have a large tempering furnace, various types of plate rolling machines, welding machines, large size lathe, compressors, vacuum pump, spectrometer and medium leakage detector.

In the Langfang Facilities, the Group currently rents on temporary basis a premise in Langsen Vehicle Industrial Zone (朗森汽車產業園生產廠房) for the integrated business solution business, as the workshop for the processing, assembly, commissioning, painting and storing of CNG hydraulic daughter refueling station and as an administration office. The term of the current tenancy agreement is for one year and which commenced on 1 November 2004 and will expire on 31 October 2005. The Group entered into a renewal tenancy agreement with the existing landlord on 26 April 2005. The renewal tenancy agreement is also for a term of one year and will expire on 31 October 2006. Details of the terms of the lease of the Langfang facilities are set out in the section headed "Financial information – Property interests" in this prospectus.

The relatively short lease term was due to the fact the Group had not yet decided on whether to invest into building a new plant or locating at a site on a longer lease term in the future. Further, the Directors are of the view that the Langfang Facilities are expected to be the assembly centre for the Group's integrated business solution with most of the more significant manufacturing activities remaining in the better equipped manufacturing plants in Shijiazhuang and Bengbu, PRC, therefore, the functions expected to be carried out by the Langfang Facilities are relatively less significant. Currently, besides the assembly line work, the plant at Langfang Facilities is also used for the research and development of the Group's integrated business solution products, marketing activities, and assembly and testing activities.

The Directors consider that as the business activities engaged by Enric Integration mainly comprise of marketing, provision of associated service to the customers of the natural gas industry, together with assembling the critical equipment of CNG refueling station, work load of such assembly activities can also be processed at the production facilities in either Enric Compressor and Enric Gas Equipment. Further, taking into account that feasible assembly sites or plants are in ample supply in Langfang, the high mobility of the underlying production and the minimal removal costs, the Directors are of the view that the short term lease of the Langfang Facilities will not create any significant negative impact to the Group's operations.

XGII, Mr. Wang and Ms. Zhao have agreed to provide indemnities in respect of any losses, damages and liability which may be suffered by any members of the Group as a result of losing the said premises if the Group fails to renew the tenancy agreement upon its expiry.

Due to the significant difference among compressors, pressure vessels and integrated business solution products in terms of manufacturing process, the productivity of compressor products is assessed based on the capacities of each workshop, while the productivity of pressure vessels and integrated business solution products are measured by the capacity of each assembly line.

Compressor

Workshop	Approximate Workshop area in 2004	Approximate workshop area as at 30 June 2005	Number of equipment in 2004	Number of equipment as at 30 June 2005	Number of staff as at 31 December 2004	Number of staff as at 30 June 2005
	(sq.m.)	*(sq.m.)*	*(unit)*	*(unit)*		
First metal-processing workshop			66	66	50	50
Second metal-processing workshop	13,300 *(note 1)*	13,300 *(note 1)*	143	143	79	74
Repairs workshop			38	38	42	42
Thermal treatment workshop	1,000	1,000	21	21	10	11
Assembly workshop	4,800	4,800	43	43	144	136
Riveting and soldering workshop	6,300	6,300	92	98	92	88
Total	25,400	25,400	403	409	417	401

Note 1: First metal-processing workshop, second metal-processing workshop and repairs workshop are situated in the same production plant. Therefore, the indicated area is the sum of area of the three workshops.

The Group manufactures various type of compressors, which manufacturing process for each type of compressors varies. Accordingly, the production capacity for each of the above workshops can be measured in terms of the number of production hours by the number of staff. At the moment, the Group is normally operating on a shift of 8 hours per day for the manufacturing of compressor. The Group has fully utilised its workshops for 2003, 2004 and the six months ended 30 June 2005 in terms of production hours of one shift per day. Should the Group need to increase its capacity, it may increase the number of working shifts each day.

For illustration purpose, the aggregate capacity for the production of compressors was 845, 1,000 and 1,000 sets for each of the two years ended 31 December 2004 and the six months ended 30 June 2005, respectively.

In addition, the actual production volumes of the different types of compressor of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 are set out in the following table:

Compressor

Product	**Actual production volume in 2003** *(set)*	**Actual production volume in 2004** *(set)*	**Actual production volume for the six months ended 30 June 2005** *(set)*
Gas compressor series	125	161	54
Special-purpose compressor series	96	141	138
General-purpose compressor series	545	631	119
Total	766	933	311

The following table indicates certain statistics in relation to the production facilities and capacities of Enric Gas Equipment:

Pressure vessel

Production line	Plant area in 2004 *(sq.m.)*	Plant area as at 30 June 2005 *(sq.m.)*	Number of equipment in 2004 *(unit)*	Number of equipment as at 30 June 2005 *(unit)*	Number of staff as at 31 December 2004	Number of staff as at 30 June 2005	Production capacity in 2004 *(set)*	Production capacity as at 30 June 2005 *(set)*	Actual production volume in 2004 *(set)*	Actual production volume as at 30 June 2005 *(set)*
Seamless pressure cylinder storage and transportation equipment series	8,286	8,286	148	154	98	113	220	700	212	335
Cryogenic liquid storage and transportation equipment series	8,456	8,456	130	146	92	92	34	60	33	40
Chemical material storage and transportation equipment series	8,629	8,629	135	141	116	116	300	360	306	204
Total	25,371	25,371	413	441	306	321	554	1,120	551	579

The Group plans to expand its production capacity of pressure vessels. Details of such plan is set out in the section headed "Statement of business objectives and strategies – Implementation plan" in this prospectus.

The following table indicates certain statistics in relation to the production facilities of Enric Integration:

Integrated business solutions

Production line	Plant area in 2004 (sq.m.)	Plant area as at 30 June 2005 (sq.m.)	Number of equipment in 2004 (unit)	Number of equipment as at 30 June 2005 (unit)	Number of staff as at 31 December 2004	Number of staff as at 30 June 2005
City gas projects	665	665	23	27	25	31
CNG and LNG refueling stations	830	830	7	8	16	27
Total	1,495	1,495	30	35	41	58

Since the provision of integrated business solutions involves the offering of a complete set of business solutions for the purpose of either setting up the business of CNG or LNG refueling stations or city gas projects, the provision of compressors and pressure vessels form part of these solutions. Accordingly, the Group's provision of integrated business solutions will, in certain extent, depends on the production capacity of compressors and pressure vessels.

Raw materials and components

Compressors

The major raw materials required by the Group for the manufacture of its compressors are various types of motors, air valves, sliding vane, piston ring, filling materials, electric equipment control panel, diesel engines, metal materials and cast. In connection with the manufacturing of screw compressors, the Group purchases imported airends.

Pressure vessels

The major raw materials and components required for the production of pressure vessels include seamless steel pipes, vessel steel board, chassis, valves and safety devices. The Group purchases these raw materials and components locally.

In addition to the above raw materials and components, the Group purchases the following imported components:

Type of components	Particulars
Steel pipes used in CNG trailers and storage tanks	ø559, ø406 seamless steel pipes
Accessory valves for CNG trailers	Fore and rear safety devices, connecting pipe, loading and unloading valves
Pressure-regulating station and accessories for pressure-regulating box	Pressure regulator, relief valve, slam shut valve
Accessories for LNG storage tanks and tank trucks	Cryogenic valves and liquid level indicators

Integrated business solutions for gas equipment

The major raw materials and components required by the Group for the provision of integrated business solutions for gas equipment are seamless pressure cylinders, pressurised valves, pressurised soft pipes, blast-proof component and electric control unit. The Group purchases these raw materials and components locally.

In addition to the above raw materials and components, the Group purchases imported components such as pressurised steel pipes, hydraulic pressure unit, parts used for the trailers including elbows, pneumatic actuator, swivel connector, thread reducer, couplings and valves, as well as sensor with cable, valve of manometer, sensor block, temperature transmitter for hydraulic pressure unit, converter of electric signal.

The percentage of imported raw materials and components of the Group from direct import and via dealers as compared to its local purchases were approximately 15.6%, 11.6% and 38.5% for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively.

For the purchases of which the amount is small and occasional, the Group pays cash upon delivery. In relation to the suppliers whom with the Group has stable relationship and make large purchases from, the Group adopts payment by installment with a credit period from one to four months. For a number of purchases from overseas, the Group adopts prepayment of certain percentage of the invoiced amount with the remainder to be paid upon delivery. The purchase of all these raw materials and components stated above, whether locally or from overseas, are settled in RMB. They are usually settled by bank draft, telegraphic transfer or cheques.

The Circular of the Ministry of Commerce of the PRC dated 17 August 2004 provides that enterprises with foreign investment shall be exempt from registration with respect to their import of articles for their own use. According to the PRC legal advisers to the Company, the Circular has no impact on the Group importing raw materials from overseas for the purpose of its own manufacturing.

Selection criteria of suppliers

In selecting its major suppliers, the Group has adopted the following procedures:

- classify raw materials required into three categories (Grade A, B or C) in accordance with their importance to the production process;
- visit and inspect the production facilities of each of the suppliers; and
- list out all of the qualified suppliers and select at least two qualified suppliers for further selection.

The Group based its final selection of suppliers on the following criteria (set out in order of priority):

- Quality of the materials or components. For different raw materials or components, the Group has different technical and quality requirements which must be met by these shortlisted suppliers;
- Pricing;
- Technical knowledge and support;
- Internal inspection procedures;
- Reputation in their line of business; and
- After-sales service.

Save and except for Xinao Group International Economic Development Company Limited, Xinao Shijiazhuang and Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited which provided the Group with materials, all materials purchased by the Group were acquired from Independent Third Parties during the Track Record Period. During the Track Record Period, the largest five suppliers of the Group in aggregate accounted for approximately 36.6%, 37.8% and 48.3% respectively of the Group's total purchases for the same periods, while the largest supplier accounted for approximately 10.7% and 20.3% and 26.0% of the Group's total purchases respectively for the same periods. Xinao Group International Economic Development Company Limited, Xinao Shijiazhuang and Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited accounted for approximately 7.5%, 20.3% and 0.8% respectively of the Group's total purchases in 2004. Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited accounted for approximately less than 0.1% of the Group's total purchases for the six months ended 30 June 2005.

In 2003, the Group had more than 200 suppliers for raw materials and components, of which two are related parties, namely Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited and Xinao Group International Economic Development Company Limited. The average years of relationship is 1.75 years. In 2004, the Group had more than 360 suppliers for raw materials and components, of which three are related parties, namely Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited, Xinao Group International Economic Development Company Limited and Xinao Shijiazhuang. For the six months ended 30 June 2005, the Group had more than 360 suppliers for raw materials and components, of which one is a related party, namely Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited. The average years of relationship for the suppliers of compressors and pressure vessels approximately 2.5 years and 1.5 years respectively. Purchases from each of these related companies would cease upon the Listing. The Group generally has about two to three suppliers for each type of raw materials and components, which allows the Group to compare their product quality, price and credit policies.

The Group had good relationships with its major suppliers and had not experienced any difficulties in sourcing raw materials and components throughout the Track Record Period. The Directors do not anticipate that the Group will face any difficulties in sourcing its raw materials, parts and components in future given its stable relationships with its major suppliers. The Directors are also of the view that the raw materials, parts and components of similar quality can be sourced from other qualified suppliers without difficulties.

Save as disclosed above, none of the Directors or their respective associates or, so far as the Directors are aware, none of the Shareholders who will be interested in more than 5% of the issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing nor any of their respective associates had any interest in any of the five largest suppliers of the Group during the Track Record Period.

Arrangement with subcontractors

The Group currently outsources the processing of certain parts and components, principally steel pipes, pressurised soft pipes and pressurised valves, for its major products, especially compressors. The Group has a total of 15 subcontractors. All of these subcontractors are Independent Third Parties. According to the Directors, the credit terms in relation to subcontracting fees granted by majority subcontractors to the Group ranged from one to four months, with only a few number of subcontractors requiring payment of subcontracting fee upon delivery.

The Group outsources the processing of these parts and components because they are auxiliary parts and components which are cost-efficient for the Group to outsource these parts for further processing to meet its production needs. Moreover, the Group only outsources the processing of parts and components that are of low importance and the production of which does not require special skills of the subcontractors. The cost involved in such outsourcing constituted less than 1% of the total amount of purchases during each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The Directors believe that there is ample supply of these subcontractors.

E. PRODUCTION PROCESS

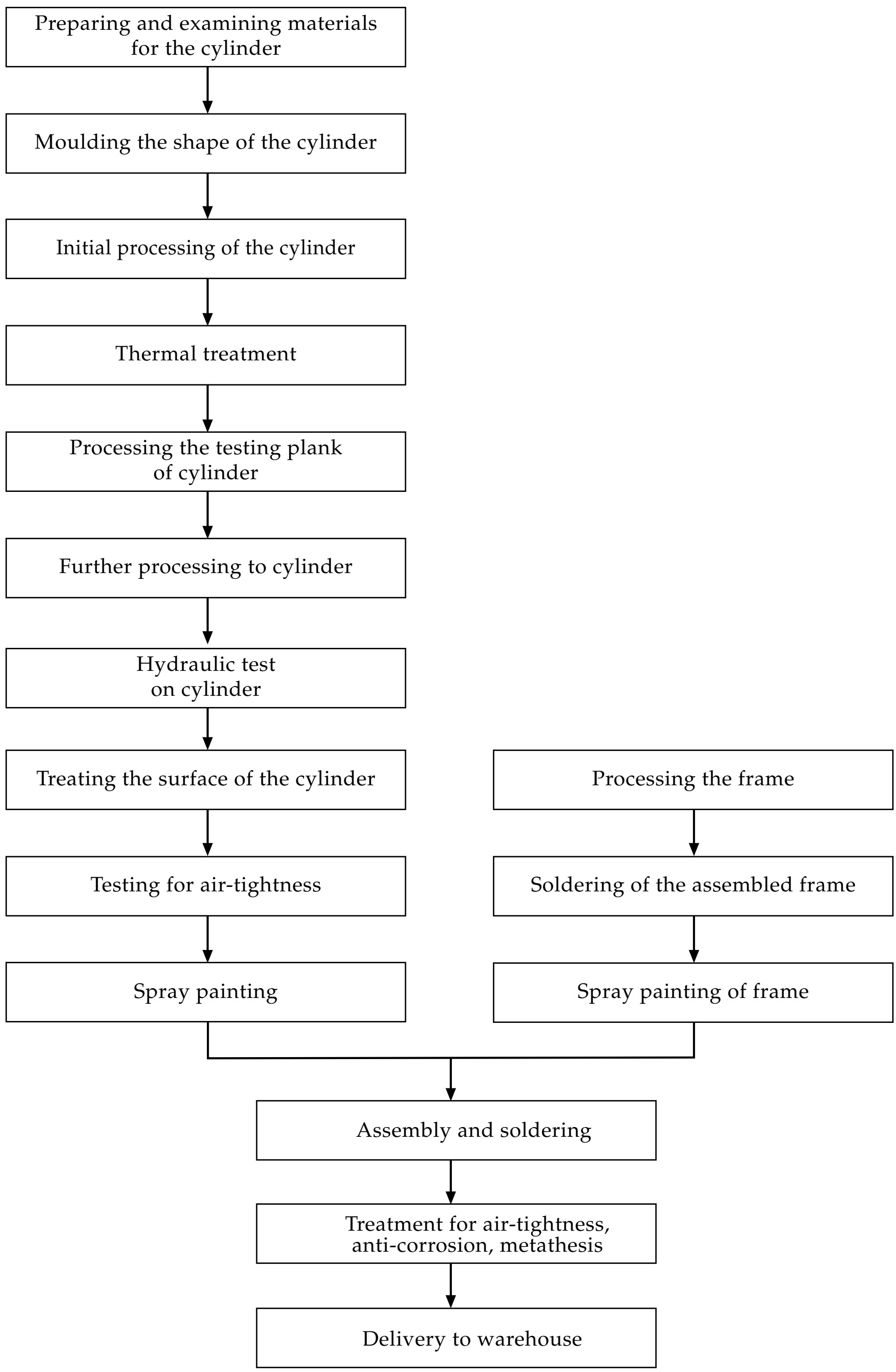
Compressors

The production process for compressors can be broadly categorised into eight steps: (i) assessment of contract according to the sales order ; (ii) issuance of notice to carry out the tasks; (iii) provision of technical documentation by design division and research and development division; (iv) purchase of raw materials; (v) processing of parts and components according to the production plan of metal-processing workshop as well as soldering and riveting workshop; (vi) testing by assembly division; (vii) final examination and testing; and (viii) delivery to warehouse.

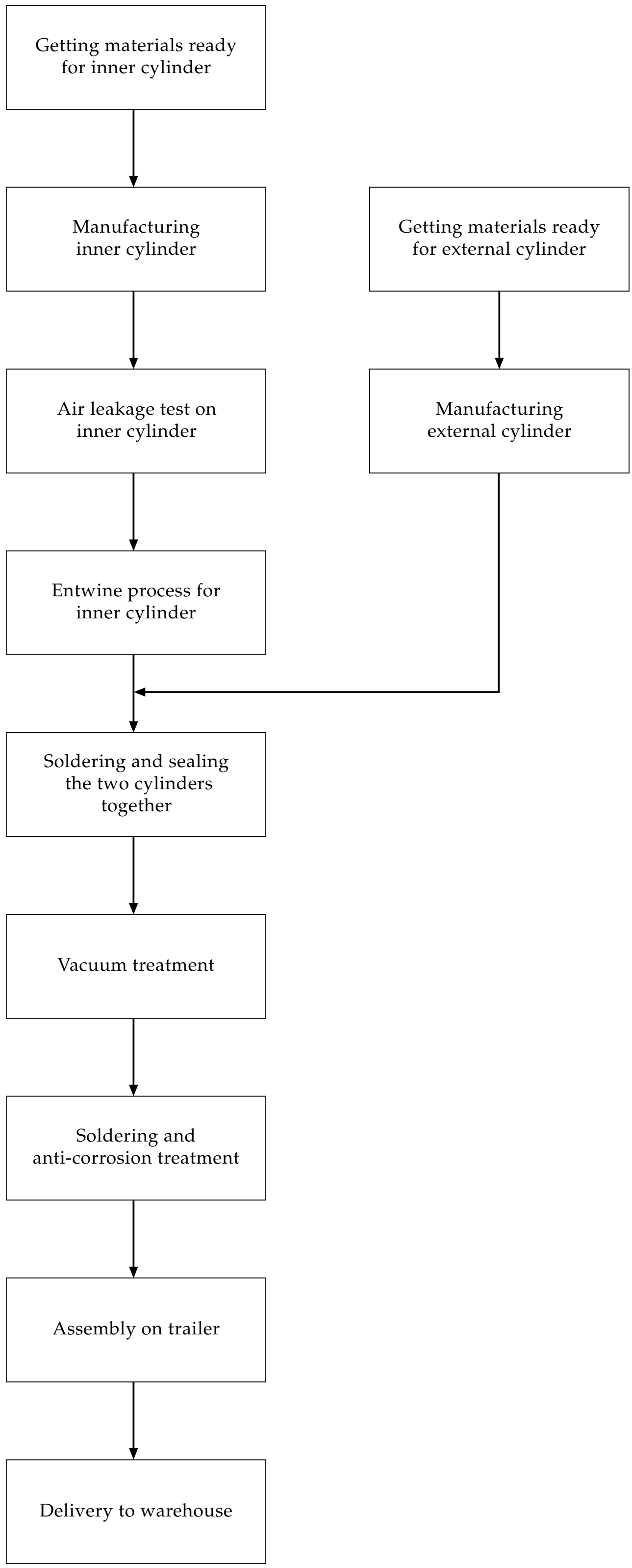
Pressure Vessels

The following charts represent the production process of the Group's core products under its pressure vessels business, namely CNG trailers (of the seamless pressure gas cylinder storage and transportation equipment series) and LNG trailers (of the cryogenic liquid storage and transportation equipment series):

1. Seamless pressure cylinder storage and transportation equipment series



2. *LNG trailer of the cryogenic liquid storage and transportation equipment series*



Integrated business solutions for gas equipment

The Group's core product for its integrated business solutions for gas refueling stations is the CNG hydraulic daughter refueling stations. The production process of CNG hydraulic daughter refueling stations can be broadly divided into seven steps: (i) purchase of components of the hydraulic system and control system; (ii) purchase of the main body and ancillary parts of CNG daughter refueling station trailer; (iii) assembly of the hydraulic system, control system and CNG daughter refueling station trailer separately; (iv) purchase of ancillary equipment (e.g. gas dispenser); (v) fine tuning and testing of the hydraulic daughter refueling station system; (vi) final examination and testing; and (vii) delivery to warehouse.

F. QUALITY CONTROL

The Group is committed to manufacturing quality products, with an aim not only to fulfill the relevant regulatory standards but also build its own brandname and reputation. The Directors believe that product quality is vital in enhancing the Group's competitiveness, market position and reputation. To the best of the Director's knowledge, the Company has not experienced any complaint in relation to its products previously.

According to the requirements and standards imposed by the relevant PRC authorities on the manufacture of pressure vessels and compressors, the Group has established a comprehensive system to ensure the quality of its products. The Group's quality control system is a document based system with written manuals detailing the steps and procedures, the duties of personnels in the quality control division, the standards to be adhered to, controls relating to design, procurement of raw materials, parts and components and the respective production steps. Accomplished with the quality control system, the Group has also established a management control system which complies with the ISO9001:2000 standard.

Pressure Vessels

The Group's quality control procedures for pressure vessels comprise the quality guarantee procedures and quality supervisory examination procedures, which involve 34 inspection officers and engineers including quality guarantee engineers:

Quality guarantee procedures

The Group implements on-site inspection of the manufacture of its pressure vessels to ensure compliance with the Procedures of Pressure Vessels《壓力容器安全技術監察規程》, the Procedures for Safety of Gas Cylinders《氣瓶安全監察規程》and the ASME standards. In relation to the supply of raw materials, the Group carries out quality examination of the procured raw materials, parts and components to ensure they are up to the Group's internal standards for production. In terms of production, the quality control procedures include the inspection and control of the metal-processing, welding and soldering, assembly and repair processes, and the examination of parts produced at each stage. Further, the Group's after-sales service team is responsible for collecting customers' feedback and disseminating the same to the production department and design division.

Quality supervisory examination procedures

The quality supervisory examination procedures comprise the inspection of production process from raw material to finished products, chemical analysis and mechanical test, inspection of equipment as well as fault detection with the use of radioactive beam, supersonic, magnetic powder and by colouration.

Apart from the abovesaid internal quality control measures, the Group's pressure vessels are also subject to mandatory examinations by Hebei Institution of Boiler & Pressure Vessel Supervisory Inspection (河北省鍋爐壓力容器監督檢測所). The Group has to obtain the pressure vessels safety supervisory examination certificate (壓力容器產品安全性能監督驗證書) before it can deliver the products to its customers.

Compressors

The Group's quality control procedures for compressors involve a team of 24 inspection officers and engineers. The quality control procedures include the quality examination of the purchased raw materials, parts and components as well as the inspection and control of the metal-processing, welding and soldering, thermal treatment, assembly and repair processes, and the examination of parts produced at each stage.

Integrated business solutions

The Group's quality control procedures for integrated business solutions involve four engineers who are responsible for the examination of purchased raw materials, inspection of the production process and integrated business solutions provided to customers, as well as on-site inspection.

Through its quality control system, the Group can ensure that each step of the manufacturing process for its pressure vessels is manufactured under the Procedures of Pressure Vessels《壓力容器規程》, Procedures for Safety Supervision of Gas Cylinders《氣瓶安全監察規程》and ASME standards and the seamless pressure cylinders manufactured under DOT standards respectively and are carried out in accordance with the requisite standards as stated in the process manuals and its quality control manual.

There was no return of the Group's products during the Track Record Period.

G. INVENTORY CONTROL

In accordance with the special characteristics of each product, the Group has compiled a set of standardised management process in order to strengthen its internal control over inventories and the associating logistics needs.

The Group has formulated a set of inventory policies which helps maintain an optimal inventory level. The Group takes into consideration the production cycle of its products in procuring raw materials, and has set up a monthly material procurement plan in accordance with its projected production plan which is subject to a demand-driven production model under which production is mostly determined by the number of sales order received. After such monthly materials procurement plan is reviewed and approved by the department head, it will be used as a guideline for the procurement department to place purchase orders. The Group's stringent quality control and management system on the production process and its final products ensure products meet the requisite standards before being delivered to the warehouse. Further, the Group takes into account the credit history and financial background of its the customers in order to minimise the risk of default payment.

The average inventory turnover days of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 were 194, 110 and 124 respectively. The Directors consider the relatively long inventory turnover days were generally due to the following reasons: (1) non-standardised products which have longer production cycles (on average 60 to 90 days for normal production cycle) were produced according to customers' requests and the Group had set aside a level of raw materials for the production of these products; (2) the price of certain raw materials, e.g. steel, is fluctuating, therefore, the Group has increased the procurement of these raw materials; and (3) the procurement cycle of certain raw materials, e.g. airends and steel pipes, is long, as such the Group had to maintain enough inventory to ensure smooth production progress.

Scrap materials are generated from the normal course of production process (i.e. during the process of mounting the shape of the cylinder). The Group then sells these scrap materials with an aim to further increase the efficiency of every production process.

RESEARCH AND DEVELOPMENT

The Group places strong emphasis on the research and development of its products in order to keep up with the latest needs of its customers. The Directors consider that a strong research and development capability is important to ensure the Group's success and its ability to constantly provide suitable high quality products to meet the requirements of its customers. The Group's strong research and development team also enables the Group to have the capability to continue to upgrade its existing products in response to growing sophistication of the gas equipment industry.

As at the Latest Practicable Date, the Group had a research and development team of 126 professionals comprising qualified individuals with years of experience in the gas equipment industry. Within the team, 83 professionals have over ten years of experience and 75 professionals hold either a postgraduate degree or bachelor's degree.

In terms of professional qualifications, 15 professionals are qualified as senior engineer, 38 professionals are qualified as engineer and 48 professionals are qualified as assistant engineer.

Further, a number of the Group's research and development professionals have specific notable certificates in the industry. Two persons are the members of CCIEA and one of them is the Vice-chairman of CCIEA. Members of the team comprise of national technical specialist (國家級技術專家) and members of the National Compressor Standardisation Technology Committee (全國壓縮機標準化技術委員會). In addition, the Group's research and development team comprise of members being awarded of the certificate for designing, analysing and approving pressure vessels (壓力容器分析、設計、審核證), the certificate of approving the qualification of pressure vessel (壓力容器審批資格證), the certificate of quality control engineer of pressure vessel manufacturer (壓力容器製造單位質量保證工程師資格證書) issued by GAQSIQ, the engineer certificate of inspection duty for fault detection (無損檢測責任工程師資格) issued by CCIEA, the certificate of MTIII and MTII issued by GAQSIQ and the certificate of middle grade mechanics nature, chemical analysis and metallography inspection (力學性能、化學分析、金相檢測中級證書) issued by CMIF.

In order to strengthen its capability in research and development, the Group plans to increase the number of people in its research and development team in the future.

The Group's research and development expenses were approximately RMB1.9 million, RMB4.2 million and RMB2.4 million for each of the two years ended 31 December 2004 and the six months ended 30 June 2005, respectively. The Directors intend to increase such expenditures in research and development during the Forward Looking Period and expect the Group to be more actively engaged in the research and development activities after the Listing. The Directors consider that such increase in research and development expenditure is necessary to pursue the Group's business strategies and objectives and to strengthen its core technologies in order to develop and enhance its products and maintain its leading position in the market.

COMPETITION

Although there are other manufacturers in the PRC which manufacture compressors with functions similar to the principal products manufactured by the Group, the Directors consider that Group's products are more competitive in terms of quality, product range and meeting customers' needs. Leveraging on its research and development capability, its well established position in the industry and its experienced management, the Directors believe that the Group will continue to maintain its edge over its domestic competitors.

As of the Latest Practicable Date, the Directors were not aware, apart from the Group, of any provider of integrated business solutions for gas equipment in the PRC that was also a manufacturer of pressure vessels and compressors. To the best of the Directors' knowledge, competitions in this aspect generally arise from overseas manufacturers of pressure vessels, compressors and providers of integrated business solutions for gas equipment. However, the Directors believe that these overseas manufacturers are of limited numbers in the PRC. The Directors believe that, the main competitors for the Group's pressure vessels business are primarily CP Industries Inc. of the United States and NK Co., Ltd. of Korea. Their respective backgrounds are as follows:

Name	**Background**
CP Industries Inc.	CP Industries Inc. was established in 1897 and is a world leader in production of these large seamless pressure cylinder for storing or transporting pressurised gases.
NK Co. Ltd.	NK Co. Ltd. was established in 1980 and is a leading manufacturer and system integrator of fire protection equipment and high pressure gas cylinders in Korea. It is well known in the gas equipment industry and has substantial market share in Korea.

The Directors view CP Industries Inc. and NK Co. Ltd. as competitors due to the following reasons: (i) they are both specialised in the high standard pressure vessels that are technologically sophisticated; (ii) they both have long manufacturing history and good reputation in the gas equipment market; and (iii) they both identify the PRC as their key market to develop and have set up sales offices in the PRC.

Nevertheless, the Directors are of the view that pressure vessels and compressors manufactured by these overseas competitors at large are often offered at a higher price range than those of the Group's products since the Group primarily uses local resources to manufacture its products. Accordingly, the Directors believe that the pressure vessels and compressors produced by these overseas manufacturers are less competitive in terms of pricing. Furthermore, foreign competitors in the PRC do not usually have local services or sales network to offer to their customers comprehensive after-sales services and to promote their products locally.

The Directors consider that entry barriers (including expertise and know-how, technology and capital) exist for new entrants to the industry. Accordingly, the Directors do not anticipate that intense competition from new entrants in the industry in the near future.

The Initial Management Shareholders, Xinao Gas, XGCL and Xinao Shijiazhuang have entered into a deed of non-competition undertakings in favour of the Company (for itself and as trustees for is subsidiaries), particulars of which are set out in the section headed "Relationship with the controlling Shareholders – Non-competition undertakings" in this prospectus.

INTELLECTUAL PROPERTY

The Group's intellectual property rights include trademarks, patents and domain names, particulars of which are set out in the section headed "Intellectual property rights" in Appendix VII to this prospectus.

Trademarks

As at the Latest Practicable Date, the Group had registered the trademark of " " for classes 7 and 9 (air compressors only) for the period from 7 December 2002 to 28 February 2013.

As at the Latest Practicable Date, Enric Compressor has obtained from XGCL the ownership of the trademarks "**Enric 安瑞科**" (registration no. 3121213), "**Enric**" (registration no. 3121214) and "**安瑞科**" (registration no. 3121215) pursuant to a trademark transfer agreement dated 10 October 2004 entered into between Enric Compressor and XGCL. Also, as at the Latest Practicable Date, Enric Gas Equipment has obtained from XGCL the ownership of the trademarks "**安瑞科**" (registration no. 3121216), "**Enric**" (registration no. 3121217) and "**Enric 安瑞科**" (registration no. 3121218) pursuant to a trademark transfer agreement dated 10 October 2004 entered into between Enric Gas Equipment and XGCL. The registration process of the relevant transfers of ownerships of the aforesaid trademarks were completed on 21 January 2005.

As at the Latest Practicable Date, the Group had also applied for registration of the trademarks of "**Enric 安瑞科**", "**Enric**" and "**安瑞科**" in classes 2-5 and 13-45 in the PRC, particulars of which are set out in the section headed "Intellectual property" in Appendix VII to this prospectus.

Patented technologies

As at the Latest Practicable Date, the Group has obtained from Xinao Shijiazhuang the ownership of the patent of seamless pressure cylinders (patent no. ZL.02.2.41723.0), gas storage cylinder group for use at gas refueling stations (patent no. ZL.02.2.41724.9) and containers for seamless pressure gas cylinders (patent no. ZL.02.2.41725.7) pursuant to three patent transfer agreements all dated 10 March 2005 entered into between Xinao Shijiazhuang and Enric Gas Equipment. The registration process of the relevant transfers of ownership of the aforesaid patents were completed on 10 June 2005.

Further, pursuant to the agreement dated 6 May 2003 entered into between Neogas and Xinao Shijiazhuang (the "Neogas Agreement"), Xinao Shijiazhuang was granted exclusive rights by Neogas for a term of 20 years from the date of the Neogas Agreement to, amongst others, (i) manufacture various components parts used to make up the Neogas transportation and delivery technologies, including without limitation, valves, actuators, fittings, tubings, pumps, motors, special fluids, measurement devices, electronic pneumatic controls, proprietary parts and any other components required to operate the patented and/or patent-pending technologies, trademarks and technical know-how developed by Neogas for CNG delivery, transport or dispensing technologies in relation to the development and design of equipment, engineering methods, software, tools, application software, apparatus and products (collectively, the "Neogas System") within the PRC and the rest of Asia (excluding the former Soviet Union and the Middle-Eastern countries of Iran and Iraq); and (ii) distribute the Neogas System within the PRC. Such technologies of Neogas have been granted a patent in United States while application has been made to the State Intellectual Property Office of the PRC for registration of such patent in the PRC. Under the Neogas Agreement, Xinao Shijiazhuang is obliged to pay a licence fee of US$680,000 by agreed installments (which licence fee has already been fully settled), and a royalty of 5% of the deemed sales amount of the Neogas System under the Neogas Agreement.

Under the Neogas Agreement, Xinao Shijiazhuang may licence its exclusive rights under the Neogas Agreement to the Group. Xinao Shijiazhuang has since the incorporation of Enric Gas Equipment been licencing its exclusive rights under the Neogas Agreement for use by Enric Gas Equipment at nil consideration, thereby enabling the Group to gain access to and utilise the technologies of Neogas, which mainly involve in the area of the CNG dispensing system. Such dispensing system involves the application of hydraulic fluid to discharge CNG from cylinder installed at the CNG daughter stations. CNG is forced out from the cylinder by filling hydraulic fluid directly into the cylinder. Subsequent to the discharge of the CNG, the hydraulic fluid will recirculate back to the reservoir fitted on top of cylinder through the reversible flow valves. Comparing from other conventional ways to discharge CNG from pressure vessels, the hydraulic fluid can be applied in a quicker and more stable manner. Hence, the application of hydraulic fluid can allow a faster refueling speed and less power consumption in dispensing, which will result in a lower operating cost from the gas distributors' angle. The Directors consider that the application of hydraulic fluid to dispense CNG is more efficient and more competitive from an economic perspective.

Considering that such licencing by Xinao Shijiazhuang to Enric Gas Equipment will constitute an exempt continuing connected transaction for the Group upon the Listing, a licence agreement dated 16 September 2005 (the "Licence Agreement") was entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric Integration jointly as licensees whereby it was agreed, during the remaining term of the Neogas Agreement commencing on the Listing Date, that (i) Xinao Shijiazhuang shall licence its rights under the Neogas Agreement to Enric Gas Equipment and Enric Integration exclusively at nil consideration; (ii) Xinao Shijiazhuang shall unconditionally and irrevocably undertake not to use its rights under the Neogas Agreement and not to grant any licences under the Neogas Agreement to any other parties outside the Group; (iii) any licence fees, royalties and other related fees (if any) payable under the Neogas Agreement shall be paid by Enric Gas Equipment and/or Enric Integration directly to Neogas; and (iv) Xinao Shijiazhuang shall fully indemnify the Group for any losses, damages and liabilities which may be suffered by any members of the Group as a result of the breach of the Licence Agreement and/or the Neogas Agreement by Xinao Shijiazhuang. The particulars of the Licence Agreement are also set out in the section headed "Connected transactions" in this prospectus.

As at the Latest Practicable Date, the Group had not licenced any of its intellectual property rights to third parties and the Group had not encountered any disputes or potential disputes regarding its intellectual property rights.

Domain name

As at the Latest Practicable Date, the Group had registered the domain names of *enricgroup.com* and *enricgroup.com.cn* in the PRC, the particulars of which are set out in the section headed "Intellectual property" in Appendix VII to this prospectus.

AWARDS AND HONOURS

As at the Latest Practicable Date, some of the major awards and honours received by the Group are set out as follows:

Date of grant	Awards and honours	Awarding body
March 2005	Chinese Customers Quality and Service Satisfaction Entity (中國消費者(用戶)質量服務滿意單位)	Chinese Association for Quality, China Quality Service Science Association, China Product Safety Evaluating and Monitoring Centre (中國質量學會、中國優質服務科學學會、中國產品安全評價監測中心)
September 2004	Famous Brand Award of Anhui Province* (安徽省名牌產品獎)	Bureau of Commercial Technical Supervision of Anhui Province (安徽省商業技術督局) Commission of Brandname Strategic Advancement of Anhui Province (安徽省名牌戰略推進委員會)
February 2004	The screw compressor was awarded the Science and Technology First Class Award of Bengbu City* (蚌埠市科學技術獎一等獎)	People's Government of Bengbu City

Date of grant	Awards and honours	Awarding body
December 2003	Excellent Technological Private Enterprise of Anhui Province* (安徽省優秀民營科技企業)	Federation of Industry and Commerce of Anhui Province, Association of Science and Technology of Anhui Province and Association of Entrepreneurs of Private Technological Enterprise of Anhui Province (安徽省工商業聯合會、安徽省科學技術協會、安徽省民營科技實業家協會)
August 2003	The screw compressor was awarded the 2003 New Product Award of Anhui Province* (二零零三年度安徽省新產品獎)	Commission of Economic and Trade of Anhui Province (安徽省經濟貿易委員會)
July 2003	Top 100 Private Enterprises in 2002 of Anhui Province* (二零零二年度安徽省民營百強企業)	Federation of Industry and Commerce of Anhui Province, Commission of Economic and Trade of Anhui Province, Administration for Industry and Commerce of Anhui Province, Department of Foreign Trade and Cooperation of Anhui Province, Local Taxation Bureau of Anhui Province, Bureau of Statistics of Anhui Province and Township Enterprises Bureau of Anhui Province (安徽省工商業聯合會、安徽省經濟貿易委員會、安徽省工商行政管理局、安徽省對外貿易經濟合作廳、安徽省地方稅務局、安徽省統計局、安徽省鄉鎮企業局)

ENVIRONMENTAL PROTECTION

The PRC manufacturers must comply with environmental laws and regulations including Environmental Protection Law of the PRC《中華人民共和國環境保護法》, Law of the PRC on Prevention and Control of Water Pollution (Amended)《中華人民共和國水污染防治法(修正)》, Law of the PRC on Prevention and Control of Air Pollution (Amended)《中華人民共和國大氣污染防治法(修正)》, Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste《中華人民共和國固體廢物污染環境防治法》, stipulated by the State and the local environmental protection bureau. These environmental laws and regulations contain provisions regarding the treatment and disposal of pollutants and sewage and discharge of polluted fumes, and the prevention of industrial pollution.

In connection with its production of compressors, pressure vessels and related products, the Group is obliged to comply with these environmental laws and regulations. During the Track Record Period, the Group had never been charged for or incurred any penalties or fines as a result of violation of, these laws and regulations. As advised by the PRC legal advisers to the Company, the Group has complied with these environmental laws and regulations in all material respects.

INSURANCE

The Group has maintained product liability insurance to cover potential claims (except were expressly excluded in the insurance policy) arising from or as a result of any defect of the Group's products. However, the Directors confirm that the Group has never experienced any material third party liability claim in relation to its products. The Directors believe that the Group can effectively manage the product liability risk through its stringent quality control.

The PRC legal advisers to the Company have confirmed in their legal opinion that the Group has complied with the applicable PRC regulations on social insurance scheme and has contributed to the mandatory pension contribution plan, medical insurance plan, non-employment insurance plan and work-related injury insurance plan for its employees.

Based on the opinion of the Group's PRC legal advises, all the operating subsidiaries have complied with the PRC regulations on social insurance, pension contribution plan, housing schemes and medical insurance plan.

Pursuant to the Convertible Bond Subscription Agreement, EIGL issued to Investec, an Independent Third Party, convertible redeemable bonds in the aggregate principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000). The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8:00 a.m. on the Listing Date.

Upon the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of such agreement or otherwise, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised). Based on the number of Shares which are expected to be in issue immediately upon the Listing, Investec is expected to be allotted and issued 51,840,000 Shares. The Redeemable Convertible Bonds will bear interest at a rate of 2.5% per annum, payable quarterly. The conversion price will be approximately HK$0.75 per Share, and represents approximately 33.0% discount to the lowest range of the Placing Price of HK$1.12 per Share and approximately 55.4% discount to the highest range of the Placing Price of HK$1.68 per Share. Such conversion price represents a price earning ratio of 5.4 times of the unaudited pro forma fully diluted forecast earnings per Share of approximately HK$0.14. The Shares to be held by Investec will be subject to a moratorium period of six months from the Listing Date. The Directors consider that this conversion price is arrived at based on arm's length negotiations after taking into consideration the reasons stated below and that Investec will be subject to a moratorium period.

Investec, an Independent Third Party, is a wholly owned subsidiary of Investec PLC. Investec PLC is an international investment and private banking group, the shares of which are listed on the London Stock Exchange. Investec Group provides corporate and investment banking, private banking, securities trading, asset management, property trading and management and trade finance services. In addition, Investec Group also engages in direct investment business. Investec will have no representation on the Board nor will it have any management functions in the Group. The net assets of Investec PLC were £980.45 million (equivalent to approximately HK$13.53 billion) as at 31 March 2005. Investec PLC recorded a net profit of £100.52 million (equivalent to approximately HK$1,387.2 million) for the year ended 31 March 2005. The market capitalisation of Investec PLC was approximately £1,591.19 million (equivalent to approximately HK$21.96 billion) as at 27 September 2005.

The Directors consider that the investment by Investec will enhance the Shareholders' base and promote corporate governance. In addition, following the Conversion, the Company's financial position, in particular its liquidity and gearing, will be further improved.

Background and relationship with Mr. Wang and certain related companies

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

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

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

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

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

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

Xinao Gas and its related companies

1. Xinao Gas

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

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

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

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

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

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

Beihai Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 13 January 2004. As at the Latest Practicable Date, it was owned by Dongguan Xinao Gas Company Limited and Xinao Gas China Investment Limited as to approximately 62% and 38% respectively. The effective interests of Mr. Wang and Ms. Zhao in Beihai Xinao Gas Company Limited was approximately 29.36% as at the Latest Practicable Date. Its principal business is the production and sales of LNG and CNG, the design and installation of piped gas facilities and the production, sales and repair of gas equipment and appliances including cooking stoves, water boilers and heaters, which are targeted at end-users in the natural gas market. As the business of the Group primarily involves the manufacture of specialised gas equipment and the provision of integrated business solutions targeting at the transportation, storage and distribution of natural gas from its source to end-users, the Directors are of the view that there is no competition between the business of Beihai Xinao Gas Company Limited and that of the Group. Beihai Xinao Gas Company Limited had purchased specialised gas-related equipment from the Group during the Track Record Period.

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

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

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

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

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

Changsha Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 29 August 2003. As at the Latest Practicable Date, it was owned by Xinao Gas China Investment Limited and an Independent Third Party as to approximately 55% and 45% respectively. The effective interests of Mr. Wang and Ms. Zhao in Changsha Xinao Gas Company Limited was approximately 23.62% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials and equipment for construction of gas pipeline infrastructure by itself, Changsha Xinao Gas Company Limited purchases materials, such as pipes and specialised gas-related equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. Accordingly, Changsha Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Changsha Xinao Gas Company Limited and that of the Group. Changsha Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liaocheng Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 8 August 2000. As at the Latest Practicable Date, it was owned by Xinao Liaocheng Investment Limited and an Independent Third Party as to approximately 90% and 10% respectively. The effective interests of Mr. Wang and Ms. Zhao in Liaocheng Xinao Gas Company Limited was approximately 38.64% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas and its principal business is the provision of piped gas. As the business of Liaocheng Xinao Gas Company Limited does not involve the production and sales of gas equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Liaocheng Xinao Gas Company Limited and that of the Group. Liaocheng Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. Xinao Gas Investment Group Limited

Xinao Gas Investment Group Limited is a company incorporated in BVI with limited liability on 4 January 2000 and was wholly owned by Xinao Gas as at the Latest Practicable Date. As at the Latest Practicable Date, the effective interests of Mr. Wang and Ms. Zhao in Xinao Gas Investment Group Limited was approximately 42.94%. It is a subsidiary of Xinao Gas and its principal business is investment holding. It conducts the business of gas pipeline infrastructure and sale and distribution of piped gas and LPG in the PRC through its subsidiaries within Xinao Gas Group. As such business does not involve production and sales of specialised gas-related equipment or provision of integrated business solutions, the Directors are of the view that there is no competition between the business of Xinao Gas Investment Group Limited and that of the Group. Xinao Gas Investment Group Limited leased certain properties in Lippo Centre, Hong Kong to the Group for office purpose during the Track Record Period. Particulars of the Group's rental transaction and/or proposed rental transactions with Xinao Gas Investment Group Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this prospectus.

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

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

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

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

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

Zhuzhou Xinao Gas Company Limited is a company incorporated in the PRC with limited liability on 12 November 2003. As at the Latest Practicable Date, it was owned by Xinao Hunan Investment Limited and an Independent Third Party as to approximately 55% and 45% respectively. The effective interests of Mr. Wang and Ms. Zhao in Zhuzhou Xinao Gas Company Limited was approximately 23.62% as at the Latest Practicable Date. It is a subsidiary of Xinao Gas. Its principal business is the investment in gas pipeline infrastructure and provision of piped gas. The gas pipeline infrastructure business involves the design and construction of gas pipeline infrastructure (including without limitation, processing stations, intermediate pipelines and main pipelines). Instead of manufacturing the materials for construction of gas pipeline infrastructure by itself, Zhuzhou Xinao Gas Company Limited purchases materials, such as pipes and specialised gas-related equipment (for example, gas regulating equipment and machinery) from suppliers including the Group. In this regard, Zhuzhou Xinao Gas Company Limited is considered to be a customer of the Group and the Directors are of the view that there is no competition between the business of Zhuzhou Xinao Gas Company Limited and that of the Group. Zhuzhou Xinao Gas Company Limited had purchased specialised gas-related products from the Group during the Track Record Period.

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

XGCL and its related companies

1. XGCL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Xinao Shijiazhuang

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

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

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

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

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

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

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

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

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

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

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

The Directors consider that the purchase of products from the Group by Xinao Shijiazhuang and sales of raw materials by Xinao Shijiazhuang to the Group were commercially beneficial for both Xinao Shijiazhuang and Enric Gas Equipment. As far as Xinao Shijiazhuang is concerned, it did not have to source for these products from other suppliers (who were readily acceptable from a quality and creditability perspective) to meet its outstanding sales obligation; whilst from Enric Gas Equipment's perspective, (i) the raw materials kept by Xinao Shijiazhuang were suitable for the manufacturing of the products to fulfill the outstanding sales contracts of Xinao Shijiazhuang; and (ii) due to the new product focus, Enric Gas Equipment has not yet materialised any substantial sales contracts in the first few months after the capital contribution.

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

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

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

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

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

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

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

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

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

Others

1. XGII

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

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

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

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

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

3. Langfang Guofu

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

Mr. Wang is the sole director of Langfang Guofu.

Non-competition undertakings

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

(a) it/he/she shall not, and shall procure that its/his/her subsidiaries and any company, enterprise or entity in which it/he/she has a majority control of the board of directors or controls more than 50% of the issued share capital of such company, enterprise or entity (other than any members of the Group) (together, the "Parent Group") shall not, and shall use best endeavours to procure Xinao Gas Group shall not, directly or indirectly, own, invest in, participate in or operate by any means any businesses which compete or is likely to compete directly or indirectly with the business currently carried on by the Group or any other businesses which the Group plans to develop, both as disclosed in this prospectus (collectively, the "Relevant Businesses"); and

(b) if there is an opportunity for any of the Covenantors or any members of their respective Parent Group to own, invest in, participate in, develop, operate or engage in or to acquire an interest in any Relevant Businesses, it/he/she shall immediately notify the Company and shall use its/his/her best endeavours to procure that the Group will have the first opportunity to own, invest in, participate in, develop, operate or engage in or to acquire an interest in such business on no less favourable terms than those available to the relevant Covenantor or relevant member of the Parent Group, provided that if the Group decides not to take up such opportunity or has not taken up such opportunity within two months after it is offered to the Group, the relevant Covenantor or relevant member of the Parent Group shall have the right to invest in, participate in, develop, operate or engage in or to acquire an interest in the Relevant Businesses (as the case may be) as offered to the Group.

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

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pursuant to a repair and maintenance agreement dated 4 October 2005 entered into between EIGL (representing itself and as trustee of its subsidiaries) and Xinao Gas (representing itself and as trustee of its subsidiaries), EIGL agreed to provide Xinao Gas Group with repair, maintenance, installation and ancillary services for the gas equipment manufactured by the Group from time to time on demand basis and to sell machinery spare parts and ancillary products to replace any parts of such equipment which are worn out or damaged in the course of providing repair and maintenance services, for a term of three years commencing on 4 October 2005. The service charge payable by Xinao Gas Group is based on actual costs incurred by EIGL and its subsidiaries plus a profit margin of not more than 15.0%, provided no such fee shall be lower than the fee charged by EIGL to Independent Third Parties for provision of similar services.

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

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

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

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

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

Non-exempt continuing connected transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WAIVER APPLICATION

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

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

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

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

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

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

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

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

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

The following information sets out the active business pursuits undertaken by the Group during the period from 1 January 2003 to the Latest Practicable Date:

	Year ended 31 December 2003	**Year ended 31 December 2004**	**1 January 2005 to the Latest Practicable Date**
Corporate Development and Investments	Enric Compressor injected approximately RMB7.3 million in its fixed assets and construction-in-progress. It also expended approximately RMB1.9 million as to following aspects: (i) developed the vehicle and skid-mounted type S and type W special-purpose compressor series, air-cooling natural gas compressors and water-and-air-cooling natural gas compressor (ii) constructed facilities for polishing process using shot-blasting metal pellets and spray painting to improve product quality (iii) purchased six units of CNC milling machines to enhance product quality and increase productivity (iv) purchased three dimensional CAD software and related equipment to improve its product design capability (v) improved the facilities of the technology centre and related departments	The Group injected approximately RMB32.2 million in its fixed assets and construction-in-progress. It also expended approximately RMB4.2 million as to following aspects: (i) increased its existing power supply capacity from 1,000 KVA to 3,500 KVA in order to ensure ready power supply (ii) purchased additional CNC milling machines and processing systems (iii) developed single row type V natural gas compressor with large piston power to upgrade the discharge capacity, simplify the structure and improve performance stability (iv) increased its existing power supply capacity from 1,800 KVA to 4,650 KVA for its production facilities	The Group injected approximately RMB7.4 million in its fixed assets and construction-in-progress. It also expended approximately RMB2.4 million as to the following aspects: (i) purchased vacuum machineries, and shot-blasting metal pellets blasting facilities and other production and examination facilities to enhance the production capabilities and the standard of CNG and LNG products, and the outer appearance of chemical material storage and transportation equipment (ii) enhanced existing models of LNG container and cryogenic liquid storage and transportation equipment, including different types of LNG storage tanks, and LNG mother-daughter storage tanks and liquid ammonia tank truck and liquid nitrogen tank truck (iii) developed LCNG refueling station (iv) improved the design of CNG hydraulic daughter refueling station

	Year ended 31 December 2003	**Year ended 31 December 2004**	**1 January 2005 to the Latest Practicable Date**
		(v) developed LNG containers and large size LNG mother-daughter storage tanks	(v) developed 11 models of natural gas compressors
		(vi) improved the adaptability and optimised the operating system of the hydraulic daughter refueling stations	(vi) constructed new testing platform for compressors and compressor assembly workshop
		(vii) purchased ANSY design software to upgrade the standard of design and safety of products	(vii) developed double axle high pressure gas trailer and double and triple axles cryogenic liquid trailer and chemical storage tank truck
		Enric Integration, which is to carry out the business of providing integrated business solutions, was established on 28 December 2004	
Research and development			
Compressors			
I. Existing products	(i) Improved the control functions of the type S and type W special-purpose compressor, where the new airend was developed to carry out five stages of compression; re-designed the piston ring; and enhanced the noise reduction capability;	(i) Improved the start-up system for the general-purpose compressor to upgrade its safety and performance stability (ii) Improved the working life of the piston ring for special-purpose compressors (iii) Re-designed the casing and improved the air-cooling system for type S special-purpose compressors	

	Year ended 31 December 2003	Year ended 31 December 2004	1 January 2005 to the Latest Practicable Date
II. New products			
1. Gas compressor series	(i) Developed various models of natural gas compressors for mother refueling station, daughter refueling station and standard refueling station	(i) Developed single row type V natural gas compressor with 6.5 tonnes piston force (ii) Developed natural gas compressors of different specifications and standards and gas refueling station products to expand the variety and functionality under the series	Developed 11 models of natural gas compressor: (i) Developed one model of type V skid-mounted natural gas compressor for use in mother refueling station (ii) Developed five models of type W natural gas compressor for use in mother refueling station (iii) Developed two models of type W natural gas compressor for use in standard refueling station (iv) Developed two models of type V skid-mounted natural gas compressor for use in daughter refueling station (v) Developed one model of type W skid-mounted natural gas compressor for use in daughter refueling station
2. Special-purpose compressor series	(i) Developed special-purpose compressors fitted on vehicles or mounted on skid	(i) Developed gas compressor for use in the oil fields	
3. General-purpose compressor series	(i) Developed screw compressors which are mobile, fitted on vehicles or mounted on skid	(i) Created new models of screw compressors under the series	

	Year ended 31 December 2003	Year ended 31 December 2004	1 January 2005 to the Latest Practicable Date
Pressure Vessels			
1. Seamless pressure cylinder storage and transportation equipment series		(i) Began utilising the patented revolving and shaping techniques to process the pressure cylinders and self-made screw thread lathe	(i) Developed seamless pressure cylinder and gas storage group for CNG using domestically produced seamless steel pipes (ii) Developed CNG binding cylinders trailer (i) Enhanced existing models of developed double axle high pressure gas trailer
2. Cryogenic liquid storage and transportation equipment series		(i) Developed LNG container (ii) Developed LNG storage tank and LNG trailer (iii) Developed LNG mother-daughter storage tank series	(i) Enhanced existing models of LNG container and cryogenic liquid storage and transportation equipment series, including various 100-150 m^3 LNG storage tanks, 1,500 m^3, 5,000 m^3 LNG mother daughter storage tanks, liquid ammonia tank truck and liquid nitrogen tank truck (ii) Developed double and triple axles cryogenic liquid trailer
3. Chemical material and equipment storage and transportation series		(i) Added gas shield welding facilities and improved welding techniques	(i) Developed double and triple axles chemical storage tank truck

	Year ended 31 December 2003	**Year ended 31 December 2004**	**1 January 2005 to the Latest Practicable Date**
Integrated business solutions			
1. Integrated business solutions for city gas projects		(i) Developed pressure-regulating box for implementation of the use of natural gas in cities and towns (ii) Developed CNG hydraulic daughter refueling station and gas daughter refueling station trailers	(i) Designed proprietary control system for the hydraulic CNG daughter refueling station to enhance the performance (ii) Completed the preliminary system design for LCNG refueling station system (iii) Improved the performance of CNG daughter refueling station trailer by enhancing the stability of the lifting function of the trailer
Products launched	The Group launched the following new or modified products in accordance with the Group's customers' demands and specifications:		
Compressors			
1. Gas compressor series	(i) five models of oil-free lubricated low noise natural gas compressor (ii) three models of type V natural gas compressor (iii) two models of type V and type W natural gas cylinder-refilling compressor (i) two models of oil-free lubricated nitrogen compressor (ii) carbon dioxide compressor	(i) 11 models of type V and type W natural gas compressor	11 models of natural gas compressors:– (i) five models of type W natural gas compressor for use in mother refueling station (ii) two models of type V skid-mounted natural gas compressor for use in daughter refueling station (iii) one model of type V skid-mounted natural gas compressor for use in mother refueling station (iv) two models of type W natural gas compressor for use in standard refueling station (v) one model of type W skid-mounted natural gas compressor for use in daughter refueling station

	Year ended 31 December 2003	Year ended 31 December 2004	1 January 2005 to the Latest Practicable Date
2. Special-purpose compressor series	(i) five models of screw air compressor (ii) oil-free lubricated and baseless air compressor	(i) Four models of oil-free lubricated air compressor (ii) hydrogen pressurising skid-mounted compressor (iii) air compressor fitted on vehicle	
3. General-purpose compressor series		(i) five models of screw compressor (ii) 19 models of general-purpose compressor	
Pressure vessels		(i) LNG storage tank (ii) LNG mother-daughter storage tank	(i) Double axle high pressure gas trailer and double and triple axles cryogenic liquid trailer and chemical storage tank truck
Awards, Licences, Permits, and Certificates			
Compressors	(i) Manufacturing Licence for Industrial Products in the PRC – screw compressor (ii) Manufacturing Licence for Industrial Products in the PRC – stationary reciprocating piston air compressor (iii) Licence to Operate Radioactive Equipment (iv) Anhui Province's Excellent Technological Private Enterprise (v) Anhui Province's New Product Award in 2003	(i) Bengbu City's Science and Technology First Class Award (ii) Anhui Province's Famous Brand Award (iii) Certificate of Approval for Measurement Examination System (2nd tier)	(i) Appraisal Certificate for Science and Technology Achievement of Anhui Province (ii) Anhui Province's Excellent Technological Private Enterprise

	Year ended 31 December 2003	Year ended 31 December 2004	1 January 2005 to the Latest Practicable Date
Pressure Vessels	(i) Design Permit for Pressure Vessel in the PRC for classes A1, A2, C2, C3 and SAD	(i) Manufacturing Licence for Pressure Vessel in the PRC for classes A1, A2, B1, C2 and C3 (ii) Certificate of registration for manufacturing of seamless pressure cylinder (DOT 3AAX) issued by the Ministry of Commerce, Industry and Energy of Korea (iii) Licence to Operate Radioactive Equipment	(i) Certificate for domestic products with compulsory product certification (ii) Chinese Customers Quality and Service Satisfaction Entity

	Year ended 31 December 2003	Year ended 31 December 2004	1 January 2005 to the Latest Practicable Date
Sales and marketing	1. The Group advertised on four websites which included portal websites, bidding websites and professional websites	1. The Group advertised on nine websites which included portal websites, bidding websites and professional websites	1. The Group conducted and participated in gas equipment industry exhibitions and conference held in Beijing, Shanghai, Tianjin, Shenyang, Chongqin and Xi'an
	2. The Group advertised in the following professional magazines and journals: (i) General Mechanics (通用機械) (ii) Urban Gas (城市燃氣) (iii) Gas & Heat (煤氣与熱力) (iv) Petrochemical Equipment Catalogue (石油化工設備採購專緝)	2. The Group advertised in the following professional magazines and journals: (i) General Mechanics (通用機械) (ii) Liquid Mechanics (流体机械) (iii) Compressor Technology (壓縮機技術) (iv) PRC Natural Gas Vehicles (中國天然氣汽車) (v) Gas & Heat (煤氣與熱力)	2. The Group advertised in the following professional magazines and journals: (i) General Mechanics (通用機械) (ii) Liquid Mechanics (流體機械) (iii) Gas & Heat (煤氣與熱力) (iv) China Chemical Engineering (中國化工) (v) Compressor Communication (壓縮機通訊) (vi) China Gas (中國氣體) (vii) Gas Information Guide (燃氣信息港)

Year ended 31 December 2003	Year ended 31 December 2004	1 January 2005 to the Latest Practicable Date
3. The Group published an article in the magazine General Mechanics to raise the Group's profile and reputation	3. The Group participated in the gas equipment industry exhibitions held in Beijing and Wuhan	3. The Group conducted a conference to promote its new products which uses CNG
4. The Group attended and participated in gas equipment industry exhibitions held in Shanghai, Chongqing and Xi'an, including the Third Shanghai International Hydraulic Machinery Exhibition and the Shanghai Gas Exhibition	4. The Group advertised and promoted knowledge of its products through distribution of product catalogues respectively	4. The Group began exporting its skid-mounted CNG compressors to Pakistan
5. The Group commenced exporting its compressors to Sudan and Pakistan through its dealers	5. Enric Gas Equipment began exporting its seamless pressure cylinders pressure cylinders to Brazil and Korea	5. The Group advertised through outdoor advertisement and well-known internet search engine in China

THE GROUP'S MISSION

The Group's goal is to become a top tier specialised gas equipment and integrated business solutions provider in the gas energy industry. It has in the recent years become one of the leading players in the domestic gas equipment market through manufacturing gas equipment of international standards and providing integrated business solutions in connection with the implementation of natural gas refueling stations in the gas energy industry. The Group will leverage on its expertise and established experience in the development and manufacture of high quality gas equipment to tailor-design new integrated business solutions in order to cater the changing needs in the energy sector. In particular, the Group plans to achieve and thereafter maintain, a leading position as a provider of energy equipments and integrated business solutions for use in the gas energy industry.

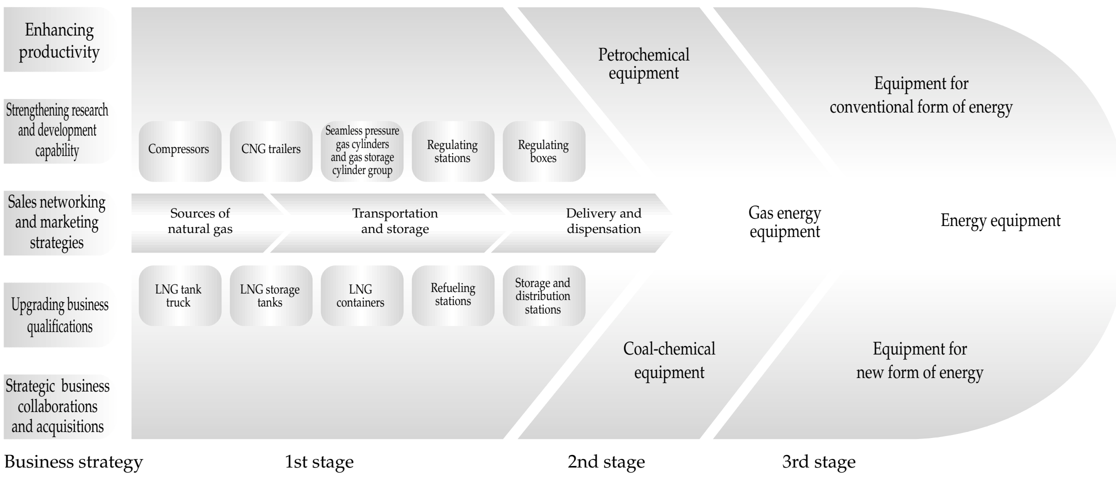
The Group's business strategy model involves manufacturing of high quality gas equipment employing imported technologies, applying advanced technologies and customer-oriented services. The Group provides its customers with customised integrated business solutions and comprehensive services, including without limitation, system design, the manufacture of related equipments, on-site installation, commissioning and testing, the training for the customers' staff, technical support and services in relation to management and operation of such system. In reliance of the above business strategy, the Group strive to remain a competitive provider of gas equipment and integrated business solutions domestically and in due course, achieve similar success in the global market.

Presently, the use of natural gas is highly encouraged as an alternative source of fuel in the PRC. In view of the construction of the "West-to-East Pipeline" project (which carries natural gas deposits from Xinjiang province to the eastern provinces) and other large scale construction projects of gas infrastructure in the PRC, the continued exploration of gas fields under the sea and the purchasing of imported LNG, the Directors believe that there is significant market potential for equipment especially for the processing, storage and transportation of natural gas including gas compressors, equipments for CNG and LNG etc. at various stages along the supply chain and downstream equipment for the purpose of distribution of gas to end-users such as gas refueling stations. Due to the wide geographical spread of gas consumers and substantial investment involved in the pipeline construction, the Directors believe that the need for gas transportation and storage equipment will continue to be in demand to ensure continuous supply of gas before critical mass is attained at urban areas to justify pipeline construction. Further, as gas access become more prevalent and readily available, the Directors believe that the demand for the Group's gas refueling stations which are designed to distribute gas to end users in the vehicular sector, will experience rapid growth.

The Directors believe that the Group has established a solid experience in the gas equipment industry. With the advancement of the technologies involved and the increase in demand for CNG transportation vehicles and LNG storage and delivery facilities, the Directors believe that the Group is well positioned to enjoy significant growth in the future. Moreover, due to the recovery of chemical energy industry in the PRC, the Directors view that the increasing market demand for large size specialised compressors which is used in connection with natural gas transportation and other industries, is expected to continue.

The PRC Government encourages the use of environmentally friendly energy. Given the energy equipment industry is directly affiliated to the energy industry, the PRC Government's favourable policy towards the energy industry would have a direct and beneficial impact on the future development of the energy equipment industry.

OVERALL BUSINESS OBJECTIVES



The Group's overall business objectives and strategies are as follows:

Enhancing productivity through expanding and upgrading the Group's production and related facilities

In order to maintain the competitiveness of its products, the Group aims to enhance production efficiency and further improve the quality of its key products and components. The Group also aims to expand its production capacity for its core products such as the seamless pressure cylinder storage and transportation equipment series, the cryogenic liquid storage and transportation equipment series and products relating to the Group's integrated business solutions.

In order to achieve the above objectives, the Group will upgrade its existing production and related facilities. The Group will carry out the following:

- construction of additional factories, warehouse and storage facilities to improve its manufacturing and logistics capabilities;
- investment in new facilities including production lines and processing systems etc.;
- rationalisation of production facilities and techniques; and
- purchase of more advanced and efficient equipments and facilities for production and enhancement of its quality control capability.

Strengthening research and development capability to further develop key product series and technologies

The Group plans to expand into the international market through introducing its seamless pressure cylinders of various specifications. One of the main areas of development is in relation to the application of the CNG transportation vehicles. Another area of development is to upgrade the technical standard for the cryogenic liquid storage and transportation series. In addition, the Group plans to further develop the technical standard of gas refueling station system and natural gas transportation system. The 25MPa natural gas daughter refueling station and daughter refueling station transportation equipment will become one of the Group's main areas of development.

In relation to the development of compressors in its natural gas compressors series, the Group plans to focus on the development of natural gas compressors and general-purpose heavy duty compressors with higher performance standards. Natural gas compressors are specifically designed for use with natural gas. They are technologically more sophisticated, more complex to manufacture and thus, more competitive in the market. Heavy duty compressors are designed for use with other gases. They have higher discharge capacity and compression ratio than natural gas compressors. The Group believes that since most of its compressors are developed in accordance with the requirements of its customers, this effectively promotes the Group's further development and expansion of its products such as compressors used at gas mother refueling stations, gas standard refueling stations and gas daughter refueling stations.

In connection with the above, the Group plans to adopt the following strategies:

- adopt advanced technology and management systems for its manufacturing processes. In this connection, the Group plans to invest in relevant hardware and related facilities to raise the standard for product design and manufacturing techniques;

- expand the variety of models, improve the design and the technical standard of the Group's products;

- upgrade the technologies used in hydraulic gas refueling station to broaden its usage and adaptability;

- develop high pressure valves and cryogenic valves to increase the standard of domestically produced accessories so as to lower cost; and

- develop natural gas compressors with large discharge capacity and higher compression rate.

Expanding sales and marketing network and efforts

The Group plans to expand its sales and marketing network and market coverage by increasing the number of sale offices in other provinces, selling its products through dealers, and providing more efficient customer services. The Group will also strengthen the promotion of its brand name through channels such as professional media advertisement, professional conferences and internet so as to increase the recognition and popularity of its brand name. Apart from the continuous expansion in the PRC market, the Group will establish its overseas sales network and gradually explore the international market. In addition, the Group will strengthen technological and economic co-operation with foreign companies and/or organisations. The Group's sales and marketing strategies are as follows:

- promoting the Group's website and expanding its functions as an e-commerce platform;
- selecting well known magazines in the PRC gas industry to enhance the Group's profile and promote its products and services; and
- setting up the Group's overseas offices to move into international market gradually.

Upgrading business qualifications to reinforce leading position

The Group has obtained necessary qualifications in the PRC for the design and manufacture of certain of its products. The Group has also obtained the certificate of registration for manufacturing of seamless pressure cylinder issued by the Ministry of Commerce, Industry and Energy of Korea in August 2004. The Group has then commenced exporting its specialised gas equipment to Korea since October 2004. In January 2005, the Group has also obtained the manufacturing licence for pressure vessels issued by ASME.

The Group has plans to continue to upgrade the level of its qualifications in future and is in the process of applying for relevant certificates from DOT and the European Union CE certification so as to establish a foundation for its expansion into the international market, including the European countries and the United States.

Strategic business collaborations and acquisitions to accelerate growth

The Directors consider that strategic business collaborations and acquisitions will help strengthen and accelerate the future growth of the Group. In line with the development of its product lines, the Group intends to look for opportunities to enter into strategic partnerships and collaborations through joint ventures or mergers and acquisitions with other manufacturers in the gas equipment industry. In particular, the Group is interested in collaborations with manufacturers of high pressure transportation equipment, cryogenic gas equipment and specialised compressor. The Directors believe that this strategy will further enhance the competitiveness of the Group's existing products and will help expand the Group's productivity and product scale and sales network, which in turn enlarge its market share and fuel continuous growth. The Group will seek to finance the required funding by its own generated resources and banking facilities. As at the Latest Practicable Date, there was no specific target or detailed plan for strategic business collaborations and acquisitions.

FUTURE BUSINESS PLAN

The Group has the following business plans for the period commencing on the Latest Practicable Date to 31 December 2007 for the purpose of achieving its business objectives and strategies. Investors should note that the following business plans and time schedules are formulated on the bases and assumptions referred to in the section headed "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular, the risk factors set out in the section headed "Risk factors" in this prospectus. The Company's actual course of business may vary from the business objectives set out in this prospectus. Should there be any material change in the Group's business plans, the Company will make relevant announcements as stipulated in the GEM Listing Rules to inform its Shareholders.

IMPLEMENTATION PLAN

Productivity enhancement

From the Latest Practicable Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007
1. Bengbu Facilities – construct additional factory space of, and invest in facilities for, production and inspection such as, vertical and horizontal processing centre, CNC milling machine, with an aim to improve production capacity; complete the rebuilding of the warehouse of raw materials and components	1. Bengbu Facilities – improve and rationalise the electricity distribution system and logistics system in the factory	1. Bengbu Facilities – enhance processing centre, and improve on core technologies for the equipment	1. Bengbu Facilities – expand factories, improve processing centre and fault detection facilities such as digital-controlled production facilities and testing platform	1. Bengbu Facilities – purchase additional processing equipment
2. Shijiazhuang Facilities – construct additional workshop space for production and improved processing of high pressure and cryogenies products	2. Shijiazhuang Facilities – improve on LNG vacuum flow detection system and construct additional warehouse storage facilities	2. Shijiazhuang Facilities – invest in traveling crane and additional fault detection facilities to enhance production capability for the Group's LNG products	2. Shijiazhuang Facilities – construct factory and purchase additional equipment for production of high pressure and cryogenic products	2. Shijiazhuang Facilities – improve on techniques for work procedures and enhance production capacities for CNG & LNG products
3. Langfang Facilities – purchase production equipment to raise production capability and productivity	3. Langfang Facilities – construct assembly workshop, research and development centre and administration facilities	3. Langfang Facilities – expand facilities and equipment according to products and technical needs	3. Langfang Facilities – construct new facilities for core products	3. Langfang Facilities – add processing and testing equipment

From the Latest Practicable Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007

Research and development

From the Latest Practicable Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007
1. Enhance the production facilities of high pressure valves and cryogenic valves to raise the efficiency of performance	1. Enhance the design and techniques applied in LCNG refueling stations	1. Standardise the on-site installation and commissioning of integrated business solutions to increase efficiency and quality	1. Improve management system to improve design and manufacturing capabilities	1. Develop the applicability of gas turbine
2. Improve the design of gas pressure regulating facilities	2. Continue to develop compressor mother refueling station and compressor daughter refueling station	2. Improve the design of LNG and LCNG gas refueling station		2. Develop cryogenic and adiabatic gas cylinder which is used for LNG trailer
3. Enhance the standard of CNG products, broaden the scope of usage and breath of CNG series products		3. Develop information system for the operation and management of refueling stations		
4. Develop cryogenic liquid storage and transportation equipment production lines on own or co-operate with international enterprises		4. Research and develop on products for the implementation of distributed energy		
5. Research on the application of hydraulic gas daughter refueling station				
6. Continue to develop natural gas compressor with a large discharge capacity				
7. System design of LNG and LCNG refueling station				

From the Latest Practicable Date to 31 December 2005	**For the six months ending 30 June 2006**	**For the six months ending 31 December 2006**	**For the six months ending 30 June 2007**	**For the six months ending 31 December 2007**
Marketing of business				
1. Promotional activities through advertising in magazines in the PRC gas or related industry	1. Expand the functions of the Group's website for e-commerce	1. Promotional activities through advertising in magazines in the PRC gas or related industry	1. Promotional activities through advertising in magazines in the PRC gas or related industry	1. Promotional activities through advertising in magazines in the PRC gas or related industry
2. Participate in exhibitions in relation to gas equipment industry in the PRC and Europe	2. Promotional activities through advertising in magazines	2. Participate in exhibitions in relation to gas equipment industry in the PRC	2. Participate in exhibitions in relation to gas equipment industry in the PRC and overseas gas equipment industry	
3. Produce video compact disc about energy equipment and integrated business solutions of the Group and other marketing and promotional materials regarding gas refueling station and environmental protection	3. Create promotional gift	3. Expand the Group's sales network domestically and establish administrative offices in America and Europe	3. Expand the functions of the Group's website for e-commerce	
Business qualifications				
1. Obtain DOT certification 2. Obtain licence conversion of vehicles for carrying high pressure vessels 3. Obtain European Union's CE certification 4. Enric Integration to obtain ISO9000 certification 5. Obtain manufacturing certificate for LNG container	1. Obtain qualifications for project design and construction	1. Obtain the necessary qualifications in accordance with the development of the Group's business and the then prevailing market condition	1. Obtain the necessary qualifications in accordance with the development of the Group's business and the then prevailing market condition	1. Obtain the necessary qualifications in accordance with the development of the Group's business and the then prevailing market condition

Cost of implementation of business objectives

The estimated costs of implementing the Group's business objectives as stated in this section are as follows:

	From Listing Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007	Total
	HK$ (million)	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*
Productivity enhancement	17.3	26.4	17.7	11.0	7.6	80.0
Research and development	4.2	6.4	6.4	6.4	6.4	29.8
Marketing	2.1	3.8	3.4	3.1	3.7	16.1
Business qualifications	0.8	1.3	0.6	0.6	0.6	3.9
Total	24.4	37.9	28.1	21.1	18.3	129.8

BASES AND ASSUMPTIONS

The business objectives of the Group stated above are subject to the following bases and assumptions:

1. there will be no material change (whether in the PRC, Hong Kong or any other parts of the world) in the existing laws, policies or industry or regulatory treatments relating to the Group or in the political, economic or market conditions in which the Group operates;

2. the GDP growth in the PRC will remain stable and the inflation rate will be kept within an acceptable limit;

3. there will be no material change on anticipated market demand and the future growth of compressors, pressure vessels and integrated business solutions;

4. the Group will not be materially and/or adversely affected by any change in interest rates from those currently prevailing;

5. suitable personnel can be recruited and retained by the Group;

6. the Group will not be materially and/or adversely affected by any change in PRC tax system;

7. there will be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its properties or facilities;

8. the Group will not be materially affected by the risk factors set out under the section headed "Risk factors" in this prospectus; and

9. the Group can succeed in implementing its development plans.

REASONS FOR THE PLACING AND THE USE OF PROCEEDS

The Directors consider that the net proceeds from the Placing are necessary for the financing of the Group's business strategies and help the Group consolidate its position as an active player in the gas energy industry in the PRC. Based on the indicative Placing Price of HK$1.40 per Placing Share (being the mid-point of the stated range of the Placing Price between HK$1.12 and HK$1.68 per Placing Share), the Company intends to raise approximately HK$168.0 million. The net proceeds from the Placing, after deducting related listing expenses and without taking into account any proceeds from the exercise of the Over-allotment Option, are estimated to amount to approximately HK$144.2 million which are intended to be applied as follows:

- as to approximately HK$80.0 million for enhancing the productivity of the Group through expanding and upgrading the Group's production and related facilities, breakdown of which includes: (i) as to approximately HK$21.3 million for improving product quality and production output of Enric Compressor; (ii) as to approximately HK$23.0 million for upgrading the production facilities to further improve the production capacity of Enric Gas Equipment; and (iii) as to approximately HK$35.7 million for constructing production facility and new product assembly line of Enric Integration;

- as to approximately HK$29.8 million for strengthening research and development capability of the Group to further develop key products and technologies, breakdown of which includes: (i) as to approximately HK$4.8 million for Enric Compressor to further develop the natural gas compressor product; (ii) as to approximately HK$8.3 million for Enric Gas Equipment to conduct research for optimisations of the design of high pressure valves and cryogenic valves to raise the performing efficiency, and to invest in the localisation of the raw materials of seamless pressure cylinders; and (iii) as to approximately HK$16.7 million for Enric Integration to further research and development of the system design of LNG and LCNG refueling station and to enhance the quality and efficiency of services provided to customers;

- as to approximately HK$16.1 million for expanding the Group's sales and marketing efforts by increasing sales offices and promotion;

- as to approximately HK$3.9 million for upgrading the Group's business qualifications, in particular, the application for relevant certificates from DOT and the European Union CE Certification, so as to establish a foundation for its expansion into these market with an aim to further consolidate its position; and

- as to approximately HK$14.4 million for general working capital of the Group.

To the extent that the net proceeds from the Placing are not immediately applied for in accordance with the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with banks or financial institutions in Hong Kong and/or the PRC.

In the event that the Placing Price is fixed at HK$1.68 per Share, being the highest point of the indicative range of the Placing Price, the net proceeds will be approximately HK$176.5 million, representing an increase of approximately HK$32.3 million. The Directors intend to apply approximately HK$29.1 million for implementation of business plan during the last period of the Forward Looking Period. Such amount will be applied to (i) approximately HK$18.0 million for enhancing the productivity of the Group; (ii) approximately HK$7.0 million for strengthening research and development capability of the Group; (iii) approximately HK$4.0 million for expanding the Group's sales and marketing efforts; and (iv) approximately HK$0.1 million for upgrading the Group's business qualification. The remaining of HK$3.2 million of the net proceeds will be used as additional general working capital of the Group. In the event that the Over-allotment Option is exercised, the Directors expect to apply the additional net proceeds of approximately HK$19.0 million for expanding and upgrading the Group's production and related facilities and research and development of new products with remainder of approximately HK$2.0 million as general working capital.

In the event that the Placing Price is fixed at HK$1.12 per Share, being the lowest point of the indicative range of the Placing Price, the net proceeds will be approximately HK$111.9 million, representing a reduction of approximately HK$32.3 million. In such circumstances, the Directors intend to apply the net proceeds of approximately HK$111.9 million from the Placing for the implementation of business plan up to 30 June 2007, amounting to HK$111.5 million. The Directors believe that the further funding requirement of approximately HK$18.3 million for the implementation of business plan during the six months ending 31 December 2007, being the last period of the Forward Looking Period, will be satisfied by the remaining net proceeds of HK$0.4 million and the Group's internal resources and the proceeds from the Redeemable Convertible Bonds issued to Investec and/or banking facilities then available. In the event that the Over-allotment Option is exercised, the Directors expect to apply such net proceeds of approximately HK$14.0 million to finance the above funding requirements pursuant to the six months ending 31 December 2007, and the remaining funding requirement pursuant to the six months ending 31 December 2007 will be financed by internal resources or banking facilities available. No proceeds will be used as general working capital.

The Directors believe that the net proceeds from the Placing together with the Group's internally generated cash flow will be sufficient to finance all planned and/or intended projects of the Group throughout the Forward Looking Period as described in this section.

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Yusuo (王玉鎖先生), aged 41, 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 19 years of experience in the investment in, and management of, the gas business in the PRC. He graduated from the People's University of the PRC (中國人民大學) in 1994 and has obtained a master's degree in Management from the Tianjin College of Finance and Economics (天津財經學院) in 2002. Mr. Wang is currently a member of the Tenth National Committee of the Chinese People's Political Consultative Conference and the vice-chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce. He has won various awards including Hebei's Top Ten Young and Successful Persons and Outstanding Entrepreneur in China. Mr. Wang is also the chairman and an executive director of XGCL and Xinao Gas respectively, and is responsible for formulating the business strategy of these two groups of companies. Mr. Wang is the spouse of Ms. Zhao. It is currently expected that Mr. Wang will divide his time equally and spend approximately one third of his time in the Group after the Listing.

Mr. Cai Hongqiu (蔡洪秋先生), aged 41, is an executive Director and the chief executive officer of the Company. Mr. Cai is fully responsible for the overall operations of the Group. Mr. Cai graduated from the University of Political Science and Law of the PRC (中國政法大學) and Tsinghua University's School of Economics and Management (清華大學經濟管理學院) and received his bachelor's degree in Law in 1985 and master's degree in Science in 1992. Mr. Cai is a senior economist and obtained qualifications as a lawyer in the PRC in 1989. Mr. Cai joined the Group in 2002. Prior to that he was appointed as the general manager of Xinao Group Solar Power Company Limited and the general manager of Xinao Shijiazhuang. Mr. Cai has over eight years of experience in the management of industrial enterprises.

Mr. Yu Jianchao (于建潮先生), aged 36, is an executive Director. He graduated from the Hebei College of Economics and Finance College (河北財經學院) in 1993. Prior to joining XGCL in 1998, Mr. Yu had worked as the chief accountant for a number of foreign enterprises including GSK Industry (China) Co., Ltd and Nissin COFCO Foods Co., Ltd. Mr. Yu joined the Group in 2002. He is also an executive director and the chief accountant of Xinao Gas responsible for decision making in investment and finance-related matters. Mr. Yu has over 13 years of experience in accounting and finance and over eight years of experience in the management of industrial enterprises. It is currently expected that Mr. Yu will spend approximately half of his time in the Group after the Listing.

Mr. Zhao Xiaowen (趙小文先生), aged 41, is an executive Director and the chief marketing officer of the Company. Mr. Zhao is responsible for the sales and marketing strategy of the Group. In 2003, he was appointed as the chief marketing officer of the Group and the deputy general manager of Xinao Shijiazhuang. In 2004, he was appointed as the deputy general manager of Enric Gas Equipment. Prior to that, Mr. Zhao was the head of the production and sales department at XGCL and Xinao Group Solar Energy Company Limited. He was also involved in the areas of processing of machinery and pressure vessels, and the manufacture of gas equipment at Xinao Shijiazhuang. Mr. Zhao is experienced in sales and marketing and has over 20 years of experience in corporate management (in particular, eight years of experience in the manufacturing industry).

Mr. Zhou Kexing (周克興先生), aged 42, is an executive Director and the chief accountant of the Company. Mr. Zhou is responsible for the Group's accounting and finance operations. Mr. Zhou graduated from Tianjin College of Finance and Economics (天津財經學院) and received his bachelor's degree in Economics in 1982 and master's degree in Business Administration in 2001. Prior to joining the Group in 2001, Mr. Zhou lectured at Tianjin College of Finance and Economics (天津財經學院) as a deputy research officer. Mr. Zhou specialises in accounting and finance and is experienced in capital operation.

Non-executive Director

Ms. Zhao Baoju (趙寶菊女士), aged 39, is the co-founder and a non-executive Director of the Company. Ms. Zhao graduated from Hebei Medical College Nursing School (河北醫學院護士學校) in 1987 and Capital Normal University (首都師範大學) in 1998. Ms. Zhao is the spouse of Mr. Wang.

Independent non-executive Directors

Mr. Gao Zhengping (高正平先生), aged 50, is an independent non-executive Director. Mr. Gao holds a doctorate degree in Management Science from Tianjin University of Finance and Economics (天津財經大學) in 2002 and is the vice-principal and a professor of Tianjin University of Finance and Economics. Mr. Gao is also a standing director of the Financial Talents Committee of Talents Research Association of the PRC (中國人才研究會金融人才專業委員會), a member of the editorial board of China Financial Publishing House (中國金融出版社) and a member of the professional committee of the Tianjin Venture Investment Promotion Association (天津市風險投資促進會).

Mr. Shou Binan (壽比南先生), aged 48, is an independent non-executive Director. Mr. Shou obtained a bachelor's degree in Engineering from Dalian University of Technology (大連理工學院) in 1982 and a master's degree in Engineering from Tsinghua University (清華大學) in 1995. Mr. Shou is a senior engineer of the Research Institute of China's Petrochemical Industry Economy and Technology (中國石化經濟技術研究院). Mr. Shou is appointed by the Management Committee of the Standardisation Administration of China (中國國家標準化管理委員會) as a member and the chief secretary of the China Standardisation Committee on Boilers and Pressure Vessels (全國鍋爐壓力容器標準化技術委員會). Mr. Shou is a committee member of the Special Equipment Safety Technology Committee (特種設備安全技術委員會) of the GAQSIQ. He is also appointed by the Hefei General Machinery Research Institute (合肥通用機械研究所) as a member of the academic committee of post-doctorate scientific research working station (博士後科研工作站學術委員會).

Mr. Wong Chun Ho (王俊豪), aged 33, is an independent non-executive Director. Mr. Wong holds a bachelor's degree in Business (Accounting) and a bachelor's degree in Computing (Information System) from Monash University, Australia. Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accounting of CPA Australia and a Chartered Financial Analyst. Mr. Wong is currently working in the investment banking industry and prior to that he worked as an auditor in KPMG. Mr. Wong has over 10 years of corporate finance and audit experience in the Hong Kong and China region.

SENIOR MANAGEMENT

Mr. Yang Weifeng (楊威鋒先生), aged 33, is the deputy chief executive officer of the Company and is responsible for assisting the chief executive officer of the Company in the overall business operations of the Group. Mr. Yang received his bachelor's degree in Engineering from Beijing University of Chemical Technology (北京化工大學) in 1993, and subsequently received his second bachelor's degree in Law and his master's degree in Business Administration from Nankai University (南開大學) in 1998 and 2003 respectively. Mr. Yang has obtained qualifications as a lawyer, and is an accountant, a registered tax agent, an engineer and a certified consultant engineer in the PRC. Mr. Yang is also qualified in undertaking matters relating to securities (securities underwriting, brokerage and investment analysis), funds and futures in the PRC. Prior to joining the Group in 2002, Mr. Yang had worked at The First Designing Institute of the Ministry of Chemicals Industry of the PRC (化工部第一設計院) and Tianjin Jinbin Development Co. Ltd. (天津津濱發展股份有限公司). He was responsible for project design, project management, financial consultancy, securities analysis, legal affairs and business administration in those companies.

Mr. Tu Guangzong (屠光宗先生), aged 36, is the chief engineer of the Group. Mr. Tu obtained a bachelor's degree in Engineering from Tsinghua University (清華大學) in 1993. He has been the researcher of the CNG project, the manager of the CNG workshop and the assistant to the general manager of Enric Gas Equipment. Prior to joining the Group in 2002, Mr. Tu worked for Langfang Hengyu Machinery Company Limited (廊坊恒宇工具有限公司) and was responsible for production management.

Mr. Pang Weilong (龐維龍先生), aged 44, is the chief engineer of the Company. Mr. Pang obtained a bachelor's degree in Engineering from Beijing University of Agricultural Engineering (北京農業工程大學) in 1982 and received his master's degree in Engineering from New Zealand's Lincoln University in 1992. He received his doctorate in Philosophy from New Zealand's Massey University in 1994. Prior to joining the Group in 2002, Mr. Pang was a researcher at the Royal Institute of Industrial Research in New Zealand.

Mr. Ren Zhiqing (任志清先生), aged 42, is the manager of the Company's marketing department. Mr. Ren graduated in 1983 from Hebei University of Science and Technology (河北科技大學) with a bachelor's degree in Engineering and he pursued advanced studies at Dalian University of Technology (大連理工大學) in a master's degree programme in Management Science and Engineering. Mr. Ren is a senior engineer. Prior to joining the Group in 2002, Mr. Ren was a deputy general manager and the chief engineer at Longchamp

(Hebei) Pharmaceutical Co. Ltd (河北龍昌藥業有限公司). Mr. Ren specialises and is experienced in the planning of sales and marketing schemes and strategies. Mr. Ren was awarded the second place in Hebei province youth achievement for inventions.

Mr. Ren Yingjian (任英建先生), aged 50, is the general manager of Enric Gas Equipment. Mr. Ren is responsible for the day-to-day operations of Enric Gas Equipment. Mr. Ren completed his study in Tsinghua University's School of Economics and Management (清華大學經濟管理學院) in 1996 and is an engineer. Prior to joining the Group in 2002, Mr. Ren was the general manager at Mudanjiang Sanxing Knitwear Factory (牡丹江三星針織廠) and the managing director of Mudanjiang Gold Peony Knitwear Company (牡丹江金牡丹針織有限公司). Mr. Ren was appointed as the general manager of Xinao Group Solar Power Company Limited in 2001 and the deputy general manager of Xinao Shijiazhuang in 2003. He is experienced in management of industrial enterprises.

Mr. Zhang Falong (張發龍先生), aged 39, is the general manager of Enric Compressor. Mr. Zhang is responsible for the day-to-day operations of Enric Compressor. Mr. Zhang graduated from Anhui's Institute of Business Administration (安徽工商管理學院) and received his master's degree in Business Administration in 2001. Mr. Zhang is a senior engineer. Prior to joining the Group in 2002, Mr. Zhang was a designer, the deputy supervisor and the general manager of the sub-factory of Bengbu Compressor. Mr. Zhang is experienced in the management of industrial enterprises.

Mr. Cheong Siu Fai (張紹輝先生), aged 33, is the company secretary and qualified accountant of the Company. He holds a bachelor's degree in Business Administration from Thames Valley University in the United Kingdom. Mr. Cheong is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants in the United Kingdom. Prior to joining the Company in December 2004, Mr. Cheong worked in an international firm of certified public accountants. Mr. Cheong has more than 10 years of experience in the field of auditing and business advisory.

Mr. Wang Fenglin (王鳳林先生), aged 47, is the general manager of Enric Integration. Mr. Wang obtained a bachelor's degree in Engineering from Gansu University of Technology (甘肅工業大學) in 1982 and a master's degree in Business Administration from Lancaster University, United Kingdom in 1990. He is a certified engineer and a senior economist. Prior to joining the Group in 2004, Mr. Wang worked as a general manager in Handan Textile Machinery Factory (邯鄲紡織機械廠), a deputy head of Import and Export Department for China Textile Machinery (Group) Co., Ltd. (中國紡織機械集團) and a general manager in Beijing Weihong New-tech Development Company Limited (北京偉航新技術開發有限公司).

Mr. Liu Zhi'ang (劉志昂先生), aged 60, is the chairman of the board of directors of Enric Gas Equipment. Mr. Liu graduated from Tianjin Industrial and Commercial School and received a bachelor's degree in 1969. Prior to joining the Group in 2000, Mr. Liu was an engineer at Hebei Xingtai Chemical Engineering and Electronic Machineries Factory (河北邢台化工電機廠), the head of Hebei Xingtai Chemical Engineering and Machineries Factory (河北邢台化工機械廠) and a chief secretary as well as the head of the planning development committee of People's Government of Xingtai City, Hebei province (河北省邢台市政府). He was also the general manager of Xinao Shijiazhuang. Mr. Lin spent 80% of his time in the Group during the Track Record Period and it is expected that he will spend full time with the Group after the Listing.

AUDIT COMMITTEE

The Company has established an audit committee on 26 September 2005 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising the three independent non-executive Directors. Mr. Wong Chun Ho has been appointed as the chairman of the audit committee.

STAFF

A breakdown of the number of staff of the Group by function as of 31 December 2003 and 2004 and 30 June 2005 and the Latest Practicable Date are as follows:

Function	As of 31 December 2003	As of 31 December 2004	As of 30 June 2005	As of Latest Practicable Date
Management	20	42	42	43
Research and development	61	126	126	126
Production	408	762	782	780
Quality control	27	62	62	62
Sales and marketing	61	110	110	118
Administration	60	135	136	136
Total	637	1,237	1,258	1,265

STAFF RELATIONS

The Group maintains good relations with its staff and has not encountered any major difficulties in its recruitment and retention of staff. There were no interruption to the Group's operations due to labour disputes in the past.

RETIREMENT SCHEMES

The Group operates retirement schemes for its employees in the PRC, details of which are set out in the accountants' report in Appendix I to this prospectus. The Group complies with the applicable PRC regulations on social insurance.

SHARE OPTION SCHEMES

The Company has adopted the Pre-IPO Share Option Plan and the Share Option Scheme. The principal terms of the Pre-IPO Share Option Plan and the Share Option Scheme are summarised in the sections headed "Share Option Scheme – Summary of the terms of the Pre-IPO Share Option Plan" and "Share Option Scheme – Summary of the terms of the Share Option Scheme" in Appendix VII to this prospectus.

The Company has granted options to a total of 12 participants (including five executive Directors, five members of the senior management and two employees of the Group) under the Pre-IPO Share Option Plan to subscribe for an aggregate of 13,800,000 Shares, representing approximately 3.19% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing (without taking into account any exercise of the Over-allotment Option or the exercise of the options which have been granted under the Pre-IPO Share Option Plan and may be granted under the Share Option Scheme). The exercise price of these options is the Placing Price.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, the following persons, will be directly or indirectly interested in 10% or more of the voting power at any general meetings of the Company and are regarded as substantial Shareholders upon the Listing under the GEM Listing Rules:

Name	Number of Shares	Percentage of voting power *(%)*
XGII *(Note)*	234,144,000	54.20%
Mr. Wang *(Note)*	234,144,000	54.20%
Ms. Zhao *(Note)*	234,144,000	54.20%
Investec	51,840,000	12.00%

Note: The three references to 234,144,000 Shares above relate to the same block of Shares. Such Shares are held by XGII which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. Ms. Zhao is the spouse of Mr. Wang and therefore both Mr. Wang and Ms. Zhao are deemed to be interested in such 234,144,000 Shares under the SFO.

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, XGII, Mr. Wang and Ms. Zhao are regarded as Initial Management Shareholders under the GEM Listing Rules. So far as the Directors are aware, each of the Initial Management Shareholders' number of Shares and their respective percentage of voting power at general meetings of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, are shown in the table under the section headed "Substantial Shareholders" in this section. XGII has undertaken to the Company and the Stock Exchange not to dispose of its Shares for a period of 12 months commencing on the Listing Date. Each of Mr. Wang and Ms. Zhao has undertaken to the Company and the Stock Exchange not to dispose of his/her shares in XGII for a period of 12 months commencing on the Listing Date.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, the following person will be entitled to exercise or control the exercise of 5% or more of the voting power at any general meetings of the Company and who is not an Initial Management Shareholder, and is accordingly regarded as a Significant Shareholder upon the Listing under the GEM Listing Rules:

Name	Number of Shares	Percentage of voting power
Symbiospartners *(Note 1)*	26,016,000	6.02%
Investec *(Note 2)*	51,840,000	12.00%

Notes:

1. Symbiospartners is an investment company incorporated in BVI on 2 January 2004 and is owned as to approximately 50% by Symbiospartners Investment Limited, 35% by SinoBanker Group and 15% by Mr. Liang Zhengzhong ("Mr. Liang"). Symbiospartners Investment Limited is a company incorporated in BVI on 3 January 2003 and is indirectly owned as to approximately 81%, 14% and 5% by Mr. Hui Ching Lau ("Mr. Hui"), Mr. Liang and other independent securities and investment fund companies respectively. SinoBanker Group is a company incorporated in the Cayman Islands on 23 February 2000 and is owned as to approximately 56% and 44% by Mr. Liang and other independent securities and investment fund companies respectively. Accordingly, each of Mr. Liang and Mr. Hui holds approximately 41% interest in the issued share capital of Symbiospartners. Mr. Liang is also the founder, president and chief executive officer of SinoBanker Group. The principal business of each of Symbiospartners, Symbiospartners Investment Limited and SinoBanker Group is the investment in equities of listed and unlisted companies. However, these companies do not have any interests in any company which competes or is likely to compete with the business of the Group. Each of Mr. Liang and Mr. Hui is an Independent Third Party. Symbiospartners will have no representation on the Board nor will it have any management functions in the Group.

2. The Company, amongst others, entered into the Convertible Bond Subscription Agreement with Investec, pursuant to which EIGL issued Investec, an Independent Third Party, an aggregate principal amount of US$5,000,000 of redeemable convertible bonds and the entire Redeemable Convertible Bonds will be mandatorily converted in full upon (i) the Listing Committee the granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8 a.m. on the Listing Date. Investec will be allotted and issued such number of Shares, which is expected to represent 12.00% of the enlarged issued share capital immediately following the completion of the Capitalisation Issue and the Placing (without taking into account any exercise of that the Over-allotment Option or the exercise of the options which have been granted under the Pre-IPO Share Option Plan and may be granted under the Share Option Scheme). The Redeemable Convertible Bonds will bear interest at a rate of 2.5% per annum, payable quarterly. Based on the aggregate subscription amount of US$5,000,000 and 51,840,000 Shares which are expected to be issued, the conversion price is approximately HK$0.75 per Share.

RESTRICTIONS ON DISPOSAL OF SHARES BY INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

Pursuant to Rule 13.16 of the GEM Listing Rules, every Initial Management Shareholder has undertaken with the Company and the Stock Exchange that during the Lock-up Period:

(a) it/he/she will place in escrow, with an escrow agent and on such terms as are acceptable to the Stock Exchange, all its/his/her Relevant Securities;

(b) it/he/she will not, save as provided in Rule 13.18 of the GEM Listing Rules, (i) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its/his/her direct or indirect interest in the Relevant Securities; or (ii) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest;

(c) in the event that it/he/she pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, it/he/she must inform the Company immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

(d) having pledged or charged any of its/his/her interests in the Relevant Securities under sub-paragraph (c) above, it/he/she must inform the Company immediately in the event that it/he/she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected.

Pursuant to Rule 13.17 of the GEM Listing Rules, Symbiospartners and Investec, each of them a Significant Shareholder, has undertaken with the Company and the Stock Exchange that commencing on the date of this prospectus and ending on the date which is 6 months from the Listing Date:

(a) it will place in escrow, with an escrow agent and on such terms as are acceptable to the Stock Exchange, all its Relevant Securities;

(b) it will not, save as provided in Rule 13.18 of the GEM Listing Rules, (i) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities; or (ii) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest;

(c) in the event that it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, it must inform the Company immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

(d) having pledged or charged any of its interests in the Relevant Securities under sub-paragraph (c) above, it must inform the Company immediately in the event that it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected.

In addition, Symbiospartners has voluntarily undertaken with EIGL not to dispose of its Relevant Securities for 12 months after the Listing Date.

SHARE CAPITAL

The following table is prepared on the basis that the Capitalisation Issue, the Conversion and the Placing become unconditional, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or under the general mandate to issue Shares (see the section headed "General mandate to issue Shares" in this section), or which may be repurchased by the Company (see the section headed "General mandate to repurchase Shares" in this section):

		HK$
Authorised share capital:		
10,000,000,000	Shares	100,000,000
Shares in issue or to be issued, paid up or credited as fully paid:		
880	Shares in issue immediately prior to the completion of the Capitalisation Issue, the Conversion and the Placing	8.80
260,159,120	Shares to be issued pursuant to the Capitalisation Issue	2,601,591.20
51,840,000	Shares to be issued pursuant to the Conversion	518,400
120,000,000	Shares to be issued pursuant to the Placing	1,200,000
Total Shares in issue and to be issued:		
432,000,000	Shares	4,320,000

Note: If the Over-allotment Option is exercised in full, 13,200,000 additional Shares will be issued resulting in a total number of 445,200,000 Shares being issued with an aggregate nominal value of the issued share capital of HK$4,452,000.

Ranking

The Placing Shares will rank equally with all Shares now in issue or to be allotted and issued and in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing of the Shares on GEM and at all time thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Plan and the Share Option Scheme. The principal terms of the Pre-IPO Share Option Plan and the Share Option Scheme are summarised in the sections headed "Share Option Scheme – Summary of the terms of the Pre-IPO Share Option Plan" and "Share Option Scheme – Summary of the terms of the Share Option Scheme" respectively in Appendix VII to this prospectus.

The Company has granted options to five executive Directors, five members of the senior management and two employees of the Group under the Pre-IPO Share Option Plan to subscribe for an aggregate of approximately 13,800,000 Shares, representing approximately 3.19% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing (without taking into account any exercise of the Over-allotment Option or the exercise of the options which have been granted under the Pre-IPO Share Option Plan and may be granted under the Share Option Scheme). The exercise price of these options is equal to the Placing Price.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of Share in issue (as set out in the table under the section headed "Share capital" in this section); and

(b) the aggregate nominal value of the Share repurchased by the Company under the authority referred to in the section headed "General mandate to repurchase Shares" in this section.

This mandate does not cover the Shares to be allotted, issued or dealt with under, among other things, a rights issue, scrip dividend scheme or similar arrangements, or Shares to be issued upon the exercise of any options granted under the Share Option Schemes.

This mandate will expire:

(a) at the conclusion of the next annual general meeting of the Company; or

(b) at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held; or

(c) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue following the completion of the Capitalisation Issue, the Conversion and the Placing.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchanges on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed "Repurchase by the Company of its own securities" in Appendix VII to this prospectus.

This mandate will expire:

– at the conclusion of the next annual general meeting of the Company;

– at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held; or

– when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

INDEBTEDNESS

Borrowings, securities and banking facilities

As at the close of business on 31 August 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining information contained in this indebtedness statement, the Group had total outstanding bank borrowings amounting to approximately RMB140.0 million which was repayable within one year, comprising term loans amounting to RMB65.0 million and utilised banking facilities amounting to RMB75.0 million.

Out of the total term loans of RMB65.0 million, RMB55.0 million were guaranteed by XGCL, a related party controlled by a major Shareholder, and the remaining RMB10.0 million was guaranteed by Enric Compressor, a subsidiary of the Company. The annual rate of interest charged on these term loans ranged from 5.6% to 6.8% as at 31 August 2005.

As at 31 August 2005, the Group had aggregate banking facilities of RMB85.0 million, of which RMB75.0 million had been utilised. These banking facilities were guaranteed by XGCL, and the annual rate of interest charged on these banking facilities ranged from 5.6% to 6.8% as at 31 August 2005.

In addition, as at 31 August 2005, the Group had cash advances from a related party amounting to RMB45.0 million which were unsecured and interest-free. This balance, taking into account subsequent settlement, if any will be capitalised pursuant to the Capitalisation Issue.

The Redeemable Convertible Bonds authorised but unissued

As at 31 August 2005, the Group had authorised the issue of the Redeemable Convertible Bonds to Investec, pursuant to the Convertible Bond Subscription Agreement whereby Investec will subscribe for redeemable convertible bonds in the aggregate principal amount of US$5,000,000 issued by EIGL. The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8 a.m. on the Listing Date. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised). Based on the number of Shares which are expected to be in issue immediately upon the Listing, Investec is expected to be allotted and issued 51,840,000 Shares at a conversion price of approximately HK$0.75 per Share.

The Redeemable Convertible Bonds had not been issued to Investec as at 31 August 2005.

Contingent liabilities

As at the close of business on 31 August 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining information contained in this indebtedness statement, the Group had no contingent liabilities.

Release from guarantees

Out of the total term loans and banking facilities of RMB150 million, RMB140 million were guaranteed by XGCL. The relevant banks have agreed in principle that the guarantees provided by XGCL will be released and replaced by guarantees provided by the Company and/or its subsidiaries upon or prior to the Listing. The releases of the guarantees provided by XGCL are subject to the examination of the qualifications and financial ability of the Company and/or its subsidiaries to the satisfaction of the relevant banks and such releases will take effect immediately after the execution of the new guarantees to be given by the Company and/or its subsidiaries in favour of the relevant banks.

Disclaimer

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 31 August 2005, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

Material changes

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 August 2005.

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

Overview

The Group generally relies on its internal cash flows, bank borrowing available from its principal bankers and advances received from related parties to meet the requirements for its operations. The Directors expect to meet its anticipated cash needs, including capital expenditures, repayment of borrowings and working capital, principally through cash generated from operations and the net proceeds of the Placing. As at 31 December 2003, 31 December 2004 and 30 June 2005, the Group had cash and cash equivalents of approximately RMB10.3 million, RMB31.5 million and RMB38.3 million respectively.

Cash flow information

The table below sets out the cash inflow and outflow for each of the two years ended 31 December 2004 and each of the six months ended 30 June 2004 and 30 June 2005:

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash from/(used in) operating activities	3,732	(2,416)	1,415	15,680
Net cash (used in)/from investing activities	(42,307)	50,803	(25,137)	(6,496)
Net cash from/(used in) financing activities	45,091	(27,162)	31,556	(2,429)
Net increase in cash and cash equivalents	6,516	21,225	7,834	6,755
Cash and cash equivalents at beginning of the year/period	3,786	10,302	10,302	31,527
Cash and cash equivalents at end of the year/period	10,302	31,527	18,136	38,282

Operating activities

The Group had net cash from operating activities of approximately RMB3.7 million for the year ended 31 December 2003, while profit from ordinary activities before taxation was approximately RMB10.6 million. The cash inflow was mainly attributable to approximately RMB13.1 million operating profit before changes in working capital and approximately RMB17.7 million increase in trade and bills payable and amounts due to related parties due to purchase of raw materials, and approximately RMB0.5 million increase in provision for product warranties as a result of increase in product sales, which was partially offset by approximately RMB4.6 million decrease in other payables and accrued expenses, approximately RMB11.8 million increase in inventories, and approximately RMB11.3 million increase in trade and bills receivable and deposits, other receivables and prepayments as a result of increase of sales and increase of deposits for purchase of raw materials. The significant increase in inventories was to satisfy the increased sales orders on hands of compressors near year end as well as the expected market growth of compressors business.

The Group had net cash used in operating activities of RMB2.4 million for the year ended 31 December 2004, while operating profit before changes in working capital was approximately RMB48.1 million for the year ended 31 December 2004. The difference of RMB50.5 million, which led to cash used in operating activities, was mainly attributable to an increase in inventories of approximately RMB52.0 million, increase in trade and bills receivable of approximately RMB25.4 million due to increase of sales, decrease in trade and bills payable and amounts due to related parties of approximately RMB17.6 million as a result of payment made for purchases. These were partially offset by decrease in deposits, other receivables and prepayments of approximately RMB4.4 million and decrease in amounts due from related parties of approximately RMB32.3 million and increase in other payables and accrued expenses and provision for product warranties of approximately RMB9.2 million as a result of increase in product sales. The increase in inventories was mainly due to the substantial increase in business volume as a result of the commencement of operation of Enric Gas Equipment, and the significant increase in sales orders on hand near year end, therefore, increased inventory level was necessary to satisfy sales orders on hand for early 2005.

The Group's net cash from operating activities for the six months ended 30 June 2005 was approximately RMB15.7 million as compared to approximately RMB1.4 million for the six months ended 30 June 2004. The increase in cash inflow for the six months ended 30 June 2005 when compared with the corresponding period in 2004 was mainly due to significant increase in operating profit before changes in working capital from approximately RMB16.7 million for the six months ended 30 June 2004 to approximately RMB42.9 million for the six months ended 30 June 2005. The significant increase in operating profit before changes in working capital was mainly due to significant increase in sales for the six months ended 30 June 2005.

Investing activities

Net cash used in investing activities for the year ended 31 December 2003 was approximately RMB42.3 million. The cash outflow for investing activities was mainly due to the acquisition of 12.27% equity interest in XGCL by Enric Compressor in September 2003 for approximately RMB26.2 million, net increase in interest-bearing loans of RMB18.6 million to XGCL, and purchase of machinery and equipment and further investment into existing compressor manufacturing facilities of approximately RMB7.3 million, and advances made to related parties of approximately RMB7.5 million which were unsecured and interest free. The advances were mainly made to XGCL, XGII, and Bengbu Property Company Limited. The cash outflow for investing activities was partially offset by the cash inflow from repayments of advances made to related parties of approximately RMB16.2 million and proceeds from disposal of property, plant and equipment of approximately RMB1.1 million which was mainly due to sale of sales office, and disposal of machinery and motor vehicles.

Net cash from investing activities for the year ended 31 December 2004 was approximately RMB50.8 million. The cash inflow from investing activities was mainly due to proceeds of approximately RMB26.2 million from the disposal of the 12.27% equity interest in XGCL to Langfang Guofu in June 2004 so as to streamline the corporate structure, repayments of interest-bearing loans from XGCL of RMB78.6 million to settle outstanding loans in 2004, interest income from loans to XGCL of approximately RMB8.7 million from 2002 to 2004, proceeds from disposal of property, plant and equipment of approximately RMB1.6 million, which was mainly due to the disposal of certain staff quarters, machinery, office equipment and motor vehicles and repayments of advances from related parties amounting to approximately RMB59.3 million for settlement of advances made during the year.

The cash inflow from investing activities was partially offset by cash outflow of approximately RMB32.2 million for the purchase of machinery and equipment and construction of factory buildings pursuant to the expansion of production facilities for its CNG and LNG production lines, increase in advances made to related parties (details of the related parties are set out in the section headed "Relationship with the Controlling Shareholders" in this prospectus) of approximately RMB54.5 million, and payments for the acquisition of the entire equity interests in Enric Compressor and Enric Gas Equipment of approximately RMB36.8 million.

The classification of advances made to related parties and repayments of advances made to related parties under investing activities complies with Hong Kong Accounting Standard 7, Cash flow statements, paragraphs 16 (e) – "cash advances and loans made to other parties" and 16 (f) – "cash receipts from the repayment of advances and loans made to other parties", which represented advances lent to related parties.

The Group's net cash used in investing activities for the six months ended 30 June 2005 was approximately RMB6.5 million as compared to approximately RMB25.1 million for the same period of 2004. The decrease in the net cash used in investing activities for the six months ended 30 June 2005 when compared with the corresponding period in 2004 was primarily due to decrease in payment for acquisition of property, plant and equipment from approximately RMB13.9 million for the six months ended 30 June 2004 to approximately RMB7.4 million for the six months ended 30 June 2005. In addition, there was no cash inflow and outflow in relation to advances from and advances to related parties during the six months ended 30 June 2005 whereas net cash outflow in relation to advances made to related parties was approximately RMB11.2 million during the six months ended 30 June 2004. The cash used in the payment for acquisition of property, plant and equipment was partially offset by the cash inflow from interest received of approximately RMB1.0 million for the six months ended 30 June 2005.

Financing activities

Net cash from financing activities for the year ended 31 December 2003 was approximately RMB45.1 million, which was mainly due to the net increase of RMB19.0 million in bank loans for financing the Group's expansion in the compressor business and net increase of approximately RMB30.5 million in advances received from related parties for financing working capital requirement.

The net cash used in financing activities for the year ended 31 December 2004 was approximately RMB27.2 million, which was mainly due to repayments of bank loans outweighing the proceeds from new bank loans. Cash outflow from financing activities was offset by the cash inflow from net increase of advances received from related parties, of which RMB45.0 million due to XGII as at 31 August 2005, taking into account subsequent settlements, if any, will be capitalised pursuant to the Capitalisation Issue.

The Group's net cash used in financing activities for the six months ended 30 June 2005 was approximately RMB2.4 million as compared to the net cash from financing activities for the six months ended 30 June 2004 of approximately RMB31.6 million. The cash used in financing activities for the six months ended 30 June 2005 was mainly due to cash outflow in relation to the repayment of the balance of cash advances from related parties as at 31 December 2004 of approximately RMB6.4 million during the period. The proceeds from shares issued under a share subscription agreement received in February 2005 amounting to approximately RMB15.7 million and proceeds from new bank loans of approximately RMB45.0 million were offset by the repayment of bank loans of approximately RMB52.9 million and interest on bank loans of approximately RMB3.9 million during the six months ended 30 June 2005. No cash advances were received from related parties during the six months ended 30 June 2005, whereas the cash advances received from related parties during the six months ended 30 June 2004 were approximately RMB76.7 million resulting in net cash inflow from financing activities for the six months ended 30 June 2004.

The classification of advances received from related parties and repayments of advances received from related parties under financing activities complies with Hong Kong Accounting Standard 7 , Cash flow statements, paragraphs 17 (c) – "cash proceeds from issuing debenture, loans and other short or long term borrowings" and 17 (d) – "cash repayment of amounts borrowed", which represented advances borrowed from related parties.

Net current liabilities

As at 30 June 2005, the Group had net current liabilities of approximately RMB29.0 million. Current assets consisted of inventories of approximately RMB116.3 million, trade and bills receivables of approximately RMB52.9 million, deposits, other receivables and prepayments of approximately RMB35.4 million, amounts due from related parties of approximately RMB15.7 million, and cash at bank and in hand of approximately RMB52.7 million. Current liabilities consisted of bank loans of approximately RMB125.0 million, trade and bills payables of approximately RMB83.7 million, other payables and accrued expenses of approximately RMB36.4 million, amounts due to related parties of approximately RMB54.3 million, income tax payable of approximately RMB1.5 million and provisions for product warranties of approximately RMB1.1 million. In relation to the amounts due to related parties, approximately RMB6.0 million were trade in nature and approximately RMB48.3 million related to cash advances from XGII. In respect of the cash advances from XGII, taking into consideration settlements subsequent to 30 June 2005, the amount of RMB45.0 million will be capitalised pursuant to the Capitalisation Issue. Particulars of the arrangements of the Capitalisation Issue are set out in the section headed "Corporate reorganisation" in Appendix VII to this prospectus. In the event that the Capitalisation Issue of RMB45.0 million due to XGII had been completed, the Group would have net current assets of approximately RMB16.0 million as at 30 June 2005.

The improvement in the position of net current liabilities as at 30 June 2005 as compared with that of approximately RMB75.1 million as at 31 December 2004 was mainly due to (i) the Group's cash inflow from operating activities during the six months ended 30 June 2005; and (ii) inflow of approximately RMB15.7 million in relation to the issuance of 10% equity interests of EIGL prior to the Placing pursuant to the share subscription agreement entered into between the Group and Symbiospartners, an Institutional Investor, on 21 January 2005.

Certain amount of bank loans of approximately RMB2.2 million as at 31 December 2004 was utilised to finance the construction of production facilities of the Group which had been subsequently transferred to property, plant and equipment and the remaining bank loans and other short term liabilities were used to finance the working capital requirement for the rapid business development of the Group.

Out of approximately RMB132.9 million bank loans as at 31 December 2004, approximately RMB52.9 million had been repaid upon 30 June 2005. During the six months ended 30 June 2005, bank loans of RMB45.0 million in aggregate were made. The Directors advise that given its relationship with the banks and as long as the bank loans are repaid on their respective maturity dates on time as specified in each of the loan agreements, it is expected that such bank loans can be rolled over upon maturity.

Based on the combined financial statements of the Group as at 30 June 2005, the Group had cash at bank and in hand of approximately RMB52.7 million. The following current liabilities as at 30 June 2005 are expected to be settled within the next 12 months:

	Balance as at 30 June 2005 *RMB'000*
Bank loans	125,000.0
Trade payables	83,737.4
Other payables and accrued expenses	36,397.5
Amounts due to related parties	9,310.5
Provisions	1,101.7
Income tax payable	1,491.8
Total	257,038.9

The Group is able to meet these obligations based on the following considerations: (i) As at 30 June 2005, the Group had current assets of approximately RMB273.0 million of which approximately RMB116.3 million represented inventories; (ii) funds will continue to be generated from operating activities; (iii) RMB100.0 million of bank loans will be rolled over upon maturity, as indicated above; and (iv) proceeds of approximately RMB40.6 million in relation to the issuance of the Redeemable Convertible Bonds prior to the Placing pursuant to the Convertible Bond Subscription Agreement. The Directors consider that the Group is able to settle its current liabilities as at 30 June 2005 within the next 12 months.

The Directors believe that although the Group still had net current liabilities of approximately RMB29.0 million as at 30 June 2005, the position of net current liabilities will be reverted to net current assets of approximately RMB16.0 million after taking into account the amount of RMB45.0 million due to XGII, considering subsequent settlements, if any, which will be capitalised under the Capitalisation Issue.

In addition, the Directors have closely reviewed its cash positions taking into consideration of expected cash inflow and outflow to ensure sound liquidity of the Group's operation and adequate cash on hand to satisfy its short term liabilities when fall due.

The Directors review monthly management accounts and cash flow statements and compare with the budgeted monthly management accounts and cash flow. The Directors will then check on its funding availability by taking into consideration its upcoming monthly cash payments on its working capital and capital expenditures.

Commitments

(a) Capital commitments

As at 30 June 2005, the Group had contracted but not provided for capital commitments of approximately RMB3,900,000 which were related to purchase of lathe for producing CNG containers, other production equipment and two motor vehicles. In addition, the Group had authorised but not contracted for capital commitments of approximately RMB1,900,000 which were related to the renovation of office building.

(b) Operating lease commitments

As at 30 June 2005, the Group had leased a number of properties and items of plant and machinery and office equipment under operating leases. The aggregate future minimum lease payments under non-cancellable operating leases payable were approximately RMB2,100,000 of which RMB1,400,000 was payable within one year, while the remaining of approximately RMB700,000 was payable after one year but within five years.

Working Capital

The Directors are of the opinion that, after taking into account the financial resources of the Group, including internally generated funds from operating activities, banking facilities currently available, proceeds from issuance of the Redeemable Convertible Bonds to Investec and the estimated net proceeds of the Placing, the Group has sufficient working capital for its present requirements. After taking into consideration of the above and the cashflow forecast of the Group for the period ending 30 June 2007 prepared by the Company, the Sponsor concur with the Directors' view that the Group had sufficient working capital for its present requirement.

It is the funding policies of the Group to finance its operation and expansion by using internally generated funds as well as bank loan facilities available to the Group. Given that the business operation of the Group is currently expanding, cash flow requirement of the Group is high and accordingly short-term bank loans were obtained to finance any anticipated cash needs.

Foreign exchange

The Group earns revenue and incurs costs and expenses mainly in RMB. This will continue to be the case following the Listing. The Group presently does not intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies.

Under the current foreign exchange control system in the PRC, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demand of a particular enterprise in full, there can be no assurance that shortage in the availability of foreign currency will not restrict the Company's ability to obtain sufficient foreign currency to pay dividends on the Shares in the future or to satisfy its other foreign currency requirements.

TRADING RECORD

The following table summarises the Group's combined income statements for each of the two years ended 31 December 2004 and each of the six months ended 30 June 2004 and 30 June 2005 respectively. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus:

	Year ended 31 December		Six months ended	
	2003	**2004**	**30 June 2004 (Unaudited)**	**30 June 2005**
	RMB	*RMB*	*RMB*	*RMB*
Turnover	68,943,423	252,375,698	82,878,653	209,724,253
Cost of sales	(40,771,008)	(177,790,799)	(56,169,505)	(143,756,435)
	28,172,415	74,584,899	26,709,148	65,967,818
Other revenue	5,846,076	5,109,203	2,635,564	575,290
Selling expenses	(7,633,349)	(12,803,532)	(5,118,139)	(8,966,704)
Administrative expenses	(11,636,603)	(23,110,803)	(8,708,109)	(19,834,140)
Other net income/(expenses)	302,158	2,681,210	(93,427)	3,440
Profit from operations	15,050,697	46,460,977	15,425,037	37,745,704
Finance costs	(4,443,570)	(6,082,089)	(2,780,807)	(4,048,792)
Profit from ordinary activities before taxation	10,607,127	40,378,888	12,644,230	33,696,912
Taxation	–	(1,814,458)	(141,072)	(1,375,662)
Profit from ordinary activities after taxation	10,607,127	38,564,430	12,503,158	32,321,250
Attributable to:				
Equity holders of the Company	10,607,127	36,191,118	10,313,389	32,321,250
Minority interests	–	2,373,312	2,189,769	–
Profit from ordinary activities after taxation	10,607,127	38,564,430	12,503,158	32,321,250
Basic earnings per Share (1)	0.04	0.14	0.04	0.12

Note:

(1) The calculation of basic earnings per Share is based on the Group's profit attributable to equity holders of the Company for each of the years ended 31 December 2003 and 2004 and each of the six months ended 30 June 2004 and 2005 and the 260,160,000 Shares in issue and issuable, comprising 880 Shares in issue as at the date of this prospectus and 260,159,120 Shares to be issued pursuant to the Capitalisation Issue as if these Shares were outstanding throughout the Track Record Period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a discussion of the results of operations of the Group during the Track Record Period. Such discussion should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

Basis of presentation

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set forth in Appendix I to this prospectus include the combined results of operations and combined cash flows of the companies now comprising the Group for the Track Record Period or where the companies were incorporated/established, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2003, for the period from the respective dates of incorporation/establishment and the acquisition of the additional interests in Enric Gas Equipment to 30 June 2005, as if the current group structure had been in existence throughout the Track Record Period. The combined balance sheets of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005 as set forth in Appendix I to this prospectus have been prepared to present the combined state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

Since the date of establishment of Enric Gas Equipment on 30 September 2003, the Group had 30% equity interests in Enric Gas Equipment. On 16 July 2004, Shijiazhuang BVI acquired 70% additional interests in Enric Gas Equipment from Xinao Shijiazhuang, and Enric Gas Equipment became 100% owned by the Group thereupon.

All material inter-company transactions and balances have been eliminated on combination.

Overview

General

The Group is principally engaged in the design, manufacture and sale of specialised gas equipment and the provisions of integrated business solutions in the gas energy industry. The results of operation of the Group for the year ended 31 December 2003 represented the operating result of the compressors and pressure vessels businesses conducted by Enric Compressor which commenced operations since March 2002. For the year ended 31 December 2004, the results of operation represented the results of the compressors, pressure vessels and integrated business solutions businesses, following the commencement of operations by Enric Gas Equipment, which principally engaged in the sales of pressure vessels and the provision of integrated business solutions in April 2004. Therefore, there were significant growth in the operation results of the Group for the year ended 31 December 2004. In addition, in order to streamline the Group's business of integrated business solutions in future, the Group established Enric Integration on 28 December 2004.

For the six months ended 30 June 2005, the Group experienced significant growth in the operating results as compared to the corresponding period in 2004. It was primarily due to the strong demand for the Group's specialised gas equipment products and integrated business solutions for the gas energy industry.

Turnover

Turnover of the Group is mainly generated from the sale of compressors, sale of pressure vessels, and the provision of integrated business solutions for gas equipment. It represents the sales value of goods sold after allowances for return of goods, excludes value added or other sales taxes and is after the deduction of any trade discounts.

The following table illustrates the breakdown of the Group's turnover during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2003		2004		2004		2005	
	RMB	%	*RMB*	%	*RMB*	%	*RMB*	%
Sales of compressors	68,615,843	99.5%	115,224,362	45.7%	49,544,751	59.8	59,735,852	28.5%
Sales of pressure vessels	327,580	0.5%	120,120,442	47.6%	25,959,418	31.3	110,461,591	52.7%
Provision of integrated business solutions for gas equipment	–	–	17,030,894	6.7%	7,374,484	8.9	39,526,810	18.8%
	68,943,423	100.0%	252,375,698	100.0%	82,878,653	100.0%	209,724,253	100.0%

The substantial growth in turnover for the year ended 31 December 2004 and the six months ended 30 June 2005 was attributable to the injection of assets by Xinao Shijiazhuang to Enric Gas Equipment pursuant to the Shijiazhuang JV Agreement which advanced the Group's platform in the provision of integrated business solutions and the production capabilities in pressure vessels.

Cost of sales

Cost of sales mainly consists of cost of inventories sold, salaries and wages, welfare, depreciation of property, plant and equipment used for production and manufacturing overheads.

The following table sets out the cost components for each of three product lines:

	For the year ended 31 December 2003			For the year ended 31 December 2004				For the six months ended 30 June 2004				For the six months ended 30 June 2005			
	Compressors	Pressure vessels	Total	Compressors	Pressure vessels	Integrated business solutions	Total	Compressors	Pressure vessels	Integrated business solutions	Total	Compressors	Pressure vessels	Integrated business solutions	Total
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cost of materials	81.5	52.8	81.3	87.6	88.9	89.0	88.4	85.3	90.9	92.4	88.0	88.0	87.4	92.4	88.3
Salaries and wages	8.3	22.4	8.4	6.3	5.4	5.2	5.7	7.3	2.5	1.1	5.0	5.4	2.3	1.1	3.0
Welfare	1.2	3.2	1.2	0.7	0.7	0.9	0.8	1.0	0.3	0.1	0.7	0.8	0.3	0.1	0.4
Depreciation of property, plant and equipment	4.4	4.2	4.4	1.7	0.8	0.8	1.1	1.2	2.7	1.9	1.8	2.5	3.5	1.9	3.0
Manufacturing overhead	4.6	17.4	4.7	3.7	4.2	4.1	4.0	5.2	3.6	4.5	4.5	3.3	6.5	4.5	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Gross profits

The following table illustrates the breakdown of the Group's gross profit by products during the Track Record Period:

	Year ended 31 December 2003			Year ended 31 December 2004			For the six months ended 30 June 2004			For the six months ended 30 June 2005		
	RMB	*% of turnover/ cost of sales/ gross profit*	*GP %*	*RMB*	*% of turnover/ cost of sales/ gross profit*	*GP %*	*RMB*	*% of turnover/ cost of sales/ gross profit*	*GP %*	*RMB*	*% of turnover/ cost of sales/ gross profit*	*GP %*
Turnover												
Sale of compressors	68,615,843	99.5%		115,224,362	45.7%		49,544,751	59.8%		59,735,852	28.5%	
Sale of pressure vessels	327,580	0.5%		120,120,442	47.6%		25,959,418	31.3%		110,461,591	52.7%	
Provision of integrated business solutions for gas equipment	–	–		17,030,894	6.7%		7,374,484	8.9%		39,526,810	18.8%	
	68,943,423	100.0%		252,375,698	100.0%		82,878,653	100.0%		209,724,253	100.0%	
Cost of sales												
Sale of compressors	40,503,465	99.3%		72,994,914	41.1%		30,572,558	54.4%		38,610,238	26.9%	
Sale of pressure vessels	267,543	0.7%		95,596,039	53.7%		21,771,114	38.8%		82,913,085	57.7%	
Provision of integrated business solutions for gas equipment	–	–		9,199,846	5.2%		3,825,833	6.8%		22,233,112	15.4%	
	40,771,008	100.0%		177,790,799	100.0%		56,169,505	100.0%		143,756,435	100.0%	
Gross profit												
Sale of compressors	28,112,378	99.8%	41.0%	42,229,449	56.6%	36.6%	18,972,193	71.0%	38.3%	21,125,614	32.0%	35.4%
Sale of pressure vessels	60,037	0.2%	18.3%	24,524,402	32.9%	20.4%	4,188,304	15.7%	16.1%	27,548,506	41.8%	24.9%
Provision of integrated business solutions for gas equipment	–	–	–	7,831,048	10.5%	46.0%	3,548,651	13.3%	48.1%	17,293,698	26.2%	43.8%
	28,172,415	100.0%	40.9%	74,584,899	100.0%	29.6%	26,709,148	100.0%	32.2%	65,967,818	100.0%	31.5%

Other revenue

Other revenue mainly consists of government grants given by the local PRC Government, income arising from sale of steel materials left-over from production which represented scrap materials arising from production and interest income from loans to related parties and bank deposits.

Selling expenses

Selling expenses mainly consist of salaries, welfare, transportation expenses, sales commission expenses, provision for product warranties, travelling and entertainment expenses and rental expenses.

Administrative expenses

Administrative expenses mainly consist of salaries, welfare, depreciation of fixed assets for office equipment and furniture, utilities and office expenses and provision for doubtful debts.

Finance costs

Finance costs mainly consist of interest expenses on bank loans.

Other net income

Other net income mainly consists of gain on disposal of fixed assets, compensation from third parties for non-compliance of supply contracts and fire compensation.

Taxation

The Group is not subject to Hong Kong profits tax as the Group did not earn income subject to Hong Kong profits tax during the Track Record Period.

The statutory state income tax rates applicable to Enric Compressor, Enric Gas Equipment and Enric Integration are 30%, 24% and 30% respectively. As Enric Compressor, Enric Gas Equipment and Enric Integration are foreign-invested enterprises, commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, each of Enric Compressor, Enric Gas Equipment and Enric Integration is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in state income tax rate for the third to fifth years.

The statutory local income tax rate applicable to Enric Compressor, Enric Gas Equipment and Enric Integration is 3%. Commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, Enric Gas Equipment is entitled to a tax holiday of a tax-free period for the first to fifth years and a 50% reduction in local income tax rate for the sixth to tenth years. Enric Compressor and Enric Integration are exempted from local income taxes.

Enric Compressor was in the tax holiday of a tax-free period in respect of PRC income tax for the year ended 31 December 2003. It is subject to PRC income tax at 15% for the year ended 31 December 2004. The Enterprise Income Tax ("EIT") rates applicable to Enric Compressor for each of the two years ended 31 December 2004 and for the six months ended 30 June 2005 were 0% and 15% and 15% respectively. The EIT rates for the six months ending 31 December 2005 and for the year ending 31 December 2006 are expected to be 15% and 15% respectively. Thereafter, the EIT rate is expected to be 30%. However, based on the Notice [2004] No. 247 dated 13 October 2004 and the Notice [2005] No. 16 dated 17 January 2005 issued by the Anhui State Tax Bureau, Enric Compressor is entitled to an income tax reduction amounting to RMB2,035,384 for the year ended 31 December 2004 as an incentive for purchase of domestically manufactured equipment.

No provision for PRC income tax has been provided by Enric Gas Equipment for the period from the date of establishment to 30 June 2005. Accordingly, the EIT rates applicable to Enric Gas Equipment for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 was 0%. Based on current applicable rates, the EIT rates applicable to the six months ending 31 December 2005, each of the years ending 31 December 2006, 2007, 2008, 2009 to 2013, and 2014 and thereafter are expected to be 0%, 12%, 12% , 12%, 25.5% and 27%, respectively.

No provision for PRC income tax has been made by Enric Integration for the period from the date of establishment to 30 June 2005 as it was in the tax holiday of a tax-free period in respect of PRC income tax. Based on current applicable rates, the EIT rates of Enric Integration for the year ending 31 December 2009, and for the year ending 31 December 2010 and thereafter are expected to be 0%, 15% and 30%, respectively.

Apart from income tax, the Group's sale of products are subject to value-added tax ("Output VAT"). Output VAT is calculated at a rate of 17% on the sales value of goods and is payable by the customer in addition to the sales value of goods. The Group pays VAT on its purchases ("Input VAT") which is deducted against Output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, and included in other payables and accrued expenses on the balance sheet.

Factors affecting the Group's results of operations and financial condition

In view of the rising demand for compressors, pressure vessels and integrated business solutions, the Group is expanding its production capacity. The Directors believe such expansion will increase the market share of the Group in the long run. The Directors also believe that the Group can secure a larger market share with its unique technology, existing experienced management team and high quality products. However, potential investors should be aware of the following factors that may affect the Group's results of operations and financial condition.

Growth of the natural gas equipment industry

According to China's Energy Development Report 2003 issued by Beijing Academy of Economic Development Institution in 2004, the demand for natural gas is forecasted to increase to approximately 200.0 bcm by 2020, representing an increase of approximately 785.0% when comparing to a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand of natural gas in the PRC in 2020 will be applied to the power generation sector and approximately 35.0% of the total demand in 2020 is forecasted to be applied to the city gas sector including natural gas vehicles. In view of the increasing demand in natural gas, the demand for gas equipment is also expected to increase. The Directors believe that the increasing overall volume in the natural gas industry will have direct effect on the demand on gas equipment which, in return, will have a direct effect on the Group's turnover. For more details of the PRC natural gas market, please see the section headed "Industry overview" in this prospectus.

Fluctuation in the cost of raw materials

Motors and steel are the major raw materials for the manufacture of compressors, pressure vessels and accessories. The costs of motors and steel consumed during the Track Record Period were approximately RMB9.6 million, RMB63.2 million and RMB73.3 million respectively, which accounted for approximately 29.0%, 42.3% and 57.7% of cost of inventories sold. The significant increase in cost of motors and steel in 2004 was mainly due to the increase in production volume of compressors and commencement of production of pressure vessels and integrated business solutions during the year. In addition, the unit cost of three major kinds of steel, namely CNG steel pipes, stainless steel and vessel steel board, increased by approximately 23%, 13% and 11% respectively during the six months ended 30 June 2005 when compared with those during the year ended 31 December 2004.

Apart from the above, potential investors should be aware that there are many factors which are beyond the control of the Group and might affect the Group's future performance, details of which are set out in the section headed "Risk factors" in this prospectus.

Critical accounting policies

The combined financial statements of the Group have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The following are accounting policies which are considered to be critical to the combined financial statements:

Intangible assets

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the assets reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

As at 30 June 2005, the Group had intangible assets of approximately RMB7.3 million which mainly represented technical blueprint in relation to the design of compressors of approximately RMB2.3 million (31 December 2004: approximately RMB2.5 million) which was acquired from an Independent Third Party, Bengbu Compressor, on 1 March 2002 and technology know-how for production of integrated business solutions of approximately RMB5.0 million (31 December 2004: approximately RMB 5.2 million) which arose pursuant to the exclusive rights granted to Xinao Shijiazhuang by Neogas in 2003, which has been exclusively licenced for use by Enric Gas Equipment and Enric Integration under a licence agreement dated 16 September 2005 entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric Integration jointly as licensees. For further details, please refer to the sections headed "Business – Intellectual property – Patented technologies" and "Connected transactions" in this prospectus. The recognition of intangible assets complies with Hong Kong Accounting Standard 38, Intangible Assets, because it is probable that the future economic benefits that are attributable to these assets will flow to the enterprise, and the costs of the assets can be measured reliably. In anticipation of the technical specification and lifespan of the technology in the market and based on the judgement of the management expertise in the industry, the Directors estimate that the amortisation period of the technical know-how should be 10 years.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Discussion of combined results of the Group for the Track Record Period

Year ended 31 December 2003

Turnover

For the year ended 31 December 2003, the Group's turnover was approximately RMB68.9 million. The growth in turnover of the Group for the year ended 31 December 2003 was mainly attributable to the increase in sales quantities of compressors for the year ended 31 December 2003.

The following table illustrates the details of sale of compressors by sub-product categories together with the average selling price and the quantity sold:

	Average selling price	Quantity	Amount
	RMB/unit	*Unit (Note)*	*RMB*
Sales of compressors			
– Gas compressor series	63,197.24	244	15,420,127
– Special-purpose compressor series	311,372.64	77	23,975,693
– General-purpose compressor series	81,051.39	313	25,369,085
	102,152.85	634	64,764,905
– Accessories			3,850,938
			68,615,843
Sales of pressure vessels			
– Chemical materials storage and transportation equipment series	4,199.74	78	327,580
Total			68,943,423

Note: The "unit" above represents the sum of units of different products sold during the year under the respective product categories.

Cost of sales

For the year ended 31 December 2003, the Group's cost of sales comprises (i) cost of inventories sold of approximately RMB33.1 million, representing 81.3% of total cost of sales; (ii) salaries and wages of approximately RMB3.4 million, representing 8.4% of total cost of sales; (iii) welfare of approximately RMB0.5 million, representing 1.2% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB1.8 million, representing 4.4% of total cost of sales; and (v) manufacturing overheads of approximately RMB1.9 million, representing 4.7% of total cost of sales.

Gross profit margin

The gross profit margin on the sales of compressors was 40.9% for the year ended 31 December 2003.

Other revenue

For the year ended 31 December 2003, other revenue amounted to approximately RMB5.8 million. Other revenue mainly consisted of government grants of approximately RMB1.6 million which was received by a subsidiary of the Group from the local PRC Government, sale of steel materials left-over from production of approximately

RMB0.2 million and interest income from loans to related parties of RMB4.0 million. Out of RMB1.6 million of government grants, approximately RMB0.4 million represented unclear purpose grant subsidised by the Bengbu Weishan District Finance Bureau (蚌埠市淮上區財政局). This government grant forms part of the terms of the acquisition of Bengbu Compressor from the Bengbu local district government. In accordance with the terms set out in the Bengbu Acquisition Agreement, Enric Compressor, after the acquisition of Bengbu Compressor, is entitled to receive an amount of subsidy equal to the amount of enterprise income tax and 50% of the local VAT paid and payable by Enric Compressor for each of the financial years from 2002 to 2004. The PRC legal advisers of the Company consider the risk of returning such government grant to be remote.

Selling expenses

For the year ended 31 December 2003, the Group's selling expenses amounted to approximately RMB7.6 million which represented approximately 11.1% of turnover. Selling expenses mainly comprised salaries of approximately RMB0.8 million, welfare of approximately RMB0.1 million, transportation expenses of approximately RMB1.4 million, sales commission expenses of approximately RMB1.2 million, provision for product warranties of approximately RMB1.0 million, travelling and entertainment expenses of approximately RMB1.8 million and rental expenses of approximately RMB0.5 million.

Administrative expenses

For the year ended 31 December 2003, the Group's administrative expenses amounted to approximately RMB11.6 million which represented 16.9% of turnover. Administrative expenses mainly comprised salaries of approximately RMB2.7 million, welfare of approximately RMB2.0 million, depreciation of property, plant and equipment of approximately RMB1.0 million, utilities and office expenses of approximately 0.8 million, and provision for doubtful debts of approximately RMB1.1 million.

Finance costs

For the year ended 31 December 2003, the Group's finance costs amounted to approximately RMB4.4 million which represented 6.4% of turnover. Finance costs mainly represented interest expenses on bank loans.

Other net income

For the year ended 31 December 2003, the Group's other net income amounted to approximately RMB302,000. Other net income mainly consisted of gain on disposal of property, plant and equipment of approximately RMB109,000, write-back of other payables of approximately RMB267,000 which relates to miscellaneous expenses incurred when the Group acquired Bengbu Compressor in early 2002 and later agreed to be written off by Bengbu Compressor. This was offset by donation expenses of approximately RMB69,000.

Taxation

No income tax was provided as Enric Compressor, the Group's subsidiary in the PRC, was in the tax holiday of a tax-free period for the year ended 31 December 2003.

Minority interests

Minority interests represented Xinao Shijiazhuang's 70% interest in Enric Gas Equipment. As Xinao Shijiazhuang had not contributed any assets and liabilities to Enric Gas Equipment until 31 March 2004, the minority interests for the year ended 31 December 2003 was nil.

Year ended 31 December 2004

Turnover

For the year ended 31 December 2004, the Group's turnover increased by approximately RMB183.5 million to approximately RMB252.4 million, representing a surge of 266.3% when compared with that in 2003. The significant increase in the Group's turnover was mainly attributable to the increase in the volume of compressors sold by Enric compressor, an increase in the volume of pressure vessels sold, and the commencement of sale of integrated business solutions for gas equipment after the commencement of operation of Enric Gas Equipment during the year.

In addition, sale of compressors during the year ended 31 December 2004 increased by approximately RMB46.6 million or 67.9% to approximately RMB115.2 million. This was mainly due to the increase in sales quantities and selling prices of compressors during the year ended 31 December 2004. Sales quantities of compressors increased by 108 units or 17%, from 634 units during the year ended 31 December 2003 to 742 units during the year ended 31 December 2004. Average unit selling price increased by approximately 42.6% from approximately RMB102,152.85 per unit in 2003 to RMB145,653.95 per unit in 2004. It was mainly due to the change in product mix and the increase in sale of specific models under the gas compressors series and special-purpose compressor series, which command higher selling price than the general-purpose compressor series. In addition, there was a general increase in the unit selling price of all compressor products as a result of strong market demand for such products.

The following table illustrates the details of sale of products by each of the sub-product category together with the average selling price and the quantity sold for the year ended 31 December 2004:

	Average selling price *RMB/unit*	**Quantity** *unit (Note)*	**Amount** *RMB*
Sales of compressors			
– Gas compressor series	133,476.75	280	37,373,490
– Special-purpose compressor series	304,063.76	120	36,487,651
– General-purpose compressor series	100,041.20	342	34,214,090
	145,653.95	742	108,075,231
– Accessories			7,149,131
			115,224,362
Sales of pressure vessels			
– Seamless pressure cylinders and transportation equipment series	626,229.70	75	46,967,228
– Cryogenic liquid storage and transportation equipment series	856,738.39	23	19,704,984
– Chemical materials storage and transportation equipment series	144,065.31	371	53,448,230
	256,120.34	469	120,120,442
Provision of integrated business solutions for gas equipment			
– Integrated business solutions for city gas projects	40,616.43	54	2,193,287
– Integrated business solutions for CNG refueling stations and CNG refueling trailers	1,141,354.37	13	14,837,607
	254,192.45	67	17,030,894
Total			252,375,698

Note: The "unit" above represents the sum of units of different products sold during the year under the respective product categories.

Cost of sales

For the year ended 31 December 2004, the Group's cost of sales increased by approximately RMB137.0 million to approximately RMB177.8 million, a surge of 336.1% compared with that for the year ended 31 December 2003, which was mostly in line with the increase in turnover. Cost of sales comprised (i) cost of inventories sold of approximately RMB157.2 million, representing 88.4% of total cost of sales; (ii) salaries and wages of approximately RMB10.2 million, representing 5.7% of total cost of sales; (iii) welfare of approximately RMB1.3 million, representing 0.8% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB2.0 million, representing 1.1% of total cost of sales; and (v) manufacturing overheads of approximately RMB7.1 million, representing 4.0% of total cost of sales.

Gross profit margin

	Gross profit margin (%) For the year ended 31 December	
	2003	**2004**
Sales of compressors	41.0	36.6
Sales of pressure vessels	18.3	20.4
Provision of integrated business solutions for gas equipment	–	46.0
Overall	40.9	29.6

The decrease in the gross profit margin of compressors for the year ended 31 December 2004 was mainly due to the additional manufacturing overheads and higher labour cost rates required for the manufacturing of certain models in gas compressors series and special-purpose compressor series for gas equipment as compared to the general-purpose compressor series, thus overall gross profit margin of compressors decreased accordingly.

In addition, the relatively lower gross profit margin of pressure vessel products as compared with the other product lines was because approximately 44.5% of total sales of pressure vessels in 2004 represented sales of pressure vessel products of the chemical material storage and transportation equipment series, which had relatively lower gross profit margin with an average of 13.1% when compared with the average gross profit margin of seamless pressure cylinder storage and transportation equipment series of 24.9% as well as cryogenic liquid storage and transportation equipment series of 29.3%. Accordingly, the gross profit margin on sale of pressure vessels was diluted.

Although the gross profit margin derived from the provision of integrated business solutions for gas equipment was higher than those on the sale of compressors and pressure vessels, sale of compressors and pressure vessels together accounted for approximately 93.3% of the total sales. Thus overall gross profit margin decreased for the year ended 31 December 2004.

Other revenue

For the year ended 31 December 2004, other revenue amounted to approximately RMB5.1 million which decreased by approximately 12.6% when compared with that for the year ended 31 December 2003. Other revenue mainly consisted of government grants of approximately RMB0.7 million, sale of steel materials left over from production of approximately RMB0.8 million and interest income from loans to related parties of approximately RMB3.2 million. The decrease in other revenue for the year ended 31 December 2004 was mainly due to the decrease of interest income from loans to related parties. Out of RMB0.7 million of government grants, approximately RMB0.6 million represented unclear purpose grant subsidised by the Bengbu Weishan District Finance Bureau(蚌埠市淮上區財政局). This government grant forms part of the terms of the acquisition of Bengbu Compressor from the Bengbu local district government. In accordance with the terms set out in the Bengbu Acquisition Agreement, Enric Compressor, after the acquisition of Bengbu Compressor, is entitled to receive an amount of subsidy equal to the amount of enterprise income tax and 50% of the local VAT paid and payable by Enric Compressor for each of the financial years from 2002 to 2004. The PRC legal advisers of the Company consider the risk of returning the government grant to be remote.

Selling expenses

For the year ended 31 December 2004, the Group's selling expenses increased by approximately RMB5.2 million or 67.7% to approximately RMB12.8 million, representing approximately 5.1% of turnover. The selling expenses mainly represented salaries of approximately RMB1.3 million, welfare of approximately RMB0.3 million, transportation expenses of approximately RMB1.8 million, sales commission expenses of approximately RMB1.8 million, provision for product warranties of approximately RMB1.7 million, travelling and entertainment expenses of approximately RMB3.5 million and rental expenses of approximately RMB0.5 million. The significant increase in selling expenses was mainly due to the additional selling expenses incurred in relation to the new products, pressure vessels and integrated business solutions for gas equipment, launched during the year ended 31 December 2004. The additional selling expenses in association with the pressure vessels and integrated business solutions for gas equipment accounted for approximately RMB4.3 million for the year. The decrease in the ratio of selling expenses to turnover from 11.1% for the year ended 31 December 2003 to 5.1% for the year ended 31 December 2004 was mainly due to economies of scale in advertising expenses, transportation expenses and travelling and entertainment expenses.

Administrative expenses

For the year ended 31 December 2004, the Group's administrative expenses increased by approximately RMB11.5 million or 98.6% to approximately RMB23.1 million, which represented approximately 9.2% of turnover. The administrative expenses mainly represented salaries of approximately RMB5.5 million, welfare expenses of approximately RMB3.9 million, depreciation of property, plant and equipment of approximately RMB2.4 million, utilities and office expenses of approximately 1.9 million, and provision for doubtful debts of approximately RMB2.2 million. The increase was mainly attributable to the related administrative expenses incurred by Enric Gas Equipment which has not had any operation in 2003 and such administrative expenses amounted to approximately RMB9.2 million in 2004. The decrease in the ratio of administrative expenses to turnover from 16.9% for the year ended 31 December 2003 to 9.2% for the year ended 31 December 2004 was mainly due to cost control measures implemented by the management of the Group during 2004.

Finance costs

For the year ended 31 December 2004, the Group's finance costs increased by approximately RMB1.7 million or 36.9% to approximately RMB6.1 million, which represented 2.4% of turnover. The finance costs mainly represented interest expenses on bank loans. The increase in finance costs was mainly due to the increase in bank borrowing during the year.

Other net income

For the year ended 31 December 2004, the Group's other net income increased by approximately RMB2.4 million to approximately RMB2.7 million. The other net income mainly represented gain on disposal of property, plant and equipment of approximately RMB13,000, compensation income from third parties for non-compliance of supply contracts and fire compensation of approximately RMB373,000 and recognition of negative goodwill directly into other net income, which arose from the acquisition of additional interest in Enric Gas Equipment, of approximately RMB2.4 million. This was partially offset by donation expenses of approximately RMB60,000. The compensation income from third parties for non-compliance of supply contracts amounting to RMB98,400 was due to sub-standard machinery from suppliers. The compensation income from fire compensation amounting to RMB274,600 was mainly due to the agreed write off of other payables by a supplier as compensation for a small fire caused by the leakage of oil from a machinery provided by such supplier. As only the machinery was damaged, and such machinery has been replaced, there was no impact on the Group's normal production and operation.

Taxation

For the year ended 31 December 2004, the effective tax rate of the Group was 4.5%. The income tax represented current PRC income tax of approximately RMB11.9 million which was charged at applicable tax rate of the assessable profits of Enric Compressor during the year plus the tax effect of tax non-deductible expenses of approximately RMB0.6 million, which offset against tax holiday of 50% reduction in income tax rate granted by the local government of approximately RMB8.0 million and tax incentive granted by the local government for the purchase of domestically manufactured equipment of approximately RMB2.0 million.

Minority interests

Minority interests represented Xinao Shijiazhuang's 70% interest in Enric Gas Equipment from 1 January 2004 to 15 July 2004. On 16 July 2004, Shijiazhuang BVI acquired 70% additional interests in Enric Gas Equipment from Xinao Shijiazhuang. Thereupon, Enric Gas Equipment became a wholly owned subsidiary of the Group.

Six months ended 30 June 2005

Turnover

Turnover increased by approximately 153.0% from approximately RMB82.9 million for the six months ended 30 June 2004 to approximately RMB209.7 million for the six months ended 30 June 2005. The increase was mainly due to the increase in the turnover of RMB10.2 million, RMB84.5 million and RMB32.1 million from sale of compressors, pressure vessels and integrated business solutions for gas equipment, respectively compared with the same period of 2004.

Compressors

Turnover from sale of compressors increased by approximately 20.6% from RMB49.5 million for the six months ended 30 June 2004 to approximately RMB59.7 million for the six months ended 30 June 2005, although the sales volume of compressors decreased from 402 units during the six months ended 30 June 2004 to 303 units during the corresponding period of 2005. The increase in turnover was mainly attributable to the increase in average unit selling price of gas compressor series and special-purpose compressor series from approximately RMB102,205.64 and RMB273,127.56 during the six months ended 30 June 2004 to approximately RMB350,660.54 (or 243.1%) and RMB323,560.94 (or 18.5%) during the six months ended 30 June 2005. The sale of gas compressor series and special-purpose compressor series accounted for approximately 70.3% of total turnover of compressors during the six months ended 2005. The significant increase in the average unit selling price of gas compressor series was primarily due to (i) increase in sales volume of relatively expensive CNG compressors from 36 units during the six months ended 30 June 2004 to 46 units during the same period of 2005 which accounted for approximately RMB19.8 million (or 99.0%) of the total turnover of gas compressor series during the six months ended 30 June 2005 as compared to approximately RMB12.1 million (or 89.6%) of the total turnover of gas compressor series during the same period of 2004. The increase in sales volume and unit selling price of CNG compressors during the six months ended 30 June 2005 were mainly due to the significant demand of specialised gas equipment in the PRC. The increase in average unit selling price of special-purpose compressor series during the six months ended 30 June 2005 was due to the increase in unit cost of production.

Pressure vessels

Turnover from the sale of pressure vessels increased approximately by 325.5% from approximately RMB26.0 million for the six months ended 30 June 2004 to approximately RMB110.5 million for the six months ended 30 June 2005. The increase was mainly due to significant increase in sales volume of pressure vessels from approximately 144 units during the six months ended 30 June 2004 to approximately 364 units during the corresponding period of 2005, and increase in average unit selling price of pressure vessels during the six months ended 30 June 2005. The increase in sales volume and unit selling price of pressure vessels during the six months ended 30 June 2005 were mainly due to the increased operations of Enric Gas Equipment after the injection of certain assets by Xinao Shijiazhuang which advanced the production capacities.

Integrated business solutions for gas equipment

Turnover from the sale of integrated business solutions for gas equipment increased by approximately 436.0% from approximately RMB7.4 million for the six months ended 30 June 2004 to approximately RMB39.5 million for the six months ended 30 June 2005. The increase in turnover was mainly due to increase in sales volume of integrated business solutions for CNG refueling stations and CNG refueling trailers from 5 units during the six months ended 30 June 2004 to 33 units during the six months ended 30 June 2005. The increase in sales volume of CNG refueling stations and CNG refueling trailers was mainly due to the Group's marketing effort to enlarge the Group's market share.

The following table illustrates the details of sale of products by each of the sub-product category together with the average selling price and the quantity sold for each of the six months ended 30 June 2004 and 30 June 2005:

	For the six months ended 30 June 2004			For the six months ended 30 June 2005		
	Average selling price *RMB/unit*	**Quantity** *Unit (Note)*	**Amount** *RMB*	**Average selling price** *RMB/unit*	**Quantity** *Unit (Note)*	**Amount** *RMB*
Sales of compressors						
– Gas compressor series	102,205.64	132	13,491,145	350,660.54	57	19,987,651
– Special-purpose compressor series	273,127.56	55	15,022,016	323,560.94	68	22,002,144
– General-purpose compressor series	87,399.30	215	18,790,850	63,912.41	178	11,376,409
	117,671.67	402	47,304,011	176,126.08	303	53,366,204
– Accessories			2,240,740			6,369,648
			49,544,751			59,735,852
Sales of pressure vessels						
– Seamless pressure cylinders and transportation equipment series	690,888.92	12	8,290,667	715,868.74	72	51,542,549
– Cryogenic liquid storage and transportation equipment series	643,560.60	5	3,217,803	670,742.53	32	21,463,761
– Chemical materials storage and transportation equipment series	113,786.99	127	14,450,948	144,058.77	260	37,455,281
	180,273.74	144	25,959,418	303,465.91	364	110,461,591
Provision of integrated business solutions for gas equipment						
– Integrated business solutions for city gas projects	24,407.48	29	707,817	566,349.0	7	3,964,443
– Integrated business solutions for CNG refueling stations and CNG refueling trailers	1,333,333.40	5	6,666,667	1,077,647.48	33	35,562,367
	216,896.59	34	7,374,484	988,170.25	40	39,526,810
Total			82,878,653			209,724,253

Note: The "unit" above represents the sum of units of different products sold during the period under the respective product categories.

Cost of sales

Cost of sales increased by approximately 155.9% from approximately RMB56.2 million for the six months ended 30 June 2004 to approximately RMB143.8 million for the six months ended 30 June 2005. Cost of sales for the six months ended 30 June 2005 comprised (i) cost of inventories sold of approximately RMB127.0 million, representing approximately 88.3% of total cost of sales; (ii) salaries and wages of approximately RMB4.2 million, representing approximately 3.0% of total cost of sales; (iii) welfare of approximately RMB0.6 million, representing approximately 0.4% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB4.3 million, representing approximately 3.0% of total cost of sales; and (v) manufacturing overheads of approximately RMB7.6 million, representing approximately 5.3% of total cost of sales. As a percentage of turnover, cost of sales increased slightly from approximately 67.8% to approximately 68.5%.

Gross profit margin

	Gross profit margin (%) For the six months ended 30 June	
	2004	**2005**
Sales of compressors	38.3	35.4
Sales of pressure vessels	16.1	24.9
Provision of integrated business solutions for gas equipment	48.1	43.8
Overall	32.2	31.5

The overall gross profit margin decreased slightly to approximately 31.5% for the six months ended 30 June 2005 as compared to approximately 32.2% of the corresponding period in 2004. The decrease in gross profit margin was mainly attributable to decrease in gross margin of compressors and decrease in gross margin of integrated business solutions for gas equipment, while such decreases were partially offset by a higher margin of approximately 24.9% of pressure vessels for the six months ended 30 June 2005 as compared to approximately 16.1% for the corresponding period in 2004 which contributed approximately 52.7% to the turnover of the Group for the six months ended 30 June 2005.

The decrease in the gross profit margin of compressors to approximately 35.4% for the six months ended 30 June 2005 as compared to approximately 38.3% of the corresponding period in 2004 was mainly because the increase in unit cost of materials has outweighed the increase in unit selling price. In addition, the decrease in the gross profit margin of integrated business solutions for gas equipment to approximately 43.8% for the six months ended 30 June 2005 as compared to approximately 48.1% of the corresponding period in 2004 was mainly due to decrease in the gross profit margin of integrated business solutions for CNG refueling stations and CNG trailers to approximately 44.6% for the six months ended 30 June 2005 as compared to approximately 49.8% of the corresponding period of 2004, which was mainly due to the decrease in average unit selling price by the Group during the six months ended 30 June 2005 as compared with the corresponding period in 2004 as a set of CNG refueling station was sold at a higher price during the six months ended 30 June 2004 to meet customer's special need.

The increase in the gross profit margin of pressure vessels to approximately 24.9% for the six months ended 30 June 2005 as compared to approximately 16.1% for the corresponding period in 2004 was mainly due to the change in product sales mix. During the six months ended 30 June 2004, a larger contribution of the relatively lower margin of pressure vessels of chemical materials storage and transportation equipment series was recorded, in the product sales mix, which contributed approximately 55.7% to the total sales of pressure vessel products for the six months ended 30 June 2004. However, during the six months ended 30 June 2005, the change in product sales mix from relatively lower margin of chemical materials storage and transportation equipment series to relatively higher margin of seamless pressure cylinders and transportation equipment series, which contributed to approximately 46.7% of the total sales of pressure vessel products during the period.

Other revenue

Other revenue decreased by approximately 78.2% from approximately RMB2,635,000 for the six months ended 30 June 2004 to approximately RMB575,000 for the six months ended 30 June 2005. Other revenue for the six months ended 30 June 2005 mainly consisted of sale of steel materials left over from production of approximately RMB436,000 which increased by approximately 103.0% as compared to approximately RMB215,000 for the six months ended 30 June 2004, and interest income from bank deposits of approximately RMB139,000 which increased significantly as compared to approximately RMB9,500 for the six months ended 30 June 2004 as a result of the significant increase in bank balances during the six months ended 30 June 2005. The significant decrease in other revenue was mainly because no government grant was received during the six months ended 30 June 2005 while there was approximately RMB672,000 government grants received during the six months ended 30 June 2004, and no interest income earned from loans to related parties for the six months ended 30 June 2005 as all outstanding related parties loans have been settled prior to 31 December 2004 while interest income earned from loans to related parties amounting to approximately RMB1,739,000 for the six months ended 30 June 2004.

Selling expenses

Selling expenses increased by approximately 75.2% from approximately RMB5.1 million for the six months ended 30 June 2004 to approximately RMB9.0 million for the six months ended 30 June 2005. The increase in selling expenses was mainly due to (1) increase in salaries from approximately RMB0.6 million for the six months ended 30 June 2004 to approximately RMB0.9 million for the six months ended 30 June 2005 as a result of expansion of business scale during the period; (2) increase in transportation expenses from approximately RMB0.4 million for the six months ended 30 June 2004 to approximately RMB1.7 million for the six months ended 30 June 2005 which is in line with the increase in sales volume during the period; (3) increase in provision for product warranties from approximately RMB0.7 million for the six months ended 30 June 2004 to approximately RMB1.1 million for the six months ended 30 June 2005 as a result of increase in the turnover and (4) royalty fee for certain model of products of approximately RMB0.5 million payable to Neogas incurred for the six months ended 30 June 2005 whereas no such royalty fee incurred for the corresponding period in 2004. As a percentage of turnover, selling expenses decreased from approximately 6.2% to approximately 4.3% over the same period which was mainly due to economies of scale achieved in travelling and entertainment expenses and general office expenses.

Administrative expenses

Administrative expenses increased by approximately 127.8% from approximately RMB8.7 million for the six months ended 30 June 2004 to approximately RMB19.8 million for the six months ended 30 June 2005. The increase in administrative expenses was mainly due to (1) increase in salaries by approximately 92.0% from approximately RMB2.5 million for the six months ended 30 June 2004 to approximately RMB4.8 million for the six months ended 30 June 2005 as a result of expansion of business scale; (2) increase of welfare by approximately 64.7% from approximately RMB1.7 million for the six months ended 30 June 2004 to approximately RMB2.8 million which was in line with the increase of salaries; (3) increase in utilities and office expenses from approximately RMB0.4 million for the six months ended 30 June 2004 to approximately RMB1.4 million for the six months ended 30 June 2005 after the commencement of operation of Enric Integration on 28 December 2004; and (4) increase in provision for doubtful debts from approximately RMB0.5 million for the six months ended 30 June 2004 to approximately RMB1.8 million as the Group had provided approximately RMB1.8 million for debts due over one year during the six months ended 30 June 2005. As a percentage of turnover, administrative expenses decreased from approximately 10.5% to approximately 9.5% over the same period which was mainly due to cost control measures implemented by the management of the Group during the period.

Finance costs

Finance costs increased by approximately 45.6% from approximately RMB2.8 million for the six months ended 30 June 2004 to approximately RMB4.0 million for the six months ended 30 June 2005. The increase in finance costs was mainly due to increase in outstanding bank loans balances during the six months ended 30 June 2005.

Taxation

The effective tax rate of the Group was approximately 4.1% for the six months ended 30 June 2005 as compared to approximately 1.1% for the six months ended 30 June 2004. The income tax represented current PRC income tax of approximately RMB9.8 million which was charged at applicable tax rate of the assessable profits of Enric Compressor during the six months ended 30 June 2005, plus the tax effect of non-deductible expenses of approximately RMB0.4 million and offset against tax holiday of 50% reduction in income tax rate granted by the local government of approximately RMB8.8 million.

The increase in effective tax rate for the six months ended 30 June 2005 was due to the increase in assessable profits of Enric Compressor for the six months ended 30 June 2005, and for the six months ended 30 June 2004, Enric Compressor was entitled to state income tax reduction amounting to RMB1.5 million as an incentive for purchase of domestically manufactured equipment. No such incentive was granted during the period of 2005.

Minority interests

No minority interests were recorded for the six months ended 30 June 2005 after the acquisition of 70% additional interest in Enric Gas Equipment by Shijiazhuang BVI from Xinao Shijiazhuang on 16 July 2004.

Review of past position

Long term investment

During the year ended 31 December 2003, Enric Compressor contributed approximately RMB26.2 million to XGCL, representing approximately 12.27% equity interests in the XGCL. On 10 June 2004, Enric Compressor sold this investment to Langfang Guofu at cost.

As XGCL had funding needs at the time, a cash capital contribution by Enric Compressor was made to XGCL in 2003. When making such investment, XGCL and Enric Compressor were private companies and were both controlled by Mr. Wang. Such investment for long term purpose was considered acceptable by the management of the Group to facilitate funding within Mr. Wang's businesses. In addition, the Group was still privately-owned at that time and had not considered the needs to streamline its business activities. Since the Group only had equity interest of 12.27%, and had control nor significant influence over XGCL, its results had not been included as part of the results of the Group during the Track Record Period. During the period of investment in XGCL by the Group, XGCL had not declared or paid dividends to the Group.

The investment in XGCL is categorised as long term investment since the management of the Group had the intention to invest in XGCL for long term purpose as indicated above. The classification as long term investment complied with the relevant requirement as set out in Hong Kong Accounting Standard 39 – Financial instruments: Recognition and measurement. In the preparation for the Listing, in order to streamline the Group's business, the management Group decided to dispose of the long term investment in XGCL which was engaged in a business different from that of the Group.

Inventories

The inventories of the Group amounted to approximately RMB27.6 million and RMB79.7 million and RMB116.3 million as at 31 December 2003, 31 December 2004 and 30 June 2005 respectively. The significant increase in inventories as at 30 June 2005 was mainly attributable to the increase of raw materials and work in progress necessary for the production of finished goods to meet the sales orders on hand as of 30 June 2005.

The Directors consider that no provision for obsolete inventories was necessary as at 30 June 2005 as finished goods had been covered by current sales orders as of 30 June 2005.

As at 30 June 2005, the Group had raw materials of approximately RMB63.3 million. Raw materials represented steel, motors, various kinds of valves and miscellaneous accessories for the manufacturing of compressors, pressure vessels and integrated business solutions. Out of RMB63.3 million of raw materials, approximately RMB59.5 million or approximately 94.0% of raw materials were aged within one month to six months, and the remaining approximately RMB3.8 million or approximately 6.0% of raw materials were aged over six months but less than one year. The normal holding period for raw materials was about six months, however, certain major raw materials such as steel and motors may be held for a longer period.

In addition, approximately 59.2% of the balances of raw materials and work in progress as of 30 June 2005 had been subsequently used with the remaining balances, aged less than six months, expected to be further processed to finished goods to satisfy the sales orders on hand.

In accordance with the special characteristics of each product, the Group has compiled a set of standardised management process in order to strengthen its internal control over inventories and the associated logistics needs. The Group's inventory control policy covers its finished products, work in progress, components and fittings, raw materials and packaging. The average inventory turnover days were 194, 110 and 124 for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The decrease in inventory turnover days for the year ended 31 December 2004 as compared to that for the year ended 31 December 2003 was mainly due to the increased demand of compressors and pressure vessels products in the market. The increase in average inventory turnover days for the six months ended 30 June 2005 compared with that for the year ended 31 December 2004 was mainly due to increase in purchase of raw materials during the period to cope with the increase in sales orders. Included in raw materials were approximately RMB18.7 million of steel materials maintained as reserve in anticipation of increase in steel price;

The normal production cycle for the Group's products ranged from 60 to 90 days, the difference of inventory turnover period of 124 days as compared to the production cycle was mainly because certain raw materials, such as steel, and standard model of compressors were maintained as reserves for the reasons stated above.

No inventories were stated at fair value less costs to sell as at 31 December 2003, 31 December 2004 and 30 June 2005. By reviewing the conditions of the inventories, the Group makes provisions for obsolete inventories based on specifically identified items that the Group believes to be obsolete.

Trade and bills receivables

The trade and bills receivables of the Group amounted to approximately RMB18.1 million, RMB48.8 million and RMB52.9 million as at 31 December 2003, 31 December 2004 and 30 June 2005 respectively. The increase in trade and bills receivables as at 30 June 2005 was mainly due to increase in sales during the period.

The Directors considered that as most of the customers of the Group have continuing business and maintain sound relationship with the Group, no further provision on the balance is considered necessary.

Aging analysis

The general credit and payment policy is payment upon delivery. Based on Directors' evaluation of the creditworthiness of customers and subject to negotiation, credit terms ranging from three to 12 months are available for certain customers with satisfactory financial background, well-established trading relationship and/or good repayment history on a case-by-case basis.

The management of the Group closely monitors the credit exposure and repayment progress of its customers. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the average debtors' turnover days were 77, 48 and 44 respectively. The improvement in debtors' turnover days for the year ended 31 December 2004 and the six months ended 30 June 2005, was mainly due to the tighter credit control of the Group and the launch of pressure vessels and integrated business solutions in 2004, both of which have generally shorter credit period granted to customers.

The Group adopted a provisioning policy on trade receivables where an allowance for doubtful debts is provided when, based upon the management's evaluation, the recoverability of these trade receivables is doubtful at the balance sheet date. As at 30 June 2005, a provision was made for those receivables aged over one year. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the Group made provision for doubtful debts of approximately RMB1.1 million, RMB1.7 million and RMB1.8 million respectively. As at 31 December 2003, 31 December 2004 and 30 June 2005, the Group had provisions for doubtful debts amounting to approximately RMB1.2 million, RMB2.9 million and RMB4.8 million respectively. The management of the Group considered the provisions for doubtful debts were adequate during the Track Record Period.

Deposits, other receivables and prepayments

As at 31 December 2003, 31 December 2004 and 30 June 2005, deposits, other receivables and prepayments amounted to approximately RMB2.9 million, RMB21.9 million and RMB35.4 million respectively. As at 30 June 2005, advances to suppliers were approximately RMB25.8 million, representing approximately 72.9% of the balance of approximately RMB35.4 million of deposits, other receivables and prepayments.

The increase in the balance of deposits, other receivables and prepayments as at 30 June 2005 was mainly due to the increase in advances to suppliers from approximately RMB16.1 million as at 31 December 2004 to approximately RMB25.8 million as at 30 June 2005. Such increase was mainly due to the import of certain raw materials of pressure vessels, namely steel pipes, from overseas which required deposits in advance.

Trade and bills payable

As at 31 December 2003 and 31 December 2004, the Group's trade and bills payable amounted to RMB16.8 million and RMB41.7 million respectively.

The Group has maintained good business relationship with its major suppliers and the respective payment periods to major suppliers ranged from one to three months. For other suppliers, payment periods normally ranged within six months. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the average creditors' turnover days were 94, 60 and 79 respectively. The increase in average creditors' turnover days during the six months ended 30 June 2005 was mainly due to increase in settlement to suppliers in the form of bills during the period, which generally granted credit terms for settlement ranging from 90 to 180 days. The decrease in average creditors' turnover days from 2003 to 2004 was mainly due to increased purchase of raw materials, especially steel pipes, of which the Group adopted prepayment on certain percentage of the invoiced amount.

Provision for product warranties

The Group provides product warranties of 12 months to its customers. Should there be any defect arising from the normal operation of the Group's products, the Group will provide warranty services to its customers without any charges unless the defects are caused by the customers themselves. The Group make a provision for product warranties based on the actual warranty expenses incurred in the previous accounting periods and management's experience. The basis of provision has been consistently applied throughout the Track Record Period. The current provision mechanism is fair and reasonable. The total provision made to product warranties for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 were approximately RMB1.0 million, RMB1.8 million and RMB1.1 million respectively. The Directors believe that the provision for product warranties is adequate. The product warranties were utilised during the Track Record Period in the form of repair and maintenance costs incurred.

Loans receivable

The loans receivable of the Group as at 31 December 2003 was RMB78.6 million. As the loans had been repaid during 2004, the Group had no loans receivable outstanding as at 31 December 2004.

The loans due from XGCL, a company directly or indirectly controlled by Mr. Wang, a controlling shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the Controlling Shareholders" in this prospectus), were unsecured and carried interest ranging from 5.10% to 6.14% per annum during the loan period. The interest income earned from the loans amounted to approximately RMB4.0 million and RMB3.2 million for each of the two years ended 31 December 2004 respectively.

Legal implication on the loans receivable under PRC laws

PBOC on 28 June 1996 promulgated the PRC General Rules of Loan (《貸款通則》) and the High Court of the PRC on 23 September 1996 issued the Decision on how to give judgement for overdue loans by borrower of a corporate lending contract (《關於對企業借款方逾期不歸還借款應如何處理的批復》). If a lending corporate is engaged in any litigation against the borrowers, the Court will protect the lender to the claim on the principal amount and not the interest elements. In addition, if such lending contract involves unlawful loans, the court may confiscate the total interest amount stipulated under such lending contract plus interest amount generated up to the date of the court's decision made. Moreover, PBOC may penalise the lender, the penalties by PBOC will be one to five times the interest accrued from the unsettled loans. In addition, pursuant to the Law for Implementation of the Administrative Punishment (《行政處罰法》), if such lending of unlawful loans has not been discovered within two years from the date after the principal amount is repaid, the penalties will be withdrawn.

As the loans had been repaid during 2004, the Group had no outstanding loans receivable as at 31 December 2004 and was not involved in any litigation proceedings in relation to uncollected loans receivable, the PRC legal advisers to the Company expect the possibility for the Group to be penalised by PBOC on its unlawful loans receivable between related companies is remote.

During the Track Record Period, the interests accrued from the Group's unlawful loans receivable amounted to approximately RMB7.2 million. In the event that PBOC decides to penalise the Group for its unlawful loans receivables, the penalties will be up to approximately RMB36.0 million, being five times the "interests accrued from the unlawful loans which has been received by the lender". In such event, the controlling Shareholder, Mr. Wang will indemnify the Group against such penalty and loss.

The Directors considered that, at the time of making such advances, the Group were private group companies, and in order to facilitate its funding, loans were advanced to XGCL for its short term investment purpose.

Non-trade cash advances from related parties

During each of the two years ended 31 December 2004 and the six months ended 30 June 2004, the Group received non-trade cash advances from related parties of approximately RMB34.5 million, RMB270.6 million and RMB76.7 million, respectively. The Group had not received any cash advances from related parties for the six months ended 30 June 2005. During the same periods, the Group had made repayments to related parties of approximately RMB4.0 million, RMB262.2 million and RMB0.4 million, respectively. During the six months ended 30 June 2005, except for the amount due to XGII of RMB48.3 million, being the major shareholder of the Group, the Group repaid all outstanding non-trade advances as at 31 December 2004 amounting to approximately RMB6.4 million.

Therefore, the Group received net cash advances from related parties of approximately RMB30.5 million, RMB8.5 million and RMB76.3 million for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 respectively, and repaid RMB6.4 million to related parties for the outstanding balances as at 31 December 2004 during the six months ended 30 June 2005.

For the year ended 31 December 2003, the cash advances from related parties mainly consisted of (i) cash advances from XGII of approximately RMB6.1 million, for the investment in Enric Compressor and short term financing purpose; and (ii) advances from XGCL of approximately RMB25.1 million for short term financing purpose.

For the year ended 31 December 2004, the cash advances from related parties mainly consisted of (i) cash advances from XGII of RMB47.3 million for the investment in Enric Gas Equipment and short term financing purpose; and (ii) advances from Xinao Shijiazhuang of approximately RMB216.9 million for short term financing purpose during the year and repayment of RMB215.7 million during the year.

For the six months ended 30 June 2004, the cash advances from related parties mainly consisted of (i) cash advances from XGII of RMB16.1 million for the investment in Enric Gas Equipment and short term financing purpose; and (ii) advances from Xinao Shijiazhuang of approximately RMB59.9 million for short term financing purpose.

Non-trade cash advances to related parties

During each of the two years ended 31 December 2004 and the six months ended 30 June 2004, the Group had made approximately RMB7.5 million, RMB54.5 million and RMB43.2 million cash advances to related parties, and during the same periods, the Group had received repayments from related parties amounting to approximately RMB16.2 million, RMB59.3 million and RMB5.0 million respectively.

Therefore, the Group received net repayments of the advances from related parties of approximately RMB8.7 million and RMB4.8 million for each of the two years ended 31 December 2004 respectively and the Group made net cash advances to related parties of approximately RMB38.2 million during the six months ended 30 June 2004. No cash advances were made to related parties during the six months ended 30 June 2005.

The cash advances to related parties mainly represented cash advances to XGCL and Xinao Shijiazhuang for their funding needs. At the time of making cash advances to related parties, the Group, being a part of the private group of companies controlled by Mr. Wang, was under the macro strategic planning of XGCL. For better utilisation of funds among the companies directly or indirectly controlled by Mr. Wang, funds were advanced to related parties for their funding needs. Prior to making the cash advances to related parties by the Group, the management of the Group will review the cash position of the Group to ensure such advances will not affect the normal operation of the business of the Group.

The Directors confirmed that there have been no cash advances from or to related parties since 1 January 2005.

Amounts due from and due to related parties as at 31 December 2004 and 30 June 2005

The following tables set out the amounts due from and due to related parties as at 31 December 2004 and 30 June 2005:

Amounts due from related parties

Name of related parties	*Notes*	Amounts due from related parties as at 31 December 2004 *RMB'000*	Amounts due from related parties as at 30 June 2005 *RMB'000*
Beihai Xinao Gas Company Limited (北海新奧燃氣有限公司)	*(i)*	3,128	1,781
Bengbu Xinao Gas Development Company Limited (蚌埠新奧燃氣發展有限公司)	*(i)*	557	394
Changsha Xinao Gas Company Limited (長沙新奧燃氣有限公司)	*(i)*	–	80
Dongguan Xinao Gas Company Limited (東莞新奧燃氣有限公司)	*(i)*	278	284
Guilin Xinao Gas Company Limited (桂林新奧燃氣有限公司)	*(i)*	108	108
Haining Xinao Gas Company Limited (海寧新奧燃氣有限公司)	*(i)*	–	395
Hebei Finance Leasing Company Limited (河北金融租賃有限公司)	*(i)*	–	204
Hebei Veyong Biochemical Joint Stock Company Limited (河北威遠生物化工股份有限公司)	*(i)*	235	–
Inner Mongolia New Veyong Biochemical Company Limited (內蒙古新威遠生物化工有限公司)	*(i)*	167	167
Lianyungong Xinao Gas Company Limited (連雲港新奧燃氣有限公司)	*(i)*	–	6
Luquan Fuxin Gas Company Limited (鹿泉富新燃氣有限公司)	*(i)*	3,500	2
Qingdao Xinao Jiaonan Gas Company Limited (青島新奧膠南燃气有限公司)	*(i)*	210	210
Shijiazhuang Xinao Gas Company Limited (石家莊新奧燃氣有限公司)	*(i)*	33	–
Xiangtan Xinao Gas Company Limited (湘潭新奧燃氣有限公司)	*(i)*	–	394
Xinao Gas Development Company Limited (新奧燃氣發展有限公司)	*(i)*	–	10,960
Xinao Gas Development Company Limited Weifang Branch Company (新奧燃氣發展有限公司濰坊分公司)	*(i)*	9	71

Name of related parties	Notes	Amounts due from related parties as at 31 December 2004 RMB'000	Amounts due from related parties as at 30 June 2005 RMB'000
Zhuzhou Xinao Gas Company Limited (株洲新奧燃氣有限公司)	*(i)*	–	614
Langfang City Natural Gas Company Limited (廊坊市天然氣有限公司)	*(ii)*	8	8
XGCL	*(iii)*	814	–
Total		9,047	15,678

Notes:

(i) These companies are directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). These balances represented sales of the Group's products to these related companies.

(ii) This company is directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). This balance was transferred by Xinao Shijiazhuang to Enric Gas Equipment on 31 March 2004 upon the completion of capital contribution pursuant to the Shijiazhuang JV Agreement.

(iii) This represented interest receivable on loans to XGCL, which carried interest at annual rates ranging from 5.1% to 6.1% during the Track Record Period. The interest receivables were settled on 7 March 2005.

Amounts due to related parties

Name of related parties	Notes	Amounts due to related parties as at 31 December 2004 RMB'000	Amounts due to related parties as at 30 June 2005 RMB'000
Bengbu Xinao Gas Development Company Limited (蚌埠新奧燃氣發展有限公司)	*(i)*	170	340
Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited (石家莊威遠高壓開關製造有限公司)	*(ii)*	1,007	175
Xinao Group International Economic Development Company Limited (新奧集團國際經濟發展有限公司)	*(ii)*	674	–
Langfang Xinao Construction Installation Engineering Company Limited (廊坊新奧建築安裝工程有限公司)	*(ii)*	1,264	–

Name of related parties	Notes	Amounts due to related parties as at 31 December 2004 RMB'000	Amounts due to related parties as at 30 June 2005 RMB'000
Shijiazhuang Xinao Gas Company Limited (石家莊新奧燃氣有限公司)	(iii)	2,300	2,304
Hebei Veyong Biochemical Joint Stock Company Limited (河北威遠生物化工股份有限公司)	(iv)	–	15
Langfang Xinao Gas Company Limited (廊坊新奧燃氣有限公司)	(iv)	306	178
Liaocheng Xinao Gas Company Limited (聊城新奧燃氣有限公司)	(iv)	468	468
Xinao Gas Development Company Limited (新奧燃氣發展有限公司)	(iv)	4,038	2,224
Yancheng Xinao Compressed Natural Gas Company Limited (鹽城新奧壓縮天然氣有限公司)	(iv)	21	306
Xinao Group Solar Energy Company Limited (新奧太陽能有限公司)	(v)	272	–
XGII	(vi)	53,393	48,300
Xinao Shijiazhuang	(vii)	1,286	–
		65,199	54,310

Notes:

(i) This company is directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). The balance represented purchase of gas for production.

(ii) These companies are directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). The balances represented outstanding balances on the purchase of raw materials and accessories for production.

(iii) This company is directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). The balances represented outstanding gas connection fee payable in connection with the provision of gas connection services for a factory of the Group in Shijiazhuang in 2004 and receipt in advance for sales of accessories.

(iv) These companies are directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). These balances represented receipt in advance in connection with the products to be sold by the Group to these related companies.

(v) Out of the total balance, RMB130,000 represented rental payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited, during the year ended 31 December 2004. The remaining balance of approximately RMB142,000 represented directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004. The total balance has been fully settled on 3 March 2005 and 7 March 2005 respectively.

(vi) The balance represented cash advances from XGII. The balance taking into account subsequent settlement, if any, will be capitalised pursuant to the Capitalisation Issue. The balance is unsecured and interest-free.

(vii) The balance represented cash advances from Xinao Shijiazhuang. The balance was unsecured, interest-free and was fully settled by March 2005.

PROPERTY INTERESTS

Property interest rented and occupied by the Group in Hong Kong

The Group rents and occupies a portion of office of Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong as its office in Hong Kong. The Group rents its Hong Kong Office from Xinao Gas Investment Group, a connected person of the Company under the GEM Listing Rules at a rent of approximately HK$456,000 per annum for the three years commencing on 1 February 2005. Details of this lease are further set out in the section headed "Connected transactions" in this prospectus. This property has a saleable area of approximately 964.46 sq.ft.

Property interest held and occupied by the Group in the PRC

Enric Gas Equipment is located at Gaoji Da Street, Zhaolingpu Village, Xinhua District, Shijiazhuang city, Hebei province, the PRC with a site area of approximately 68,156.00 sq.m. Enric Gas Equipment owns the land use rights of this property. 30 buildings, including various workshops and offices with a total gross floor area of approximately 32,897.69 sq.m. and various ancillary structures are erected thereon.

Enric Compressor is located at No. 187 Yanshan Road, Bengbu city, Anhui province, the PRC with a total site area of approximately 118,779.60 sq.m. Enric Compressor owns the land use rights of this property. 48 buildings, including various workshops offices and various residential units with a total gross floor area of approximately 49,638.61 sq.m. and various ancillary structures are erected thereon.

In addition, Enric Compressor also owns eight other residential units and a commercial unit as staff quarters and office in Bengbu city, Anhui province. These staff quarters and office occupy a total gross floor area of approximately 520.45 sq.m.

Property interest rented and occupied by the Group in the PRC

The Group rented several floors of an office building located at Hongrun Road, Langfang Economic and Technical Development Zone, Langfang city, Hebei province, the PRC as its head office in the PRC from a connected person of the Company. The property has a gross floor area of approximately 1,620.47 sq.m. The Group leases its head office from Xinao Group Solar Energy Company Limited, a connected person of the Company under the GEM Listing Rules, at a rent of RMB520,000 per annum for a term of three years commencing on 30 September 2004. Details of this lease are further set out in the section headed "Connected transactions" in this prospectus.

Enric Gas Equipment leases an office unit located at No.166 North Xinshi Road, Shijiazhuang city, Hebei province, the PRC, from Hebei Veyong Group Company Limited, a connected person of the Company under the GEM Listing Rules. Enric Gas Equipment leases this property at a rent of RMB3,600 per annum for a term of 20 years commencing in September 2003. Details of this lease are further set out in the section headed "Connected transactions" in this prospectus. This property has a gross floor area of approximately 25 sq.m.

Enric Integration currently rents the premises in Langsen Vehicle Industrial Zone (朗森汽車產業園生產廠房), Langfang Economic and Technical Development Zone, Langfang city, Hebei province, the PRC from an Independent Third Party with a gross floor area of approximately 2,366.93 sq.m., using it as the workshop for the processing, assembly, commissioning, painting and storing of CNG hydraulic daughter refueling stations and as an administrative office. Pursuant to a renewal tenancy agreement dated on 26 April 2005, the Group leases the said premises for an annual rental cost equivalent to approximately RMB388,768.25 plus an annual management fee of RMB56,806.32 and for a term expiring on 31 October 2006. The Directors consider that as the business activities engaged by Enric Integration mainly comprise marketing, provision of professional service to the customers of the natural gas industry, together with assembling the critical equipment of CNG refueling station, work load of such assembly activities can also be processed at the production facilities in either Enric Compressor and Enric Gas Equipment. Further, taking into account that assembly sites or plants are in ample supply in Langfang, the Directors expect that the short term lease will not create any significant negative impact to the Group's operations. XGII, Mr. Wang and Ms. Zhao have agreed to provide indemnities in respect of any losses, damages and liability which may be suffered by any members of the Group as a result of losing the said premises if the Group fails to renew the tenancy agreement upon its expiry.

Enric Compressor also leases sales offices in cities of Bengbu, Shenyang, Guangzhou, Wuhan, Chongqing, Shanghai, Xi'an, Zibo and Urumqi. All of these properties are rented from Independent Third Parties.

Property valuation

Sallmanns (Far East) Limited, an independent valuer, has undertaken a valuation for the Group with regard to the valuation of its property interests as at 31 August 2005. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix V to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2005

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix IV to this prospectus, the Group's forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 is unlikely to be less than RMB65,000,000 (approximately HK$62,500,000). The profit forecast has been prepared by the Directors based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results of the Group based on the Group's management accounts for the two months ended 31 August 2005 and a forecast of the combined results of the Group for the remaining four months ending 31 December 2005. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2005.

The following sets forth certain forecast data of the Group for the year ending 31 December 2005.

Unaudited forecast combined profit after taxation attributable to equity holders of the Company *(Note 1)* .... Not less than RMB65,000,000 (approximately HK$62,500,000) *(Note 5)*

Unaudited pro forma forecast earnings per Share

– weighted average *(Note 2)* .... Not less than RMB0.22 (approximately HK$0.21) *(Note 5)*

– fully diluted (without the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 3)* .... Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*

– fully diluted (with the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 4)* .... Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*

Notes:

1. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix IV to this prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and a weighted average number of 298,765,151 Shares in issue for the year ending 31 December 2005 after the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

3. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis (without the exercise of the options granted under the Pre-IPO Share Option Plan) is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and as if the Capitalisation Issue, the Conversion and the Placing had been completed on 1 January 2005 and a total of 432,000,000 Shares were in issue throughout the year, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

4. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis (with the exercise of the options granted under the Pre-IPO Share Option Plan) is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and as if the Capitalisation Issue, the Conversion and the Placing had been completed on 1 January 2005 and a total of 432,000,000 Shares were in issue throughout the year, as well as on the basis that the options granted under the Pre-IPO Share Option Plan were exercised in full on 1 January 2005, resulting in the issuance of 13,800,000 additional Shares, but without taking into account any shares which may be issued pursuant to the exercise of the Over-allotment Option.

5. The RMB figures are translated at an exchange rate of RMB1.04 to HK$1.00.

The text of the letters from KPMG and from the Sponsor regarding the profit forecast is set out in Appendix IV to this prospectus.

DIVIDEND POLICY

No dividend has been paid or declared by the Company since its incorporation.

Annual dividends, if any, will be declared by and subject to the discretion of the Board and must be approved at a general meeting of Shareholders. In addition, the Board may from time to time pay to the Shareholders such interim dividends as appear to the Board to be justified by the Group's profits. The Company may pay dividends to its Shareholders in the future; however, such payments will depend upon a number of factors, including the Group's results of operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors considered relevant by the Board. The Board currently intends to retain all of the Group's earnings to finance the development and expansion of the business and therefore do not intend to declare or pay cash dividends.

DISTRIBUTABLE RESERVES

As at 30 June 2005, the Company did not have any reserves available for distribution to the Shareholders, as the Company was incorporated on 28 September 2004 and has not carried out any business since its incorporation other than transactions related to the Reorganisation.

EXEMPTION OF INCLUSION OF CERTAIN INFORMATION UNDER THE COMPANIES ORDINANCE

Under section 342(1)(b) of the Companies Ordinance and paragraph 27 of the third schedule to the Companies Ordinance (the "Third Schedule"), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Company during the three preceding years. Under paragraph 31 of the Third Schedule, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 5(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) (the "Notice"), where it is proposed to offer any shares of a company incorporated outside Hong Kong by a prospectus issued generally and the shares have been approved by the recognised exchange company that operates GEM for listing on GEM, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraphs 27 and 31 of the Third Schedule if it complies with the requirements of those paragraphs as modified by section 5(3) of the Notice.

In compliance with section 5(3) of the Notice which modifies the requirements in paragraphs 27 and 31 of the Third Schedule and in reliance of the exemption of section 5(2) of the Notice, the Company has included in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the two preceding years, and a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the two financial years immediately preceding the issue of this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group which has been prepared for the purpose of illustrating the effect of the Placing as if it had been taken place on 30 June 2005 and based on the audited combined net assets of the Group as at 30 June 2005 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Audited combined net assets of the Group as at 30 June 2005	Intangible assets as at 30 June 2005	Estimated net proceeds from the Placing	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
			(Note 1)		*(Notes 2)*
Based on the Placing Price of HK$1.12 per Share	97,878	(6,981)	111,927	202,824	0.47
Based on the Placing Price of HK$1.68 per Share	97,878	(6,981)	176,431	267,328	0.62

Notes:

1. The estimated net proceeds from the Placing is based on the Placing Price of HK$1.12 per Share (being the lower limit of the stated Placing Price range) and HK$1.68 per Share (being the upper limit of the Placing Price range), after deduction of the estimated underwriting fees and related expenses to be paid by the Company. The estimated net proceeds from the Placing have not taken into account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme.

2. The unaudited pro forma adjusted net tangible assets per Share is based on 432,000,000 Shares in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing as if the Shares had been in issue on 30 June 2005, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme. The adjusted net tangible asset value per Share is based on an exchange rate of RMB1.04 to HK$1.00.

3. On 26 September 2005, a capitalisation agreement was entered into between the Company and XGII pursuant to which, conditional upon the Listing, the Company will allot and issue a total of 260,159,120 Shares, as to 234,143,208 to XGII and 26,015,912 Shares to Symbiospartners (as nominated by XGII), all credited as fully paid, on capitalisation of a sum of RMB45.0 million owed by the Company to XGII. The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share as shown in the above do not take into account such Capitalisation Issue of RMB45.0 million (equivalent to approximately HK$43.3 million) as it has not taken place at the moment. After taking into account the proceeds from the Capitalisation Issue, the unaudited pro forma adjusted net tangible assets per Share would have been increased to HK$0.57 (based on the Placing Price of HK$1.12 per Share) and HK$0.72 (based on the Placing Price of HK$1.68 per Share). The RMB figure is translated at an exchange rate of RMB1.04 to HK$1.00.

4. Pursuant to the Convertible Bond Subscription Agreement, EIGL issued to Investec, an Independent Third Party, convertible redeemable bonds in the aggregate principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000). The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8:00 a.m. on the Listing Date. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised) and accordingly, 51,840,000 Shares are expected to be allotted and issued to Investec, which is equivalent to a conversion price of approximately HK$0.75 per Share.

5. For the purpose of the Listing, the properties of the Group were revalued as at 31 August 2005 by an independent firm of surveyors, Sallmanns (Far East) Limited. A surplus of approximately RMB35 million arising as a result of the revaluation of the Group's properties as at 31 August 2005 will not be incorporated in the Group's financial statements. It is the Group's policy to state its property, plant and equipment at cost less accumulated depreciation and impairment losses in accordance with Hong Kong Accounting Standard 16 "Property, plant and equipment" issued by the Hong Kong Institute of Certified Public Accountants. If such revaluation surplus were to be included in the Group's financial statements, additional annual depreciation charges of approximately RMB2 million would be incurred.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 June 2005, being the date to which the latest audited financial statements of the Company were made up, there has been no material adverse change in the financial or trading position or prospects of the Company.

UNDERWRITERS

Lead Manager

China Everbright Securities (HK) Limited

Co-lead Managers

BCOM Securities Company Limited
China Merchants Securities (HK) Co., Limited
Taiwan Securities (Hong Kong) Company Limited

Co Managers

Barits Securities (Hong Kong) Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited
SBI E2-Capital Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares under the Placing at the Placing Price with professional, institutional and private investors on and subject to the terms and conditions of this prospectus.

Subject to (i) the Listing Committee granting the listing of, and permission to deal in, the Placing Shares; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the Underwriting Agreement, the Underwriters have severally agreed to subscribe or purchase or procure subscribers or purchasers to subscribe for or purchase the Placing Shares.

Grounds for termination

The respective obligations of the Underwriters to subscribe or purchase or procure subscribers or purchasers for the Placing Shares are subject to termination and the Underwriters are entitled to terminate their obligations under the Underwriting Agreement upon the occurrence of any of the following events by notice in writing to the Company given by the Lead Manager (on behalf of the Underwriters) at any time prior to 8:00 a.m. on the Listing Date if:

(a) there shall develop, occur or come into effect:

(i) any material change or development involving a prospective material change in, or any event or series of events resulting or likely to result in any change or development in local, national or international financial, political, military, industrial, legal, fiscal, economic, regulatory or market matters or conditions in the PRC, Hong Kong, the U.S. and any other jurisdiction relevant to the Group (including without limitation, a devaluation of the Renminbi against any foreign currencies);

(ii) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise;

(iii) a material change or development occurs involving a prospective material change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in the PRC, Hong Kong, the U.S. or any other jurisdictions relevant to the Group;

(iv) any general moratorium on commercial banking activities in Hong Kong shall have been declared by the Hong Kong authorities, or in the PRC by the relevant PRC authorities;

(v) any imposition of economic sanctions, in whatever form, by the U.S. or the European Union on Hong Kong, the PRC or any other jurisdictions relevant to the Group;

(vi) the outbreak or escalation of hostilities involving the PRC or Hong Kong or the U.S. or the European Union or any other jurisdictions relevant to the Group;

(vii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike, lock out, accidents or interruption or delay in transportation;

(viii) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdictions relevant to the Group;

(ix) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group;

(x) a material change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States; or

(xi) a material change in the exchange rate between the United States dollar, the Hong Kong dollar and the Renminbi, which, in each case, in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Underwriters):

(i) is or will or is likely to be adverse to the business, financial or other condition or prospects of the Company or its operation or, to any present or prospective Shareholder in his capacity as such; or

(ii) has or will or is likely to have an adverse effect on the success of the Placing or the level of Placing Shares being applied for or accepted or the distribution of Placing Shares; or

(iii) makes it inadvisable or impractical to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this prospectus;

(b) matters have arisen or have been discovered which in the sole and absolute opinion of the Lead Manager (on behalf of the Underwriters) would, if this prospectus were to be issued at that time, constitute a material omission therefrom which is considered by the Lead Manager to be material;

(c) matters have arisen or have been discovered rendering or there comes to the notice of the Lead Manager or any of the Underwriters any matter or event showing any of the warranties given to the Underwriters in the Underwriting Agreement when given or repeated to be materially untrue, inaccurate or misleading or as having been breached in any material respect or having been declared or determined by any PRC court or governmental authorities to be illegal, invalid or unenforceable in any respect considered by the Lead Manager to be material;

(d) any statement contained in this prospectus has become or been discovered to be untrue, inaccurate or misleading in any respect considered by the Lead Manager to be material;

(e) there comes to the notice of the Lead Manager any breach on the part of the Company, the executive Directors and/or the covenantors (as defined in the Underwriting Agreement) of any of the provisions of the Underwriting Agreement in any respect considered by the Lead Manager to be material; or

(f) any material adverse change or prospective material adverse change in the business or in the financial or trading position of any member of the Group.

Commissions and expenses

The Underwriters will receive an underwriting commission of 4% of the Placing Price of all the Placing Shares (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions. The Sponsor will, in addition, receive a financial advisory fee in relation to the Placing and for acting as sponsor to the Placing. The underwriting commission, documentation fee, GEM listing fees, transaction levy, legal and other professional fees and printing and other expenses relating to the Placing which are estimated to be approximately HK$23.8 million in aggregate (based on a Placing Price of HK$1.40 per Share, being the mid-point of the Placing Price range of HK$1.12 to HK$1.68 and assuming the Over-allotment Option is not exercised), are payable by the Company.

Undertakings

The Initial Management Shareholders have given the Company and the Stock Exchange non-disposal undertakings, details of which are described under the section headed "Substantial, Initial Management and Significant Shareholders" in this prospectus.

Each of the Initial Management Shareholders, the executive Directors and the Company has undertaken with the Lead Manager and the Underwriters to procure that the Group will not, except pursuant to the Placing or the exercise of the Over-allotment Option, or the exercise of any option which have been or may be granted under the Pre-IPO Share Option Plan or the Share Option Scheme at any time after the date of the Underwriting Agreement up to and including the date falling six months after the Listing Date, allot, issue, sell or agree to allot, issue or sell any Shares or other securities of the Company or any of its subsidiaries or grant or agree to grant any option, warrant or other rights carrying the right to subscribe for, or otherwise convert into or exchange for the securities of the Company or any of its subsidiaries, unless such allotment, issue, sale or agreement is permitted by the GEM Listing Rules or the Stock Exchange.

Underwriters' interest in the Company

Save as disclosed in this prospectus, none of the Underwriters or any of their respective holding companies, or any of their respective subsidiaries is interested beneficially or legally in any Shares or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any Shares.

Sponsor's interest in the Company

The Sponsor and their respective associates will receive from the Company:

(i) a documentation fee as sponsor of the Placing;

(ii) by way of underwriting commission to be paid to the Lead Manager or any of their fellow subsidiaries, holding company or affiliates for acting as one of the Underwriters to the Placing;

(iii) by a compliance adviser's agreement to be entered into between China Everbright Capital (as a compliance adviser) and the Company pursuant to which China Everbright Capital is appointed as the compliance adviser of the Company for the period commencing from (and including) the Listing Date and ending on (and including) the earlier of the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year and the Company shall pay an agreed fee to China Everbright Capital for the provision of such services; and

(iv) certain associates of the Sponsor, whose ordinary businesses involving trading of and/or dealing in securities, may involve in the trading of and/or dealing in the securities of the Company.

The Sponsor confirms that, saved as disclosed in this prospectus, none of the circumstances as described in rule 6A.07 of the GEM Listing Rules exists as at the date of this prospectus.

THE PLACING PRICE

The Placing Price will not be more than HK$1.68 and is expected to be not less than HK$1.12. Investors have to pay on application the maximum Placing Price of HK$1.68 per Placing Share plus 1% brokerage, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee, A maximum of HK$3,394.00 for every board lot of 2,000 Shares are payable in full upon application.

The Underwriters are soliciting from prospective investors indications of interest in acquiring the Placing Shares in the Placing. Prospective investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price.

The Placing Price is expected to be fixed on or before 12:00 noon, 12 October 2005 by agreement between the Company and the Lead Manager (for itself and on behalf of the Underwriters) with reference to market demand for the Placing Shares, which will not be more than HK$1.68 per Placing Share and is expected to be not less than HK$1.12 per Placing Share.

If the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on or before 12:00 noon, 12 October 2005, the Placing will not proceed. In such circumstance, an announcement will be issued and published on the GEM website by the Company.

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares in the Placing will be conditional upon:

1. **Listing**

   The Listing Committee granting the approval of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM; and

2. **Underwriting Agreement**

   The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Lead Manager (acting for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days from the date of this prospectus which is 9 November 2005.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published on the GEM website on the next Business Day following such lapse.

THE PLACING

Under the Placing, the Company is initially offering 120,000,000 new Shares for subscription by way of placing. The Placing Shares will represent 27.78% of the Company's enlarged issued share capital immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme.

It is expected that the Underwriters or selling agents nominated by them will conditionally place the Placing Shares on behalf of the Company at the Placing Price plus 1% brokerage, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee, with professional, institutional and private investors in Hong Kong and elsewhere outside the U.S., subject to certain restrictions. Such professional, institutional and private investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities and private individuals which regularly invest in shares and other securities.

Allocation of the Placing Shares 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 and/or hold or sell the Shares after the Listing. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad and solid shareholder base to the benefit of the Company and its shareholders as a whole. There will not be any preferential treatment in the allotment of the Placing Shares to any persons.

OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENTS

Under the Underwriting Agreement, the Company has granted to the Lead Manager the right, but not the obligation, to exercise the Over-allotment Option, exercisable no earlier than the date of this prospectus and will expire at 5:00 p.m. on the date which is the 30th day after the date of this prospectus. Pursuant to the Over-allotment Option, the Lead Manager has the right to require the Company to issue up to 13,200,000 additional Shares, representing 11% of the total number of the Placing Shares initially available under the Placing, solely for the purpose of covering over-allocations in the Placing, if any. These Shares will be issued at the Placing Price.

The Lead Manager may, at its option, also cover any over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of the Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. The maximum number of Shares that may be over-allocated in the Placing shall not exceed the number of Shares that may be allotted and issued under the Over-allotment Option.

If the Over-allotment Option is exercised in full, the additional Shares to be issued will represent approximately 3.0% of the Company's issued share capital immediately following the completion of the Capitalisation Issue, the Conversion and the Placing and as enlarged by the Shares to be issued upon the full exercise of the Over-allotment Option.

In order to facilitate settlement of over-allocations in connection with the Placing, a stock borrowing agreement will be entered into between XGII and the Lead Manager. Under such stock borrowing agreement, XGII, being a controlling Shareholder, shall agree with the Lead Manager, that if requested by the Lead Manager, it will, subject to the terms of the stock borrowing agreement, make available to the Lead Manager up to 13,200,000 Shares held by it, by way of stock lending, in order to cover over-allocation in connection with the Placing. The Lead Manager and XGII shall enter into and perform its obligations under the stock borrowing agreement subject to the following terms:

- such stock borrowing agreement with XGII will only be effected by the Lead Manager for settlement of over-allocations in the Placing;

- the maximum number of Shares which may be borrowed from XGII by the Lead Manager must not exceed the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

- the same number of Shares so borrowed must be returned to XGII and deposit with its escrow agent within three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised; or (ii) the day on which the Over-allotment Option is exercised in full;

- the stock borrowing arrangement under the stock borrowing agreement will be effected in compliance with all applicable laws and regulatory requirements; and

- no payments will be made to XGII by the Lead Manager in relation to such borrowing arrangement.

Assuming the Over-allotment Option is exercised in full, the public float of the Company will increase from 27.78% to approximately 29.92% upon the Listing.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds receivable by the Company will be applied by the Company as described in the section headed "Statement of business objectives and strategies – Reasons for the Placing and the use of proceeds" in this prospectus.

STABILISATION

In connection with the Placing, the Lead Manager may over-allocate Shares and may cover such over-allocations by means of exercising the Over-allotment Option no later than 30 days after the date of this prospectus, stock borrowing, or making open market purchases of the Shares in the secondary market. The number of Shares over-allocated will not be greater than the number Shares which may be issued upon the full exercise of the Over-allotment Option, being 13,200,000 Shares, which is 11% of the Placing Shares initially available under the Placing.

In connection with the Placing, the Lead Manager, or any person acting for it, may over-allot or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such stabilisation transactions may include exercising the Over-allotment Option, stock borrowing, making market purchases of Shares in the secondary market or selling Shares to liquidate a position held as a result of those purchases. Any such market purchases will be effected in compliance with all applicable laws, rules and regulatory requirements.

However, there is no obligation on the Lead Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Lead Manager and may be discontinued at any time. Any such stabilisation activity is required to be brought to an end within 30 days from the date of this prospectus.

As a result of effecting transactions to stabilise or maintain the market price of the Shares, the Lead Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period of which the Lead Manager, or any person acting for it, will maintain the long position at the discretion of the Lead Manager and is uncertain. In the event that the Lead Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilising action by the Lead Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the commencement of trading of the Shares on the Stock Exchange after the Placing Price is announced and ends on the thirtieth day from date of this prospectus. The stabilising period is expected to end on or before 9 November 2005. After this date, when no further stabilising action may be taken, demand for the security, and therefore its price, could fall. Any stabilising action taken by the Lead Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Placing Price either during or after the stabilising period. Bids for or market purchases of the Shares by the Lead Manager, or any person acting for it, may be made at a price at or below the Placing Price and therefore at or below the price paid for the Shares by purchasers. A public announcement will be made within seven days after the end of the stabilising period in accordance with the Securities and Futures (Price Stabilising) Rules of the SFO.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters 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 market prices of such securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to 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 are restricted to cases where underwriters genuinely purchase shares in the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the SFO and the Securities and Futures (Price Stabilising) Rules, prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 October 2005

The Directors
Enric Energy Equipment Holdings Limited
China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Enric Energy Equipment Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 (the "Relevant Period") and the combined balance sheets of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 10 October 2005 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 28 September 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 26 September 2005, as detailed in the section headed "Corporate reorganisation" in Appendix VII of the Prospectus, the Company has become the holding company of the subsidiaries now comprising the Group, details of which are set out below. The Company has not carried out any business since the date of its incorporation save for the Reorganisation.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries which are incorporated outside Hong Kong and have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Authorised/ registered/ paid-in capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of US$50,000 and paid-in capital of US$1	100%	–	Investment holding
Enric (Bengbu) Compressors Company Limited ("Enric Compressor")	The People's Republic of China ("PRC") 14 March 2002	Registered and paid-in capital of HK$21,320,000	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited ("Anhui BVI")	British Virgin Islands 29 April 2002	Authorised capital of US$50,000 and paid-in capital of US$1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited ("Shijiazhuang BVI")	British Virgin Islands 29 April 2002	Authorised capital of US$50,000 and paid-in capital of US$1	–	100%	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment")*	PRC 30 September 2003	Registered and paid-in capital of US$2,450,000	–	100%	Manufacture and sale of pressure vessels and provision of integrated business solutions for gas equipment
Enric Langfang Investment Limited ("Langfang BVI")	British Virgin Islands 14 September 2004	Authorised capital of US$50,000 and paid-in capital of US$1	–	100%	Investment holding

Name of company	Place and date of incorporation/ establishment	Authorised/ registered/ paid-in capital	Attributable equity interest Direct	Indirect	Principal activities
Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration")	PRC 28 December 2004	Registered and paid-in capital of HK$10,000,000	–	100%	Provision of integrated business solutions for gas equipment

* *Enric Gas Equipment was established on 30 September 2003 as a Sino-foreign equity joint venture enterprise. Since its establishment and prior to the Reorganisation, the interests in Enric Gas Equipment held by the Group was 30%. Upon the acquisition of the 70% interests in Enric Gas Equipment on 16 July 2004, Enric Gas Equipment became 100% owned by the Group and was converted to a wholly foreign-owned enterprise.*

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies comprising the Group, on the basis set out in Section A below. Adjustments have been made, for the purpose of this report, to restate the Financial Information to conform to the accounting policies as referred to in Section C, which are in accordance with accounting principles generally accepted in Hong Kong.

No audited financial statements have been prepared for the companies comprising the Group, except for Enric Compressor and Enric Gas Equipment, as these companies were either newly incorporated/established, or have not carried on any business other than the transactions related to the Reorganisation. We have, however, reviewed all significant transactions undertaken by these companies from their respective dates of incorporation/establishment to 30 June 2005 for the purpose of this report.

The statutory financial statements of Enric Compressor and Enric Gas Equipment, which were established in the PRC, are prepared in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the PRC Ministry of Finance.

The statutory financial statements of Enric Compressor for the years ended 31 December 2003 and 2004 were audited by Anhui Jiu Tong Certified Public Accountants Co., Ltd. and Anhui Yong He Certified Public Accountants Co., Ltd. respectively, both are firms of certified public accountants registered in the PRC.

The statutory financial statements of Enric Gas Equipment for the year ended 31 December 2004 were audited by Hebei Hua Yi De Certified Public Accountants Co., Ltd., a firm of certified public accountants registered in the PRC.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the Financial Information set out below which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information of the Group for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established at a date later than 1 January 2003, for the period from their respective dates of incorporation/establishment to 30 June 2005) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and carried out such additional procedures necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2005.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, for the purpose of this report, and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the combined results and cash flows of the Group for the Relevant Period, and of the combined state of affairs of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005.

Unaudited financial information for the six months ended 30 June 2004

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined cash flow statement for the six months ended 30 June 2004 (the "30 June 2004 Corresponding Information"), together with the notes thereon, for which the directors are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the 30 June 2004 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2004 Corresponding Information.

On the basis of our review of the 30 June 2004 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the six months ended 30 June 2004.

A. BASIS OF PRESENTATION

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set out in Sections B(1), B(3) and B(4) respectively include the combined results of operations and combined cash flows of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2003, for the period from the respective dates of incorporation/establishment and acquisition of the additional interests in Enric Gas Equipment to 30 June 2005) as if the current group structure had been in existence throughout the Relevant Period. The combined balance sheets of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005 as set out in Section B(2) have been prepared to present the combined state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material inter-company transactions and balances have been eliminated on combination.

B. COMBINED FINANCIAL STATEMENTS

1. Combined Income Statements

		Year ended 31 December		Six months ended	
				30 June	30 June
	Section C	2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Turnover	2	68,943,423	252,375,698	82,878,653	209,724,253
Cost of sales		(40,771,008)	(177,790,799)	(56,169,505)	(143,756,435)
		28,172,415	74,584,899	26,709,148	65,967,818
Other revenue	3	5,846,076	5,109,203	2,635,564	575,290
Selling expenses		(7,633,349)	(12,803,532)	(5,118,139)	(8,966,704)
Administrative expenses		(11,636,603)	(23,110,803)	(8,708,109)	(19,834,140)
Other net income/(expenses)		302,158	2,681,210	(93,427)	3,440
Profit from operations		15,050,697	46,460,977	15,425,037	37,745,704
Finance costs	4(i)	(4,443,570)	(6,082,089)	(2,780,807)	(4,048,792)
Profit from ordinary activities before taxation		10,607,127	40,378,888	12,644,230	33,696,912
Taxation	5	–	(1,814,458)	(141,072)	(1,375,662)
Profit from ordinary activities after taxation		10,607,127	38,564,430	12,503,158	32,321,250
Attributable to:					
Equity holders of the parent		10,607,127	36,191,118	10,313,389	32,321,250
Minority interests		–	2,373,312	2,189,769	–
Profit from ordinary activities after taxation		10,607,127	38,564,430	12,503,158	32,321,250
Basic earnings per share	9	0.04	0.14	0.04	0.12

The accompanying notes form part of the combined financial statements.

2. Combined Balance Sheets

	Section C Note	At 31 December 2003 RMB	2004 RMB	At 30 June 2005 RMB
Non-current assets				
Property, plant and equipment	*10*	7,371,462	85,520,041	85,893,040
Construction in progress	*11*	5,895,999	4,355,382	6,769,629
Lease prepayments	*12*	8,529,193	31,260,587	30,913,536
Intangible assets	*13*	2,854,500	7,714,985	7,260,555
Long-term investment	*14*	26,190,000	–	–
		50,841,154	128,850,995	130,836,760
Current assets				
Inventories	*15*	27,615,856	79,651,766	116,335,483
Trade and bills receivable	*16*	18,072,975	48,796,630	52,910,859
Deposits, other receivables and prepayments	*17*	2,892,467	21,830,654	35,358,317
Amounts due from related parties	*28(b)(I)*	90,449,316	9,047,159	15,678,074
Cash at bank and in hand	*18*	14,339,597	31,610,556	52,712,010
		153,370,211	190,936,765	272,994,743
Current liabilities				
Bank loans	*19*	84,040,000	132,860,000	125,000,000
Trade and bills payable	*20*	16,847,389	41,748,715	83,737,439
Other payables and accrued expenses	*21*	10,952,467	24,779,850	36,397,469
Amounts due to related parties	*28(b)(II)*	51,624,443	65,198,732	54,310,487
Provisions	*22*	580,643	912,619	1,101,712
Income tax payable		–	526,409	1,491,775
		164,044,942	266,026,325	302,038,882
Net current liabilities		(10,674,731)	(75,089,560)	(29,044,139)
Total assets less current liabilities		40,166,423	53,761,435	101,792,621
NET ASSETS		40,166,423	53,761,435	101,792,621
CAPITAL AND RESERVES				
Paid-in capital	*23*	22,596,114	8	827
Reserves	*24*	17,570,309	53,761,427	101,791,794
		40,166,423	53,761,435	101,792,621

The accompanying notes form part of the combined financial statements.

3. Combined Statements of Changes in Equity

	Attributable to equity holders of the parent				
	Paid-in capital	**Reserves**	**Total**	**Minority interests**	**Total equity**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	Section C Note 23	*Section C Note 24*			
At 1 January 2003	22,596,114	6,963,182	29,559,296	–	29,559,296
Net profit for the year	–	10,607,127	10,607,127	–	10,607,127
At 31 December 2003	22,596,114	17,570,309	40,166,423	–	40,166,423
Capital contributions from a related party to a subsidiary	–	–	–	14,234,500	14,234,500
Change in the paid-in capital	(22,596,106)	–	(22,596,106)	–	(22,596,106)
Net profit for the year	–	36,191,118	36,191,118	2,373,312	38,564,430
Acquisition of additional interests in a subsidiary	–	–	–	(16,607,812)	(16,607,812)
At 31 December 2004	8	53,761,427	53,761,435	–	53,761,435
Change in the paid-in capital	819	–	819	–	819
Share premium	–	15,709,117	15,709,117	–	15,709,117
Net profit for the period	–	32,321,250	32,321,250	–	32,321,250
At 30 June 2005	827	101,791,794	101,792,621	–	101,792,621
At 31 December 2003	22,596,114	17,570,309	40,166,423	–	40,166,423
Capital contributions from a related party to a subsidiary (unaudited)	–	–	–	14,234,500	14,234,500
Net profit for the period (unaudited)	–	10,313,389	10,313,389	2,189,769	12,503,158
At 30 June 2004 (unaudited)	22,596,114	27,883,698	50,479,812	16,424,269	66,904,081

The accompanying notes form part of the combined financial statements.

4. Combined Cash Flow Statements

	Section C	Year ended 31 December		Six months ended	
				30 June	30 June
		2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Operating activities					
Profit from ordinary activities before taxation		10,607,127	40,378,888	12,644,230	33,696,912
Adjustments for:					
Depreciation		1,645,003	6,130,239	2,423,352	4,662,642
Amortisation of intangible assets		346,000	768,147	313,716	454,430
Amortisation of lease prepayments		175,040	562,750	281,402	347,051
Interest income		(4,015,336)	(3,292,870)	(1,748,755)	(139,300)
Interest charges		4,427,865	5,928,222	2,775,538	3,900,055
(Gain)/loss on disposal of property, plant and equipment		(109,522)	(13,172)	1,473	–
Negative goodwill arising from the acquisition of additional interests in a subsidiary *(see note (ii))*		–	(2,373,312)	–	–
Operating profit before changes in working capital		13,076,177	48,088,892	16,690,956	42,921,790
Increase in inventories		(11,822,924)	(52,035,910)	(44,382,609)	(36,683,717)
Increase in trade and bills receivable		(7,044,470)	(25,422,435)	(8,262,167)	(4,114,229)
(Increase)/decrease in deposits, other receivables and prepayments		(189,553)	435,750	6,137,287	(13,527,663)
Decrease/(increase) in amounts due from related parties		211,209	32,301,856	13,062,720	(7,445,106)
(Increase)/decrease in restricted bank deposits for letters of credit and bills payable		(4,037,885)	3,954,385	711,428	(14,346,500)
Increase/(decrease) in trade and bills payable		12,589,106	(7,014,390)	(8,113,312)	41,988,724
(Decrease)/increase in other payables and accrued expenses		(4,619,268)	8,877,459	920,639	11,617,619
Increase/(decrease) in amounts due to related parties		5,093,704	(10,645,657)	24,598,699	(4,509,257)
Increase in provision for product warranties		475,724	331,976	51,179	189,093
Cash generated from/(used in) operations		3,731,820	(1,128,074)	1,414,820	16,090,754

The accompanying notes form part of the combined financial statements.

	Section C	Year ended 31 December		Six months ended	
				30 June	30 June
		2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Cash generated from/(used in) operations		3,731,820	(1,128,074)	1,414,820	16,090,754
Income tax paid		–	(1,288,049)	–	(410,296)
Net cash from/(used in) operating activities		3,731,820	(2,416,123)	1,414,820	15,680,458
Investing activities					
Payment for acquisition of property, plant and equipment and construction in progress		(7,292,920)	(31,210,926)	(13,918,496)	(7,449,888)
Payment of lease prepayments		–	(1,000,320)	(1,000,320)	–
Payment for investment in a related party	*28(a)(II)*	(26,190,000)	–	–	–
Proceeds from disposal of investment in a related party	*28(a)(II)*	–	26,190,000	–	–
Proceeds from disposal of property, plant and equipment		1,107,649	1,593,201	1,020,621	–
New loans to a related party	*28(a)(II)*	(48,600,000)	–	–	–
Loan repayments from a related party	*28(a)(II)*	30,000,000	78,600,000	27,000,000	–
Interest received		12,854	8,718,336	9,451	953,491
Payment for additional interests in a subsidiary *(see note (ii))*		–	(14,234,500)	–	–
Payments to ultimate shareholders of the Group for interests in a subsidiary		–	(22,596,106)	–	–
Advances made to related parties	*28(a)(II)*	(7,543,959)	(54,541,891)	(43,231,080)	–
Repayments of advances made to related parties	*28(a)(II)*	16,199,333	59,285,850	4,982,958	–
Net cash (used in)/from investing activities		(42,307,043)	50,803,644	(25,136,866)	(6,496,397)

The accompanying notes form part of the combined financial statements.

		Year ended 31 December		Six months ended	
				30 June	30 June
	Section C	2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Financing activities					
Capital contributions from a related party *(see note (i))*		–	92,853	92,853	–
Proceeds from shares issued under a share subscription agreement		–	–	–	15,709,936
Proceeds from new bank loans		84,040,000	79,260,000	20,000,000	45,000,000
Repayment of bank loans		(65,000,000)	(109,040,000)	(62,040,000)	(52,860,000)
Interest paid		(4,427,865)	(5,928,222)	(2,775,538)	(3,900,055)
Advances received from related parties	*28(a)(II)*	34,505,779	270,613,489	76,714,565	–
Repayments of advances received from related parties	*28(a)(II)*	(4,026,688)	(262,160,297)	(435,549)	(6,378,988)
Net cash from/(used in) financing activities		45,091,226	(27,162,177)	31,556,331	(2,429,107)
Net increase in cash and cash equivalents		6,516,003	21,225,344	7,834,285	6,754,954
Cash and cash equivalents at beginning of the year/period		3,785,709	10,301,712	10,301,712	31,527,056
Cash and cash equivalents at end of the year/period		10,301,712	31,527,056	18,135,997	38,282,010

The accompanying notes form part of the combined financial statements.

(i) Capital contributions from a related party

Capital contributions from a related party represent cash received from Xinao Group Shijiazhuang Chemical Machinery Company Limited ("Xinao Shijiazhuang") of RMB92,853 as part of the net assets contributed to Enric Gas Equipment, details of which are described below.

Enric Gas Equipment was established by Xinao Shijiazhuang, a related party controlled by the major shareholder of the Company, and Shijiazhuang BVI as a Sino-foreign equity joint venture enterprise in September 2003 in the PRC. Pursuant to the joint venture agreement and related supplementary agreements, Xinao Shijiazhuang transferred the following assets and liabilities to Enric Gas Equipment as capital contribution on 31 March 2004:

	RMB
Cash and cash equivalents	92,853
Trade and bills receivable	5,301,220
Other receivables and prepayments	19,373,937
Amounts due from related parties	39,669,124
Property, plant and equipment	43,228,743
Construction in progress	9,878,561
Lease prepayments	22,293,824
Intangible assets	5,628,632
Total assets	145,466,894
Bank loans	78,600,000
Trade and bills payable	31,915,716
Other payables and accrued expenses	4,949,924
Amounts due to related parties	15,766,754
Total liabilities	131,232,394
Net assets injected as capital contributions	14,234,500

(ii) This represents the Group's acquisition of the additional interests in Enric Gas Equipment (see Section C, note 25).

The accompanying notes form part of the combined financial statements.

C. NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA and have been consistently applied throughout the Relevant Period.

The following standards have been early adopted at the beginning of the Relevant Period.

- HKFRS 3, Business combinations;
- HKAS 1, Presentation of financial statements;
- HKAS 2, Inventories;
- HKAS 7, Cash flow statements;
- HKAS 8, Accounting policies, changes in accounting estimates and errors;
- HKAS 10, Events after the balance sheet date;
- HKAS 12, Income taxes;
- HKAS 14, Segment reporting;
- HKAS 16, Property, plant and equipment;
- HKAS 17, Leases;
- HKAS 18, Revenue;
- HKAS 19, Employee benefits;
- HKAS 20, Accounting for government grants and disclosure of government assistance;
- HKAS 21, The effect of changes in foreign exchange rates;
- HKAS 23, Borrowing costs;
- HKAS 24, Related party disclosures;
- HKAS 27, Consolidated and separate financial statements;
- HKAS 32, Financial instruments: Disclosure and presentation;
- HKAS 33, Earnings per share;
- HKAS 36, Impairment of assets;
- HKAS 37, Provisions, contingent liabilities and contingent assets;
- HKAS 38, Intangible assets; and
- HKAS 39, Financial instruments: Recognition and measurement.

The Financial Information also complies with the disclosure requirements of the Listing Rules of the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") as applicable to Accountants' Reports included in Listing Documents.

(b) Basis of preparation

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the Relevant Period. Actual results could differ from those estimates.

(c) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

An investment in a controlled subsidiary is consolidated unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the combined balance sheet at fair value with changes in fair value recognised in the combined income statement as they arise.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the combined financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Property, plant and equipment

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation (see below) and impairment losses (see note 1(i)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the period of construction and where relevant the costs of dismantling and removing the items and restoring the site on which they are located.

(ii) Depreciation is calculated to write off the cost of an item of property, plant and equipment on a straight-line basis over its estimated useful lives as follows:

Buildings	30 years
Machinery	10 years
Motor vehicles	6 years
Office equipment	5 to 10 years

(iii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(v) Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less impairment losses (see note 1(i)). Cost comprises direct and indirect costs, related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to the property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

(e) Intangible assets

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see below) and impairment losses (see note 1(i)).

(iii) Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(iv) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives of 10 years.

(f) Goodwill

All business combinations, other than combination under common control, are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses (see note 1(i)). Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(g) Lease prepayments

Lease prepayments represent payments for land use rights to the PRC authorities. Land use rights are carried at cost and are charged to the income statement on a straight-line basis over the respective periods of the rights.

(h) Operating lease charges

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(i) Impairment of assets

The carrying amounts of the Group's assets, other than inventories (see note 1(k)) and deferred tax assets (see note 1(n)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses, other than goodwill, is limited to the asset's carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised.

(j) Long-term investments

Unquoted equity investments held on a continuing basis for an identified long-term purpose are stated in the balance sheet at cost less impairment losses (see note 1(i)).

Profits or losses on disposal of investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) *Employee benefits*

(i) Salaries and annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(n) *Income tax*

(i) Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Government grants

Unconditional government grants are recognised in the income statement as revenue when the grants become receivable.

(q) Translation of foreign currencies

Foreign currency transactions during the period are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency transactions are dealt with in the income statement.

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

For the purposes of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purpose of this report. As the Group's operations are predominantly in the PRC, no geographical segment information is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories and trade and other receivables. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. Turnover

The Group is principally engaged in the design, manufacture and sale of specialised gas equipment and the provision of integrated business solutions in the gas energy industry (which only included sales of sets of equipment in the Relevant Period). Turnover represents the sales value of goods sold after allowances for returns of goods, excludes value added or other sales taxes and is after the deduction of any trade discounts.

The Group's core products are pressure vessels, compressors and integrated business solutions for gas equipment.

3. Other revenue

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004 (Unaudited)**	**2005**
	RMB	*RMB*	*RMB*	*RMB*
Government grants *(see note (i))*	1,593,600	730,029	672,029	–
Other operating revenue *(see note (ii))*	237,140	1,086,304	214,780	435,990
Interest income from loans to related parties	4,002,482	3,222,895	1,739,304	–
Interest income from bank deposits	12,854	69,975	9,451	139,300
	5,846,076	5,109,203	2,635,564	575,290

Notes:

(i) Government grants represent various forms of incentives and subsidies given to Enric Compressor by the local PRC Government. These grants were for the purposes of promoting certain industries in the PRC as well as encouraging domestic enterprises to focus more on technological advancement. The grant amounts are determined and paid according to the prevailing policies of the local PRC Government. There is no assurance that the Group will continue to receive such government grants in the future.

(ii) Other operating revenue consists mainly of income earned from the sale of steel materials left-over from production.

4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(i) Finance costs

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004 (Unaudited)**	**2005**
	RMB	*RMB*	*RMB*	*RMB*
Interest on bank loans	4,427,865	6,186,985	2,857,114	3,900,055
Less: borrowing costs capitalised*	–	(258,763)	(81,576)	–
	4,427,865	5,928,222	2,775,538	3,900,055
Foreign exchange (gain)/loss	(6,163)	80,509	(23,520)	10,904
Finance charges	21,868	73,358	28,789	137,833
	4,443,570	6,082,089	2,780,807	4,048,792

* *The borrowing costs have been capitalised at an annual rate of 5.3% and 5.3% (unaudited) for the year ended 31 December 2004 and the six months ended 30 June 2004 respectively.*

(ii) *Staff costs#*

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Salaries, wages and allowances	10,028,443	20,767,235	8,521,761	14,235,463
Contributions to retirement schemes *(note 26)*	885,233	2,814,898	843,040	1,260,737
	10,913,676	23,582,133	9,364,801	15,496,200

(iii) *Other items*

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Cost of inventories#	40,771,008	177,790,799	56,169,505	143,756,435
Auditors' remuneration – audit services	25,020	30,000	22,000	24,000
Depreciation of property, plant and equipment#	1,645,003	6,130,239	2,423,352	4,662,642
Amortisation of intangible assets	346,000	768,147	313,716	454,430
Amortisation of lease prepayments	175,040	562,750	281,402	347,051
(Gain)/loss on disposal of property, plant and equipment	(109,522)	(13,172)	1,473	–
Provision for doubtful debts	1,087,082	2,189,091	493,599	1,845,724
Research and development expenses	1,885,313	4,241,777	1,335,436	2,390,821
Operating lease charges for property rental	–	238,518	–	964,427
Provision for product warranties	1,000,015	1,761,556	595,526	1,119,950

\# *Cost of inventories includes RMB4,517,087, RMB12,804,608, RMB4,964,258 (unaudited) and RMB9,427,499 for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005, respectively, relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 4(ii) for each of these types of expenses.*

5. Taxation

(i) Taxation in the combined income statements represents:

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Current taxation for the year/period	–	1,814,458	141,072	1,375,662

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the Relevant Period.

Profits of the Group's subsidiaries in the PRC, namely Enric Compressor, Enric Gas Equipment and Enric Integration, are subject to PRC income taxes.

The statutory state income tax rates applicable to Enric Compressor, Enric Gas Equipment and Enric Integration are 30%, 24% and 30% respectively. As Enric Compressor, Enric Gas Equipment and Enric Integration are foreign-invested enterprises, commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, each of Enric Compressor, Enric Gas Equipment and Enric Integration is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in state income tax rate for the third to fifth years.

The statutory local income tax rate applicable to Enric Compressor, Enric Gas Equipment and Enric Integration is 3%. Commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, Enric Gas Equipment is entitled to a tax holiday of a tax-free period for the first to fifth years and a 50% reduction in local income tax rate for the sixth to tenth years. Enric Compressor and Enric Integration are exempted from local income taxes.

Enric Compressor was in the tax holiday of a tax-free period in respect of PRC state income tax for the year ended 31 December 2003. It is subject to PRC state income tax at 15% for the year ended 31 December 2004 and the six months ended 30 June 2005.

Based on Notice [2004] No. 247 dated 13 October 2004 and Notice [2005] No.16 dated 17 January 2005 issued by the Anhui State Tax Bureau, Enric Compressor is entitled to state income tax reduction amounting to RMB2,035,384 for the year ended 31 December 2004 as an incentive for purchase of domestically manufactured equipment.

No provision for PRC income tax has been made by Enric Gas Equipment and Enric Intergration as they are in the tax holiday of a tax-free period in respect of PRC income tax for the period from the respective dates of their establishment to 30 June 2005.

(ii) Reconciliation between income tax expenses and accounting profit:

	Year ended 31 December		**Six months ended 30 June**	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Accounting profit before tax	10,607,127	40,378,888	12,644,230	33,696,912
Taxation using applicable tax rates	3,182,138	11,886,543	3,728,766	9,767,729
Tax effect of tax holiday granted	(3,182,138)	(7,969,822)	(2,286,696)	(8,808,589)
Tax incentive granted	–	(2,035,384)	(1,496,068)	–
Tax effect of non-taxable income	–	(640,794)	–	–
Tax effect of non-deductible expenses	–	573,915	195,070	416,522
Income tax expense	–	1,814,458	141,072	1,375,662

(iii) The Group had no significant unprovided deferred taxation as at 31 December 2003, 31 December 2004 and 30 June 2005.

6. Directors' remuneration

No directors' remuneration was incurred for the year ended 31 December 2003.

Details of directors' remuneration for the year ended 31 December 2004 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Executive directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	51,362	–	–	51,362
Yu Jianchao	–	–	–	–	–
Zhao Xiaowen	–	51,232	1,684	–	52,916
Zhou Kexing	–	37,833	–	–	37,833
Non-executive director:					
Zhao Baoju	–	–	–	–	–
Independent non-executive directors:					
Gao Zhengping	–	–	–	–	–
Shou Binan	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–
Total	–	140,427	1,684	–	142,111

Details of directors' remuneration for the six months ended 30 June 2004 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Executive directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	6,935	–	–	6,935
Yu Jianchao	–	–	–	–	–
Zhao Xiaowen	–	19,680	823	–	20,503
Zhou Kexing	–	8,039	–	–	8,039
Non-executive director:					
Zhao Baoju	–	–	–	–	–
Independent non-executive directors:					
Gao Zhengping	–	–	–	–	–
Shou Binan	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–
Total	–	34,654	823	–	35,477

Details of directors' remuneration for the six months ended 30 June 2005 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Executive directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	17,063	43,807	–	–	60,870
Yu Jianchao	–	–	–	–	–
Zhao Xiaowen	8,507	28,879	3,032	–	40,418
Zhou Kexing	10,732	41,703	–	–	52,435
Non-executive director:					
Zhao Baoju	–	–	–	–	–
Independent non-executive directors:					
Gao Zhengping	–	–	–	–	–
Shou Binan	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–
Total	36,302	114,389	3,032	–	153,723

During the Relevant Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Relevant Period.

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments, nil, two, one and three for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005 respectively, are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other individuals are as follows:

	Year ended 31 December		Six months ended 30 June	
	2003	2004	2004 (Unaudited)	2005
	RMB	*RMB*	*RMB*	*RMB*
Salaries, allowances and benefits in kind	110,812	208,208	102,392	285,631
Retirement scheme contributions	2,793	2,203	1,017	6,470
	113,605	210,411	103,409	292,101

The emoluments of the five, three, four and two individuals, for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005 respectively, with the highest emoluments are within the following bands:

	Year ended 31 December		Six months ended 30 June	
	2003	2004	2004 (Unaudited)	2005
	RMB	*RMB*	*RMB*	*RMB*
HK$ Nil – HK$1,000,000	5	3	4	2

During the Relevant Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. Dividends

No dividend has been paid or declared by the Company since its incorporation.

9. Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the parent for each of the years ended 31 December 2003 and 2004 and each of the six months ended 30 June 2004 and 2005 and the 260,160,000 ordinary shares in issue and issuable, comprising 880 shares in issue as at the date of the Prospectus and 260,159,120 shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" set out in Appendix VII to the Prospectus, as if these shares were outstanding throughout the Relevant Period.

10. Property, plant and equipment

	Buildings	Machinery	Motor vehicles	Office equipment	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Cost					
Balance at 1 January 2003	5,482,253	602,817	1,199,909	1,149,262	8,434,241
Additions	–	351,990	504,137	1,055,449	1,911,576
Disposals	(1,316,950)	(126,635)	(107,200)	–	(1,550,785)
Transfers from construction in progress	384,597	–	–	305,293	689,890
Balance at 31 December 2003	4,549,900	828,172	1,596,846	2,510,004	9,484,922
Balance at 1 January 2004	4,549,900	828,172	1,596,846	2,510,004	9,484,922
Additions					
– capital contributions	18,521,681	24,087,652	–	619,410	43,228,743
– others	2,687,974	4,876,963	1,264,497	681,762	9,511,196
Disposals	(1,029,246)	(550,120)	(432,000)	(3,702)	(2,015,068)
Transfers from construction in progress	12,179,380	20,939,528	–	–	33,118,908
Balance at 31 December 2004	36,909,689	50,182,195	2,429,343	3,807,474	93,328,701
Balance at 1 January 2005	36,909,689	50,182,195	2,429,343	3,807,474	93,328,701
Additions	560,755	2,045,499	879,812	550,968	4,037,034
Transfers from construction in progress	838,100	160,507	–	–	998,607
Balance at 30 June 2005	38,308,544	52,388,201	3,309,155	4,358,442	98,364,342

	Buildings	Machinery	Motor vehicles	Office equipment	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Accumulated depreciation					
Balance at 1 January 2003	(414,145)	(217,634)	(217,590)	(171,746)	(1,021,115)
Charge for the year	(929,294)	(171,509)	(303,290)	(240,910)	(1,645,003)
Written back on disposal	395,285	61,976	95,397	–	552,658
Balance at 31 December 2003	(948,154)	(327,167)	(425,483)	(412,656)	(2,113,460)
Balance at 1 January 2004	(948,154)	(327,167)	(425,483)	(412,656)	(2,113,460)
Charge for the year	(1,702,852)	(3,727,274)	(273,994)	(426,119)	(6,130,239)
Written back on disposal	23,525	197	410,400	917	435,039
Balance at 31 December 2004	(2,627,481)	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Balance at 1 January 2005	(2,627,481)	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Charge for the period	(1,207,395)	(2,890,971)	(270,700)	(293,576)	(4,662,642)
Balance at 30 June 2005	(3,834,876)	(6,945,215)	(559,777)	(1,131,434)	(12,471,302)
Net book value					
At 31 December 2003	3,601,746	501,005	1,171,363	2,097,348	7,371,462
At 31 December 2004	34,282,208	46,127,951	2,140,266	2,969,616	85,520,041
At 30 June 2005	34,473,668	45,442,986	2,749,378	3,227,008	85,893,040

11. Construction in progress

	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2005
	RMB	*RMB*	*RMB*
Opening balance	1,204,545	5,895,999	4,355,382
Capital contributions	–	9,878,561	–
Additions	5,381,344	21,699,730	3,412,854
Transfers to property, plant and equipment	(689,890)	(33,118,908)	(998,607)
Ending balance	5,895,999	4,355,382	6,769,629

12. Lease prepayments

	Year ended 31 December 2003 RMB	Year ended 31 December 2004 RMB	Six months ended 30 June 2005 RMB
Cost			
Opening balance	8,834,855	8,834,855	32,128,999
Additions	–	1,000,320	–
Capital contributions	–	22,293,824	–
Ending balance	8,834,855	32,128,999	32,128,999
Accumulated amortisation			
Opening balance	(130,622)	(305,662)	(868,412)
Charge for the year/period	(175,040)	(562,750)	(347,051)
Ending balance	(305,662)	(868,412)	(1,215,463)
Net book value			
At end of the year/period	8,529,193	31,260,587	30,913,536

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights have remaining terms ranging from 44 to 49 years as at 30 June 2005.

13. Intangible assets

	Year ended 31 December 2003 RMB	Year ended 31 December 2004 RMB	Six months ended 30 June 2005 RMB
Cost			
Opening balance	3,460,000	3,460,000	9,088,632
Capital contributions	–	5,628,632	–
Ending balance	3,460,000	9,088,632	9,088,632
Accumulated amortisation			
Opening balance	(259,500)	(605,500)	(1,373,647)
Charge for the year/period	(346,000)	(768,147)	(454,430)
Ending balance	(605,500)	(1,373,647)	(1,828,077)
Net book value			
At end of the year/period	2,854,500	7,714,985	7,260,555

Intangible assets mainly represent technical know-how used in the production of compressors and provision of integrated business solutions for gas equipment.

14. Long-term investment

	At 31 December 2003 RMB	At 31 December 2004 RMB	At 30 June 2005 RMB
Unlisted, at cost	26,190,000	–	–

Details of the investment are as follows:

Name of company	Place and date of establishment	Principal activities	Registered capital	The Group's equity interest %
Xinao Group Company Limited	The PRC 5 August 1997	Investment holding	RMB110,000,000	12.27%

The above investment represents unquoted shares purchased by Enric Compressor during the year ended 31 December 2003. On 10 June 2004, Enric Compressor sold this investment to Langfang Guofu Investment Limited, a related party controlled by the major shareholder of the Company, at cost.

Xinao Group Company Limited is a related party controlled by the major shareholders of the Company.

15. Inventories

	At 31 December 2003 RMB	At 31 December 2004 RMB	At 30 June 2005 RMB
Raw materials	9,401,416	39,168,216	63,346,100
Work in progress	8,958,364	17,220,324	31,219,012
Finished goods	9,256,076	23,263,226	21,770,371
	27,615,856	79,651,766	116,335,483

16. Trade and bills receivable

All of the trade and bills receivable (net of allowance for bad and doubtful debts) are expected to be recovered within one year.

An ageing analysis of trade and bills receivable is as follows:

	At 31 December 2003 RMB	At 31 December 2004 RMB	At 30 June 2005 RMB
Aged within 3 months	10,836,786	30,528,685	35,362,245
Aged between 3 to 6 months	4,579,432	9,526,028	9,715,080
Aged between 6 months to 1 year	1,798,321	8,741,917	6,833,534
Aged over 1 year	858,436	–	1,000,000
	18,072,975	48,796,630	52,910,859

In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of three to twelve months are available for certain customers with well-established trading and payment records on a case-by-case basis.

17. Deposits, other receivables and prepayments

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Advances to suppliers	1,356,592	16,145,236	25,796,571
Listing expenses	–	2,382,865	4,838,342
Deposits for construction work and equipment purchase	300,950	1,898,323	2,788,957
Staff advances	801,465	555,408	895,250
Others	433,460	848,822	1,039,197
	2,892,467	21,830,654	35,358,317

18. Cash at bank and in hand

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Cash in hand and demand deposits	10,301,712	31,527,056	38,282,010
Restricted bank deposits for letters of credit and bills payable	4,037,885	83,500	14,430,000
	14,339,597	31,610,556	52,712,010

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC Government.

19. Bank loans

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Bank loans – guaranteed	84,040,000	132,860,000	125,000,000

The above bank loans were guaranteed by Xinao Group Company Limited, except for bank loans of RMB10 million as at 30 June 2005 which were guaranteed by Enric Compressor. The annual rate of interest charged on the bank loans ranged from 5.3% to 5.5%, 5.1% to 6.1%, and 5.6% to 6.1% for each of the years ended 31 December 2003 and 2004 and the six months ended 30 June 2005 respectively.

20. Trade and bills payable

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Trade creditors	9,059,440	33,748,715	44,637,439
Bills payable	7,787,949	8,000,000	39,100,000
	16,847,389	41,748,715	83,737,439

An ageing analysis of trade payables of the Group is as follows:

	At 31 December		At 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Due within 3 months or on demand	7,584,825	18,399,781	25,809,643
Due after 3 months but within 6 months	8,419,401	17,461,894	44,023,448
Due after 6 months but within 1 year	380,069	3,879,545	10,642,216
Due over 1 year	463,094	2,007,495	3,262,132
	16,847,389	41,748,715	83,737,439

All of the trade and other payables are expected to be settled within one year.

21. Other payables and accrued expenses

	At 31 December		At 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Advances from customers	2,529,301	15,804,267	20,700,469
Advances from a third party	3,996,200	–	–
Employees' bonus and welfare	2,228,109	3,907,781	5,346,303
Other taxes payable	1,363,958	1,555,257	5,749,785
Payable for construction work	249,552	2,144,820	1,682,710
Other surcharges payable	230,877	427,150	556,411
Accrued expenses	98,213	133,417	1,640,407
Others	256,257	807,158	721,384
	10,952,467	24,779,850	36,397,469

22. Provision for product warranties

	Year ended 31 December		Six months ended 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Opening balance	104,919	580,643	912,619
Provisions made	1,000,015	1,761,556	1,119,950
Provisions utilised	(524,291)	(1,429,580)	(930,857)
Ending balance	580,643	912,619	1,101,712

Under the normal terms of the Group's sales agreements, the Group will rectify any product defects arising within one year of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the one year prior to the balance sheet date.

23. Paid-in capital

For the purposes of this report, the balance as at 31 December 2003 represents the aggregate paid-in capital of EIGL and Enric Compressor, whilst the balance as at 31 December 2004 and 30 June 2005 represents the aggregate paid-in capital of the Company and EIGL. The change in the paid-in capital balance for the year ended 31 December 2004 reflects the Group's purchase of the equity interests in Enric Compressor from the ultimate shareholders of the Group on 8 July 2004. The change in the paid-in capital balance for the six months ended 30 June 2005 reflects the increase of EIGL's issued share capital from 1 share to 100 shares of US$1 each on 31 January 2005 in accordance with a share subscription agreement entered into between Symbiospartners Equity Private Limited ("Symbiospartners"), EIGL and Xinao Group International Investment Limited (formerly known as Easywin Enterprises Limited) on 21 January 2005 (see note 24 (i)).

24. Reserves

	Share premium	General reserve fund	Enterprise expansion fund	Retained profits	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	Note (i)	*Note (ii)*	*Note (iii)*		
At 1 January 2003	–	–	–	6,963,182	6,963,182
Profit for the year	–	–	–	10,607,127	10,607,127
At 31 December 2003	–	–	–	17,570,309	17,570,309
Profit for the year	–	–	–	36,191,118	36,191,118
Transfer between reserves	–	2,477,817	–	(2,477,817)	–
At 31 December 2004	–	2,477,817	–	51,283,610	53,761,427
Share premium	15,709,117	–	–	–	15,709,117
Profit for the period	–	–	–	32,321,250	32,321,250
Transfer between reserves	–	3,458,308	–	(3,458,308)	–
At 30 June 2005	15,709,117	5,936,125	–	80,146,552	101,791,794

(i) Share premium

On 21 January 2005, a share subscription agreement was entered into between Symbiospartners, as subscriber, EIGL, and Xinao Group International Investment Limited as warrantor, pursuant to which 10 shares of US$1 each, representing 10% of the enlarged issued share capital of EIGL, were allotted and issued on 31 January 2005 to Symbiospartners at a total subscription price of US$1,900,000. In addition, 89 shares of EIGL were issued to Xinao Group International Investment Limited at par value. Accordingly, the share premium arising from the share subscription is US$1,899,990. Further details of the above transaction are set out in Appendix VII to the Prospectus.

(ii) General reserve fund

The Group's wholly owned subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with PRC accounting rules and regulations, to the general reserve fund until the balance reaches 50% of the registered capital.

The general reserve fund can be used for the subsidiaries' working capital purposes and to make up for previous years' losses, if any. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

(iii) Enterprise expansion fund

The Group's wholly owned subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with PRC rules and regulations, to the enterprise expansion fund. The percentage of this appropriation is decided by the directors of the subsidiaries. No appropriation to the enterprise expansion fund was made during the Relevant Period.

The enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

(iv) Distributable reserves

The Company was incorporated on 28 September 2004 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2004.

On the basis set out in Section A, the aggregate amounts of distributable reserve at 31 December 2003, 31 December 2004 and 30 June 2005 of the companies now comprising the Group were RMB18 million, RMB51 million and RMB80 million respectively.

25. Acquisition of additional interests in a subsidiary

The Group had 30% equity interests in Enric Gas Equipment since its establishment until the Group acquired the 70% additional interests in Enric Gas Equipment for a cash consideration of RMB14,234,500. The fair value of the net assets acquired is as follows:

	RMB
Net assets acquired	
Property, plant and equipment	32,632,429
Construction in progress	10,413,000
Lease prepayments	15,738,666
Intangible assets	3,546,039
Inventories	25,321,059
Trade and other receivables	10,813,338
Amounts due from related parties	48,212,613
Cash at bank and in hand	404,128
Bank loans	(44,520,000)
Trade and other payables	(14,876,668)
Amounts due to related parties	(71,076,792)
Net identifiable assets and liabilities	16,607,812
Negative goodwill arising from the acquisition of additional interests in a subsidiary	(2,373,312)
Total purchase price paid, satisfied in cash	14,234,500

26. Retirement benefits

The subsidiaries operating in the PRC, namely Enric Compressor, Enric Gas Equipment and Enric Integration, participate in government pension schemes whereby Enric Compressor, Enric Gas Equipment and Enric Integration are required to pay annual contributions at the rates of 25%, 20% and 20% respectively, of the basic salaries of their employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

The Group does not operate any other schemes for retirement benefits provided to the Group's employees.

27. Commitments

(a) Capital commitments in respect of capital expenditure at 31 December 2003, 31 December 2004 and 30 June 2005 not provided for in the Financial Information are as follows:

	At 31 December		**At 30 June**
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Contracted for	220,600	486,000	3,948,000
Authorised but not contracted for	–	–	1,852,742
	220,600	486,000	5,800,742

(b) The total future minimum lease payments under non-cancellable operating leases payable at 31 December 2003, 31 December 2004 and 30 June 2005 are as follows:

	At 31 December		**At 30 June**
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Within 1 year	–	1,495,082	1,402,804
After 1 year but within 5 years	–	910,000	663,948
	–	2,405,082	2,066,752

The Group leases a number of properties and items of plant and machinery and office equipment under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

28. Material related party transactions

(a) Transactions

			Year ended 31 December		Six months ended 30 June	
			2003	2004	2004 (Unaudited)	2005
		Notes	*RMB*	*RMB*	*RMB*	*RMB*
(I)	*Trade*					
	Sales	*(i)*	1,831,438	84,582,559	29,577,891	47,610,967
	Purchases	*(ii)*	5,184,995	64,851,744	42,087,203	73,282
(II)	*Non-Trade*					
	Rental of property and office equipment and property management fee	*(iii)*	–	130,000	–	460,727
	Loans to a related party	*(iv)*	48,600,000	–	–	–
	Interest income on loans to a related party	*(iv)*	4,002,482	3,222,895	1,739,304	–
	Repayment of loans to a related party and related interest	*(iv)*	30,000,000	87,248,361	27,000,000	814,191
	Payment for investment in a related party	*(v)*	26,190,000	–	–	–
	Disposal of investment in a related party	*(vi)*	–	26,190,000	26,190,000	–
	Payment for interests in subsidiaries	*(vii)*	–	36,830,606	–	–
	Directors' remuneration and expenses	*(viii)*	–	142,111	–	–
	Cash advances to related parties	*(ix)*	7,543,959	54,541,891	43,231,080	–
	Repayments of cash advances to related parties	*(ix)*	16,199,333	59,285,850	4,982,958	–
	Cash advances from related parties	*(x)*	34,505,779	270,613,489	76,714,565	–
	Repayments of cash advances from related parties	*(x)*	4,026,688	262,160,297	435,549	6,378,988

Notes:

(i) Sales to related parties mainly represent the sale of compressors, pressure vessels and integrated business solutions for gas equipment. The selling prices are determined based on prevailing price of similar products to independent third party customers.

(ii) Purchases from related parties mainly represent purchases of raw materials and accessories for production.

(iii) These relate to:

– the lease of property and office equipment by the Group from Xinao Group Solar Energy Company Limited, a related party controlled by the major shareholder of the Company, for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rental of RMB520,000;

– property management services provided by Langfang Xinao Property Management Company Limited, a related party controlled by the major shareholder of the Company, to the Group for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rate of RMB180,000; and

– the lease of property and office equipment by the Group from Xinao Gas Investment Group Limited, a related party controlled by the major shareholder of the Company, for a term of 3 years from 1 February 2005 to 31 January 2008, at an annual rental of HK$455,544.

(iv) These relate to loans to Xinao Group Company Limited. These loans carried interest at rates ranging from 5.1% to 6.1% per annum and were fully settled on 9 December 2004.

(v) This represents purchase of equity interest in Xinao Group Company Limited by Enric Compressor during the year ended 31 December 2003.

(vi) This represents disposal of the investment referred to in (v) above by Enric Compressor to Langfang Guofu Investment Limited, a related party controlled by the major shareholder of the Company, during the year ended 31 December 2004.

(vii) This represents purchase of equity interests in Enric Compressor from the ultimate shareholders of the Group during the year ended 31 December 2004, and the Group's acquisition of the additional interests in Enric Gas Equipment.

(viii) This represents the directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.

(ix) Cash advances to related parties for each of the years ended 31 December 2003 and 2004 and for the six months ended 30 June 2004 are as follows:

	Year ended 31 December		**Six months ended 30 June**
	2003	**2004**	**2004**
			(Unaudited)
	RMB	*RMB*	*RMB*
Xinao Group Company Limited	2,500,000	13,074,400	6,074,650
Xinao Group Solar Energy Company Limited	–	4,496,327	1,430,919
Bengbu Xinao Property Company Limited	1,048,858	–	–
Shijiazhuang Radiation Equipment Company Limited	–	2,992,053	2,992,053
Xinao Group Shijiazhuang Chemical Machinery Company Limited	–	33,423,600	32,190,166
Xinao Group International Investment Limited	3,995,101	–	–
The Company's major shareholder	–	555,511	543,292
Total	7,543,959	54,541,891	43,231,080

The above entities are companies controlled by the Company's major shareholder, who is also a director of the Company.

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

(x) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment.

(xi) The Group had bank loans of RMB84,040,000 and RMB132,860,000 and RMB115,000,000 guaranteed by Xinao Group Company Limited as at 31 December 2003, 31 December 2004 and 30 June 2005 respectively (see note 19).

(xii) Particulars of the directors' emoluments are disclosed in note 6.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

The directors of the Company have confirmed that the above transactions with related parties, except for sales, rental of property and office equipment and property management fee, will not continue in the future after the listing of the shares of the Company.

(b) *Balances with related parties*

(I) *Amounts due from related parties are as follows:*

			At 31 December		At 30 June
			2003	**2004**	**2005**
		Notes	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	865,700	8,232,968	15,678,074
(B)	Non-trade balances				
	• Loans	*(ii)*	78,600,000	–	–
	• Interest receivables from loans	*(ii)*	6,239,657	814,191	–
	• Cash advances	*(iii)*	4,743,959	–	–
	Total		90,449,316	9,047,159	15,678,074

Notes:

(i) This represents the sales of compressors, pressure vessels and integrated business solutions to related parties.

(ii) These relate to loans to Xinao Group Company Limited. These loans carried interest at annual rates ranging from 5.1% to 6.1% for each of the years ended 31 December 2003 and 2004. The maximum balance of the loans to this related party, which is controlled by the Company's major shareholder who is also a director of the Company, and the related interest receivables were in aggregate RMB84,839,657, RMB 88,062,552 and RMB 814,191 for each of the years ended 31 December 2003 and 2004 and the six months ended 30 June 2005, respectively.

All these loans were settled on 9 December 2004.

(iii) Cash advances to related parties are as follows:

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Bengbu Xinao Property Company Limited	748,858	–	–
Xinao Group International Investment Limited	3,995,101	–	–
Total	4,743,959	–	–

The above entities are companies controlled by the Company's major shareholder, who is also a director of the Company. The maximum balances of these cash advances during each of the years ended 31 December 2003 and 2004 and the six months ended 30 June 2005 are as follows:

	Year ended 31 December		Six months ended 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Xinao Group Company Limited	14,500,000	13,074,400	–
Xinao Group Solar Energy Company Limited	1,399,333	4,496,327	–
Bengbu Xinao Property Company Limited	1,048,858	748,858	–
Shijiazhuang Radiation Equipment Company Limited	–	2,992,053	–
Xinao Group Shijiazhuang Chemical Machinery Company Limited	–	33,423,600	–
Xinao Group International Investment Limited	3,995,101	3,995,101	–
The Company's major shareholder	–	555,511	–

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

(II) Amounts due to related parties are as follows:

			At 31 December		At 30 June
			2003	**2004**	**2005**
		Notes	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	5,398,647	10,247,633	6,010,487
(B)	Non-trade balances				
	• Rental payable	*(ii)*	–	130,000	–
	• Directors' remuneration and expenses	*(iii)*	–	142,111	–
	• Cash advances	*(iv)*	46,225,796	54,678,988	48,300,000
	Total		51,624,443	65,198,732	54,310,487

Notes:

(i) This represents purchases of raw materials and accessories for production and receipts in advance for sale of goods.

(ii) This represents rental payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.

(iii) This represents the directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.

(iv) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment. The balance as at 30 June 2005, taking into account subsequent settlement, will be capitalised upon the capitalisation issue as detailed in the paragraph headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" set out in Appendix VII to the Prospectus.

29. Financial instruments

The Group's financial assets include cash and cash equivalents, trade and bills receivable, other receivables and amounts due from related parties. The Group's financial liabilities include bank loans, trade and bills payable, other payables and amounts due to related parties.

The Group does not hold nor has issued financial instruments for trading purposes. Exposure to credit, interest, and currency risks arises in the normal course of the Group's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral for financial assets.

At the balance sheet dates, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Group's combined balance sheets.

(b) Interest rate risk

The rates of interest and terms of repayment of the Group's bank loans are disclosed in note 19.

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by PBOC that are determined largely by supply and demand.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through PBOC with government approval.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than Renminbi, primarily US Dollars. Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(d) Fair value

The carrying amounts of the significant financial assets and liabilities approximate their respective fair values as at 31 December 2003, 31 December 2004 and 30 June 2005.

(i) Cash and cash equivalents, trade and bills receivable, other receivables, trade and bills payable, other payables and amounts due from/to related parties

The carrying values approximate their fair values because of the short maturities of these items.

(ii) Bank loans

The carrying amount of bank loans approximates their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

30. Segment reporting

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system. As the Group mainly operates in the PRC, no geographical segment information is presented.

The business segment of the Group comprises:

(i) the design, manufacture and sale of compressors;

(ii) the design, manufacture and sale of pressure vessels; and

(iii) the design, manufacture and sale of integrated business solutions.

	Year ended 31 December 2003					Year ended 31 December 2004				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Revenue from external customers	68,615,843	327,580	–	–	68,943,423	116,079,063	120,547,681	22,270,778	(6,521,824)	252,375,698
Segment result	14,990,659	60,038	–	–	15,050,697	25,032,716	10,856,575	9,342,429	(733,969)	44,497,751
Unallocated operating income and expenses					–					1,963,226
Profit from operations					15,050,697					46,460,977
Finance costs					(4,443,570)					(6,082,089)
Taxation					–					(1,814,458)
Profit from ordinary activities after taxation					10,607,127					38,564,430
Depreciation and amortisation for the year	2,159,942	6,101	–			2,168,352	4,932,679	360,105		
Segment assets	193,870,232	266,669	–	–	194,136,901	162,604,728	146,767,706	28,207,573	(48,536,577)	289,043,430
Unallocated assets					10,074,464					30,744,330
Total assets					204,211,365					319,787,760
Segment liabilities	153,971,303	442	–	–	153,971,745	103,350,952	15,923,051	226,898	(47,802,608)	71,698,293
Unallocated liabilities					10,073,197					194,328,032
Total liabilities					164,044,942					266,026,325
Capital expenditure incurred during the year	7,292,920	–	–			10,779,926	19,450,891	1,980,429		

	Six months ended 30 June 2004 (Unaudited)					Six months ended 30 June 2005				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined	Com-pressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Revenue from external customers	50,692,836	25,666,060	7,374,484	(854,727)	82,878,653	60,037,304	110,461,591	39,526,810	(301,452)	209,724,253
Segment result	11,514,063	861,404	3,224,466	–	15,599,933	8,798,656	18,917,983	10,926,929	(276,955)	38,366,613
Unallocated operating income and expenses					(174,896)					(620,909)
Profit from operations					15,425,037					37,745,704
Finance costs					(2,780,807)					(4,048,792)
Taxation					(141,072)					(1,375,662)
Profit from ordinary activities after taxation					12,503,158					32,321,250
Depreciation and amortisation for the period	1,430,325	1,252,059	336,086			1,481,438	3,390,548	592,137		
Segment assets						169,411,419	182,022,278	63,656,876	(62,295,673)	352,794,900
Unallocated assets										51,036,603
Total assets										403,831,503
Segment liabilities						105,383,472	113,181,298	24,372,242	(62,018,718)	180,918,294
Unallocated liabilities										121,120,588
Total liabilities										302,038,882
Capital expenditure incurred during the period						2,049,527	3,955,880	1,444,481		

31. Balance sheet of the Company

The Company was incorporated on 28 September 2004 and has not carried out any business since the date of its incorporation. As at 30 June 2005, the Company had cash balance of HK$0.01 and paid-in capital of HK$0.01.

On the basis set out in Section A above, the net assets of the Company at 30 June 2005 amounted to RMB104 million and were represented by its investments in subsidiaries.

32. Ultimate holding company

The directors consider the ultimate holding company of the Company at 30 June 2005 to be Xinao Group International Investment Limited, which is incorporated in the British Virgin Islands.

D. SUBSEQUENT EVENTS

The following transactions took place subsequent to 30 June 2005:

1. Share option scheme

Pursuant to the written resolutions of the Company's shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively, the Company has adopted the Pre-IPO Share Option Plan and conditionally adopted the Share Option Scheme. The principal terms of the Pre-IPO Share Option Plan and the Share Option Scheme are set out in Appendix VII to the Prospectus.

2. Convertible bond subscription agreement

Pursuant to a convertible bond subscription agreement dated 29 August 2005, EIGL issued to Investec Bank (UK) Limited ("Investec") convertible redeemable bonds in the aggregate principal amount of US$5,000,000 and the convertible redeemable bonds will be mandatorily converted to the Company's shares in full subject to the satisfaction of certain conditions. Further details of the above transaction, including the conditions for conversion, are set out in the section headed "Financial investor" in the Prospectus.

3. Group reorganisation

On 26 September 2005, the Group completed the Reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

4. Valuation of properties

For the purpose of the listing of the Company's shares on GEM of the Stock Exchange, the properties of the Group were revalued as at 31 August 2005 by an independent firm of surveyors, Sallmanns (Far East) Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB35 million from the carrying amount of the relevant assets at that date. According to the Group's accounting policy, the revaluation surplus will not be recorded in the Group's financial statements. If the revaluation surplus were to be included in the Group's financial statements, additional depreciation charge would be approximately RMB2 million per annum. Details of the valuation are set out in the professional valuers' certificate in Appendix V to the Prospectus.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2005.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from Xinao Shijiazhuang's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 October 2005

The Directors
Xinao Group Shijiazhuang Chemical Machinery Company Limited
China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Xinao Group Shijiazhuang Chemical Machinery Company Limited ("Xinao Shijiazhuang") and its subsidiaries (hereinafter collectively referred to as the "Xinao Shijiazhuang Group") including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Xinao Shijiazhuang Group for the year ended 31 December 2003 and the three months ended 31 March 2004 (the "Relevant Period") and the consolidated balance sheets of the Xinao Shijiazhuang Group and the balance sheets of Xinao Shijiazhuang as at 31 December 2003 and 31 March 2004, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of Enric Energy Equipment Holdings Limited dated 10 October 2005 (the "Prospectus").

Xinao Shijiazhuang was established in the People's Republic of China ("PRC") on 31 December 1996. As at 31 March 2004, Xinao Shijiazhuang had the following subsidiaries:

Name of company	Place and date of establishment	Registered and paid-in capital	Direct attributable equity interest	Principal activities
Shijiazhuang Radiation Equipment Company Limited ("Radiation Equipment")	PRC 20 February 1995	RMB500,000	96%	Manufacture and sale of radiation equipment
Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment") *(see note (i))*	PRC 30 September 2003	RMB20,335,000	70%	Manufacture and sale of pressure vessels and provision of integrated business solutions for gas equipment

(i) Enric Gas Equipment was established by Xinao Shijiazhuang and Enric Shijiazhuang Investment Limited ("Shijiazhuang BVI"), a related company controlled by the major shareholder of Xinao Shijiazhuang, as a Sino-foreign equity joint venture enterprise in September 2003 in the PRC. Xinao Shijiazhuang had 70% equity interests in Enric Gas Equipment since the establishment of Enric Gas equipment until 16 July 2004. Pursuant to the joint venture agreement and the related supplementary agreements, Xinao Shijiazhuang transferred certain of its assets and liabilities to Enric Gas Equipment as capital contribution on 31 March 2004. On 16 July 2004, Xinao Shijiazhuang transferred all its equity interests in Enric Gas Equipment to Shijiazhuang BVI at a cash consideration of RMB14,234,500. As Xinao Shijiazhuang's control in Enric Gas Equipment was intended to be temporary because Enric Gas Equipment was established and held exclusively with a view to its subsequent disposal in the near future, Enric Gas Equipment was excluded from consolidation in Xinao Shijiazhuang's consolidated financial statements and was classified as other investment and stated at fair value.

Basis of preparation

The Financial Information has been prepared by the directors of Xinao Shijiazhuang based on the audited financial statements or, where appropriate, unaudited management accounts of the companies of the Xinao Shijiazhuang Group. Adjustments have been made, for the purpose of this report, to restate the Financial Information to conform to the accounting policies as referred to in Section B, which are in accordance with accounting principles generally accepted in Hong Kong.

The statutory financial statements of Xinao Shijiazhuang and Radiation Equipment, which were established in the PRC, are prepared in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the PRC Ministry of Finance.

The statutory financial statements of Xinao Shijiazhuang for the year ended 31 December 2003 were audited by Shijiazhuang Hong Yuan Certified Public Accountants Co., Ltd., a firm of certified public accountants registered in the PRC.

The statutory financial statements of Radiation Equipment for the year ended 31 December 2003 were audited by Langfang Hua An Da Certified Public Accountants Co., Ltd., a firm of certified public accountants registered in the PRC.

Respective responsibilities of directors and reporting accountants

The directors of Xinao Shijiazhuang are responsible for the preparation of the Financial Information set out below which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information of the Xinao Shijiazhuang Group for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the companies of the Xinao Shijiazhuang Group for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and carried out such additional procedures necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the companies of the Xinao Shijiazhuang Group in respect of any period subsequent to 31 March 2004.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Xinao Shijiazhuang Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the consolidated results and cash flows of the Xinao Shijiazhuang Group for the Relevant Period, and of the state of affairs of the Xinao Shijiazhuang Group and Xinao Shijiazhuang as at 31 December 2003 and 31 March 2004.

Unaudited financial information for the three months ended 31 March 2003

For the purpose of this report, we have also reviewed the unaudited financial information of the Xinao Shijiazhuang Group including the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the three months ended 31 March 2003 (the "31 March 2003 Corresponding Information"), together with the notes thereon, for which the directors are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the 31 March 2003 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions.

It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 31 March 2003 Corresponding Information.

On the basis of our review of the 31 March 2003 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the three months ended 31 March 2003.

A. FINANCIAL STATEMENTS

1. Consolidated Income Statements

		Year ended 31 December	Three months ended 31 March	
	Section B	**2003**	**2003**	**2004**
			(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*
Turnover	2	116,468,509	22,103,771	25,623,333
Cost of sales		(96,223,328)	(17,840,114)	(21,537,935)
		20,245,181	4,263,657	4,085,398
Other revenue	3	1,089,751	275,159	25,456
Selling expenses		(4,035,107)	(703,043)	(894,197)
Administrative expenses		(11,265,952)	(2,475,516)	(2,884,761)
Other net expense		(84,946)	(66,631)	(1,022)
Profit from operations		5,948,927	1,293,626	330,874
Finance costs	4(i)	(3,007,209)	(691,285)	(847,402)
Net unrealised gain on other investment carried at fair value		–	–	18,925,050
Profit from ordinary activities before taxation		2,941,718	602,341	18,408,522
Taxation	5	(1,394,924)	(248,210)	(6,230,856)
Profit from ordinary activities after taxation		1,546,794	354,131	12,177,666
Minority interests		1,006	(48)	–
Profit attributable to shareholders		1,547,800	354,083	12,177,666

The accompanying notes form part of the financial statements.

2. Consolidated Balance Sheets of the Xinao Shijiazhuang Group and Balance Sheets of Xinao Shijiazhuang

		The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	Section B	At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Non–current assets					
Fixed assets	*9*	49,199,089	3,207,720	49,148,201	3,156,832
Construction in progress	*10*	5,822,296	–	5,822,296	–
Long-term investments	*11*	808,143	808,143	808,143	808,143
Investment in a subsidiary	*12*	–	–	480,000	480,000
		55,829,528	4,015,863	56,258,640	4,444,975
Current assets					
Other investment	*13*	–	14,234,500	–	14,234,500
Inventories	*14*	32,760,598	32,683,752	32,327,597	32,250,751
Trade and bills receivable	*15*	4,590,278	1,719,510	4,535,769	1,665,001
Deposits, other receivables and prepayments	*16*	25,164,106	8,676,516	25,002,668	8,515,078
Amounts due from related parties	*27(b)(I)*	10,287,382	6,167,017	10,517,231	6,167,017
Cash at bank and in hand	*17*	36,721,335	7,874,447	36,389,488	7,797,302
		109,523,699	71,355,742	108,772,753	70,629,649
Current liabilities					
Bank loans	*18*	67,960,000	9,360,000	67,960,000	9,360,000
Trade and bills payable	*19*	32,298,992	8,225,117	32,149,546	8,075,671
Other payables and accrued expenses	*20*	12,151,223	10,708,620	11,952,923	10,510,994
Amounts due to related parties	*27(b)(II)*	40,890,168	17,048,747	40,890,168	17,072,925
Provisions	*21*	51,413	90,531	51,413	90,531
Income tax payable		1,365,789	1,201,706	1,363,004	1,198,922
		154,717,585	46,634,721	154,367,054	46,309,043
Net current (liabilities)/assets		(45,193,886)	24,721,021	(45,594,301)	24,320,606
Total assets less current liabilities		10,635,642	28,736,884	10,664,339	28,765,581
Non–current liabilities					
Deferred tax liabilities	*22*	–	6,230,856	–	6,230,856
Other long-term liabilities	*23*	7,095,807	6,788,527	7,095,807	6,788,527
		7,095,807	13,019,383	7,095,807	13,019,383
Minority interests		18,052	18,052	–	–
NET ASSETS		3,521,783	15,699,449	3,568,532	15,746,198
CAPITAL AND RESERVES					
Paid-in capital		10,346,000	10,346,000	10,346,000	10,346,000
Reserves	*24*	(6,824,217)	5,353,449	(6,777,468)	5,400,198
		3,521,783	15,699,449	3,568,532	15,746,198

The accompanying notes form part of the financial statements.

3. Consolidated Statements of Changes in Equity

	Year ended 31 December	Three months ended 31 March	
	2003	2003	2004
		(Unaudited)	
	RMB	*RMB*	*RMB*
Balance at the beginning of the year/period	1,973,983	1,973,983	3,521,783
Net profit for the year/period	1,547,800	354,083	12,177,666
Balance at the end of the year/period	3,521,783	2,328,066	15,699,449

The accompanying notes form part of the financial statements.

4. Consolidated Cash Flow Statements

	Section B	Year ended 31 December	Three months ended 31 March	
		2003	2003 (Unaudited)	2004
	Note	*RMB*	*RMB*	*RMB*
Operating activities				
Profit from ordinary activities before taxation		2,941,718	602,341	18,408,522
Adjustments for:				
Depreciation		3,418,469	833,731	1,041,104
Interest income		(802,876)	(194,185)	(13,399)
Interest charges		2,954,981	682,034	837,790
Loss on disposal of fixed assets		37,644	19,329	–
Net unrealised gain on other investment carried at fair value		–	–	(18,925,050)
Operating profit before changes in working capital		8,549,936	1,943,250	1,348,967
(Increase)/decrease in inventories		(9,437,722)	(4,661,453)	76,846
Increase in trade and bills receivable		(3,751,117)	(3,309,600)	(2,430,452)
(Increase)/decrease in deposits, other receivables and prepayments		(4,904,187)	3,053,954	(2,886,347)
Increase in amounts due from related parties		(1,337,060)	(461,691)	(38,383,698)
(Increase)/decrease in restricted bank deposits for letters of credit and bills payable		(9,654,869)	(4,758,438)	10,277,805
Increase in trade and bills payable		4,592,720	7,005,306	7,841,841
Increase in other payables and accrued expenses		3,058,741	1,037,650	3,507,321
Decrease in other long-term liabilities		(1,333,307)	(345,403)	(307,280)
Increase in amounts due to related parties		8,993,909	10,562,258	22,729,277
Increase/(decrease) in provision for product warranties		40,515	(10,898)	39,118
Cash (used in)/generated from operations		(5,182,441)	10,054,935	1,813,398
Income tax paid		(29,135)	(3,948)	(164,083)
Net cash (used in)/from operating activities		(5,211,576)	10,050,987	1,649,315

The accompanying notes form part of the financial statements.

	Section B	Year ended 31 December	Three months ended 31 March	
		2003	2003 (Unaudited)	2004
	Note	*RMB*	*RMB*	*RMB*
Investing activities				
Payment for acquisition of fixed assets and intangible assets		(14,694,274)	(2,623,433)	(11,332,149)
Capital contribution to Enric Gas Equipment *(see note (i))*		–	–	(92,853)
Loan repayments from a related party	*27(a)(II)*	11,500,000	–	–
Interest received		173,000	32,893	13,399
Advances made to related parties	*27(a)(II)*	(3,595,172)	(45,552)	(1,410,713)
Repayments of advances made to related parties	*27(a)(II)*	200,000	562,500	4,245,652
Net cash used in investing activities		(6,416,446)	(2,073,592)	(8,576,664)
Financing activities				
Proceeds from new bank loans		20,000,000	–	20,000,000
Repayment of bank loans		(2,900,000)	(2,900,000)	–
Interest paid		(2,954,981)	(682,034)	(837,790)
Advances received from related parties	*27(a)(II)*	205,038,368	–	129,374,897
Repayments of advances received from related parties	*27(a)(II)*	(197,973,861)	(10,630,491)	(160,178,841)
Net cash from/(used in) financing activities		21,209,526	(14,212,525)	(11,641,734)
Net increase/(decrease) in cash and cash equivalents		9,581,504	(6,235,130)	(18,569,083)
Cash and cash equivalents at beginning of the year/period		16,862,026	16,862,026	26,443,530
Cash and cash equivalents at end of the year/period		26,443,530	10,626,896	7,874,447

The accompanying notes form part of the financial statements.

(i) Capital contribution to Enric Gas Equipment

Enric Gas Equipment was established by Xinao Shijiazhuang and Shijiazhuang BVI as a Sino-foreign joint venture enterprise in September 2003 in the PRC. Pursuant to the joint venture agreement and related supplementary agreements, certain assets and liabilities were transferred from Xinao Shijiazhuang to Enric Gas Equipment on 31 March 2004 as capital contribution for the 70% equity interests in Enric Gas Equipment. Details of the injected assets and liabilities at values agreed by Xinao Shijiazhuang and Shijiazhuang BVI as capital contribution are set out below:

	RMB
Cash and cash equivalents	92,853
Trade and bills receivable	5,301,220
Other receivables and prepayments	19,373,937
Amounts due from related parties	39,669,124
Fixed assets	65,522,567
Construction in progress	9,878,561
Intangible assets	5,628,632
Total assets	145,466,894
Bank loans	78,600,000
Trade and bills payable	31,915,716
Other payables and accrued expenses	4,949,924
Amounts due to related parties	15,766,754
Total liabilities	131,232,394
Net assets injected as capital contributions	14,234,500

The values of the assets and liabilities injected to Enric Gas Equipment as capital contribution were the values mutually agreed by Xinao Shijiazhuang and Shijiazhuang BVI. In determining the agreed value of the fixed assets, Xinao Shijiazhuang and Shijiazhuang BVI had made reference to an assets valuation report prepared by an independent firm of valuers registered in the PRC. The book value of these injected fixed assets as at 31 March 2004 was RMB46,597,517. The agreed values of other assets and liabilities injected were the same as their respective book values as at 31 March 2004.

The accompanying notes form part of the financial statements.

B. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been consistently applied throughout the Relevant Period. The Financial Information also complies with the applicable disclosure provisions of the Listing Rules of the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") as applicable to accountants' reports included in Listing Documents.

(b) Basis of preparation

The measurement basis used in the preparation of the Financial Information is historical cost convention as modified for the revaluation of other investment.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Xinao Shijiazhuang Group. Control exists when Xinao Shijiazhuang has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a controlled subsidiary is consolidated unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Xinao Shijiazhuang Group, in which case, it is classified as other investment and stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by Xinao Shijiazhuang, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities, and capital and reserves. Minority interests in the results of the Xinao Shijiazhuang Group for the period are also separately presented in the consolidated income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Xinao Shijiazhuang Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Xinao Shijiazhuang Group until the minority's share of losses previously absorbed by the Xinao Shijiazhuang Group has been recovered.

In Xinao Shijiazhuang's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to Xinao Shijiazhuang, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(h)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the period of construction.

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Xinao Shijiazhuang Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(e) Construction in progress

Construction in progress represents buildings and various plants and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 1(h)). Cost comprises direct costs of construction incurred and the cost of borrowed funds used during the period of construction.

Construction in progress is transferred to buildings and machinery when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

(f) Intangible assets

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Xinao Shijiazhuang Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note 1(g)) and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Xinao Shijiazhuang Group are stated in the balance sheet at cost less accumulated amortisation (see note 1(g)) and impairment losses (see note 1(h)).

(iii) Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(g) Depreciation and amortisation

(i) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

– leasehold land is depreciated on a straight–line basis over the remaining term of lease;

– buildings are depreciated on a straight–line basis over the shorter of their estimated useful lives, being 30 years from the date of completion, and the unexpired terms of the leases; and

– other fixed assets are depreciated on a straight–line basis over their estimated useful lives as follows:

Machinery	10 years
Motor vehicles and office equipment	6 years

(ii) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives of 10 years.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets, construction in progress, intangible assets, investment in a subsidiary and long-term investments may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised.

(i) Long-term investments

Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

Profits or losses on disposal of investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short–term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Employee benefits

(i) Salaries and annual bonuses are accrued in the period in which the associated services are rendered by employees of the Xinao Shijiazhuang Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement schemes as required under relevant PRC laws and regulations are recognised as an expense in the income statement as and when incurred.

(m) Income tax

(i) Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Xinao Shijiazhuang Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, Xinao Shijiazhuang or the Xinao Shijiazhuang Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Xinao Shijiazhuang or the Xinao Shijiazhuang Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Xinao Shijiazhuang or the Xinao Shijiazhuang Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non–occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Xinao Shijiazhuang Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(p) Translation of foreign currencies

Foreign currency transactions during the period are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency transactions are dealt with in the income statement.

(q) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) Related parties

For the purposes of this report, parties are considered to be related to the Xinao Shijiazhuang Group if the Xinao Shijiazhuang Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Xinao Shijiazhuang Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

A segment is a distinguishable component of the Xinao Shijiazhuang Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(t) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Xinao Shijiazhuang Group has not early adopted these new HKFRSs in the financial statements for the Relevant Period.

2. Turnover

The Xinao Shijiazhuang Group is principally engaged in the design, manufacture and sale of pressure vessels, radiation equipment and related products. Turnover represents the sales value of goods sold after allowances for return of goods, excludes value added or other sales taxes and is after the deduction of any trade discounts.

Xinao Shijiazhuang was principally engaged in the design, manufacture and sale of pressure vessels. Upon the transfer of certain assets and liabilities to Enric Gas Equipment on 31 March 2004, Xinao Shijiazhuang ceased the production activities of pressure vessels and Xinao Shijiazhuang subsequently ceased selling pressure vessels in October 2004. Xinao Shijiazhuang commenced a new business of natural gas vehicle conversion in March 2005.

Radiation Equipment is principally engaged in the design, manufacture and sale of radiation equipment. The turnover of Radiation Equipment for the year ended 31 December 2003 and the three months ended 31 March 2003 and 2004 were RMB129,906, RMB85,566 (unaudited) and RMBnil respectively.

The Xinao Shijiazhuang Group's operations are all located in the PRC. The directors consider that the Xinao Shijiazhuang Group operates within a single business and geographical segment.

3. Other revenue

	Year ended 31 December	Three months ended 31 March	
	2003	**2003 (Unaudited)**	**2004**
	RMB	*RMB*	*RMB*
Other operating revenue *	286,875	80,974	12,057
Interest income from loans to a related party	629,876	161,292	–
Interest income from bank deposits	173,000	32,893	13,399
	1,089,751	275,159	25,456

* *Other operating revenue consists mainly of income earned from the sale of steel materials left–over from production.*

4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(i) Finance costs

	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	2004
	RMB	*RMB*	*RMB*
Interest on bank loans	3,064,766	730,601	941,376
Less: borrowing costs capitalised *	(109,785)	(48,567)	(103,586)
	2,954,981	682,034	837,790
Finance charges	52,228	9,251	9,612
	3,007,209	691,285	847,402

* *The borrowing costs have been capitalised at annual rates of 5.6%, 5.6% (unaudited) and 5.3% for the year ended 31 December 2003 and the three months ended 31 March 2003 and 2004 respectively.*

(ii) Staff costs #

	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	2004
	RMB	*RMB*	*RMB*
Salaries, wages and allowances	12,920,371	2,752,539	3,008,713
Contributions to retirement schemes *(see note 25)*	767,128	155,397	238,862
	13,687,499	2,907,936	3,247,575

(iii) Other items

	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	2004
	RMB	*RMB*	*RMB*
Cost of inventories #	96,223,328	17,840,114	21,537,935
Auditors' remuneration			
– audit services	9,000	7,000	6,000
Depreciation of fixed assets #	3,418,469	833,731	1,041,104
Loss on disposal of fixed assets	37,644	19,329	–
Research and development expenses	2,384,050	351,500	–
Provision for product warranties	299,248	62,045	60,742

\# *Cost of inventories includes RMB7,080,451, RMB1,505,731 (unaudited) and RMB1,715,483 for the year ended 31 December 2003 and each of the three months ended 31 March 2003 and 2004 respectively, relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 4(ii) for each of these types of expenses.*

5. Taxation

(i) Taxation in the consolidated income statements represents:

	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	2004
	RMB	*RMB*	*RMB*
Current taxation for the year/period	1,394,924	248,210	–
Deferred taxation *(note 22)*	–	–	6,230,856
	1,394,924	248,210	6,230,856

No provision has been made for Hong Kong Profits Tax as the Xinao Shijiazhuang Group did not earn income subject to Hong Kong Profits Tax during the Relevant Period.

Profits of Xinao Shijiazhuang and its subsidiary, Radiation Equipment, are subject to PRC income taxes, and the statutory income tax rate is 33%.

(ii) Reconciliation between income tax expenses and accounting profit:

	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	2004
	RMB	*RMB*	*RMB*
Accounting profit before tax	2,941,718	602,341	18,408,522
Taxation using applicable tax rates	970,767	198,772	6,074,812
Tax effect of non-deductible expenses	424,157	49,438	156,044
Income tax expense	1,394,924	248,210	6,230,856

6. Directors' remuneration

Details of directors' remuneration for the year ended 31 December 2003 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	–	–	–	–
Yang Yu	–	–	–	–	–
Li Jianmin	–	34,938	2,721	–	37,659
Chen Jiacheng	–	–	–	–	–
Total	–	34,938	2,721	–	37,659

Details of directors' remuneration for the three months ended 31 March 2003 are as follows:

	Fees (Unaudited) *RMB*	Salaries, allowances and benefits in kind (Unaudited) *RMB*	Retirement scheme contributions (Unaudited) *RMB*	Discretionary bonuses (Unaudited) *RMB*	Total (Unaudited) *RMB*
Directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	–	–	–	–
Yang Yu	–	–	–	–	–
Li Jianmin	–	8,309	680	–	8,989
Chen Jiacheng	–	–	–	–	–
Total	–	8,309	680	–	8,989

Details of directors' remuneration for the three months ended 31 March 2004 are as follows:

	Fees *RMB*	Salaries, allowances and benefits in kind *RMB*	Retirement scheme contributions *RMB*	Discretionary bonuses *RMB*	Total *RMB*
Directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	–	–	–	–
Yang Yu	–	–	–	–	–
Li Jianmin	–	8,188	643	–	8,831
Chen Jiacheng	–	–	–	–	–
Total	–	8,188	643	–	8,831

During the Relevant Period, no emoluments were paid by the Xinao Shijiazhuang Group to the directors as an inducement to join or upon joining the Xinao Shijiazhuang Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Relevant Period.

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one for the year ended 31 December 2003 and the three months ended 31 March 2003 and 2004, is a director whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other individuals are as follows:

	Year ended 31 December 2003 *RMB*	Three months ended 31 March 2003 (Unaudited) *RMB*	2004 *RMB*
Salaries, allowances and benefits in kind	143,222	34,469	34,506
Retirement scheme contributions	9,127	2,226	2,831
	152,349	36,695	37,337

The emoluments of the four individuals, for the year ended 31 December 2003 and each of the three months ended 31 March 2003 and 2004, with the highest emoluments are within the following bands:

	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	2004
HK$ Nil – HK$1,000,000	4	4	4

During the Relevant Period, no emoluments were paid by the Xinao Shijiazhuang Group to the five highest paid individuals as an inducement to join or upon joining the Xinao Shijiazhuang Group or as compensation for loss of office.

8. Dividends

No dividend has been paid or declared by Xinao Shijiazhuang during the Relevant Period.

9. Fixed assets

The fixed assets of the Xinao Shijiazhuang Group for the Relevant Period are as follows:

	Leasehold land *RMB*	Buildings *RMB*	Machinery *RMB*	Motor vehicles *RMB*	Office equipment *RMB*	Total *RMB*
Cost						
Balance at 1 January 2003	7,913,462	22,622,770	27,106,783	3,481,067	1,109,423	62,233,505
Additions	–	1,929,859	1,578,383	64,231	232,719	3,805,192
Disposals	–	(80,400)	–	(177,044)	–	(257,444)
Transfers from construction in progress	–	2,068,560	5,768,773	–	–	7,837,333
Balance at 31 December 2003	7,913,462	26,540,789	34,453,939	3,368,254	1,342,142	73,618,586
Balance at 1 January 2004	7,913,462	26,540,789	34,453,939	3,368,254	1,342,142	73,618,586
Additions	–	332,795	1,061,579	230,368	22,510	1,647,252
Capital contribution to Enric Gas Equipment	(7,156,373)	(24,180,058)	(35,436,768)	–	(1,124,388)	(67,897,587)
Balance at 31 March 2004	757,089	2,693,526	78,750	3,598,622	240,264	7,368,251
Accumulated depreciation						
Balance at 1 January 2003	(633,072)	(6,508,413)	(11,734,092)	(1,975,650)	(369,601)	(21,220,828)
Charge for the year	(158,268)	(894,419)	(1,816,568)	(376,797)	(172,417)	(3,418,469)
Written back on disposal	–	62,085	–	157,715	–	219,800
Balance at 31 December 2003	(791,340)	(7,340,747)	(13,550,660)	(2,194,732)	(542,018)	(24,419,497)
Balance at 1 January 2004	(791,340)	(7,340,747)	(13,550,660)	(2,194,732)	(542,018)	(24,419,497)
Charge for the period	(26,378)	(274,170)	(615,763)	(82,567)	(42,226)	(1,041,104)
Written back on capital contribution to Enric Gas Equipment	739,486	5,982,894	14,089,858	–	487,832	21,300,070
Balance at 31 March 2004	(78,232)	(1,632,023)	(76,565)	(2,277,299)	(96,412)	(4,160,531)
Net book value						
At 31 December 2003	7,122,122	19,200,042	20,903,279	1,173,522	800,124	49,199,089
At 31 March 2004	678,857	1,061,503	2,185	1,321,323	143,852	3,207,720

The Xinao Shijiazhuang Group's leasehold land has remaining terms of 44 years as at 31 March 2004.

The fixed assets of Xinao Shijiazhuang for the Relevant Period are as follows:

	Leasehold land	Buildings	Machinery	Motor vehicles	Office equipment	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost						
Balance at 1 January 2003	7,913,462	22,622,770	27,028,033	3,423,767	1,109,423	62,097,455
Additions	–	1,929,859	1,578,383	64,231	228,099	3,800,572
Disposals	–	(80,400)	–	(177,044)	–	(257,444)
Transfers from construction in progress	–	2,068,560	5,768,773	–	–	7,837,333
Balance at 31 December 2003	7,913,462	26,540,789	34,375,189	3,310,954	1,337,522	73,477,916
Balance at 1 January 2004	7,913,462	26,540,789	34,375,189	3,310,954	1,337,522	73,477,916
Additions	–	332,795	1,061,579	230,368	22,510	1,647,252
Capital contribution to Enric Gas Equipment	(7,156,373)	(24,180,058)	(35,436,768)	–	(1,124,388)	(67,897,587)
Balance at 31 March 2004	757,089	2,693,526	–	3,541,322	235,644	7,227,581
Accumulated depreciation						
Balance at 1 January 2003	(633,072)	(6,508,413)	(11,657,527)	(1,968,772)	(369,601)	(21,137,385)
Charge for the year	(158,268)	(894,419)	(1,816,568)	(370,889)	(171,986)	(3,412,130)
Written back on disposal	–	62,085	–	157,715	–	219,800
Balance at 31 December 2003	(791,340)	(7,340,747)	(13,474,095)	(2,181,946)	(541,587)	(24,329,715)
Balance at 1 January 2004	(791,340)	(7,340,747)	(13,474,095)	(2,181,946)	(541,587)	(24,329,715)
Charge for the period	(26,378)	(274,170)	(615,763)	(82,567)	(42,226)	(1,041,104)
Written back on capital contribution to Enric Gas Equipment	739,486	5,982,894	14,089,858	–	487,832	21,300,070
Balance at 31 March 2004	(78,232)	(1,632,023)	–	(2,264,513)	(95,981)	(4,070,749)
Net book value						
At 31 December 2003	7,122,122	19,200,042	20,901,094	1,129,008	795,935	49,148,201
At 31 March 2004	678,857	1,061,503	–	1,276,809	139,663	3,156,832

Xinao Shijiazhuang's leasehold land has remaining terms of 44 years as at 31 March 2004.

10. Construction in progress – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

	Year ended 31 December 2003 *RMB*	Three months ended 31 March 2004 *RMB*
Cost		
Opening balance	2,770,547	5,822,296
Additions	10,889,082	4,056,265
Transfers to fixed assets	(7,837,333)	–
Capital contribution to Enric Gas Equipment	–	(9,878,561)
Ending balance	5,822,296	–

11. Long-term investments – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

	At 31 December 2003 *RMB*	At 31 March 2004 *RMB*
Unlisted equity investments, at cost	808,143	808,143

12. Investment in a subsidiary – Xinao Shijiazhuang

The balances represent investment in Radiation Equipment which is a controlled subsidiary as defined under note 1(c) and have been consolidated into the Xinao Shijiazhuang Group financial statements.

13. Other investment – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

	At 31 December 2003 *RMB*	At 31 March 2004 *RMB*
Unlisted, at fair value	–	14,234,500

This represents Xinao Shijiazhuang's 70% equity interests in Enric Gas Equipment. As Xinao Shijiazhuang's control in Enric Gas Equipment was intended to be temporary because Enric Gas Equipment was established and held exclusively with a view to its subsequent disposal in the near future, Enric Gas Equipment was not consolidated in Xinao Shijiazhuang's consolidated financial statements.

14. Inventories

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	**At 31 March 2004**	**At 31 December 2003**	**At 31 March 2004**
	RMB	*RMB*	*RMB*	*RMB*
Raw materials	12,614,655	11,621,510	12,546,296	11,553,151
Work in progress	10,113,792	11,819,234	9,958,008	11,663,450
Finished goods	10,032,151	9,243,008	9,823,293	9,034,150
	32,760,598	32,683,752	32,327,597	32,250,751

No inventories were stated at net realisable value as at 31 December 2003 and 31 March 2004.

15. Trade and bills receivable

All of the trade and bills receivable (net of allowance for bad and doubtful debts) are expected to be recovered within one year.

An ageing analysis of trade and bills receivable is as follows:

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	**At 31 March 2004**	**At 31 December 2003**	**At 31 March 2004**
	RMB	*RMB*	*RMB*	*RMB*
Aged within 3 months	4,437,801	–	4,437,801	–
Aged between 3 to 6 months	–	1,665,001	–	1,665,001
Aged over 1 year	152,477	54,509	97,968	–
	4,590,278	1,719,510	4,535,769	1,665,001

In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of three to twelve months are available to certain customers with well-established trading and payment records on a case-by-case basis.

16. Deposits, other receivables and prepayments

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	**At 31 March 2004**	**At 31 December 2003**	**At 31 March 2004**
	RMB	*RMB*	*RMB*	*RMB*
Advances to suppliers	13,927,704	328,879	13,921,656	322,831
Deposits for construction work and equipment purchase	1,828,684	–	1,828,684	–
Staff advances	934,584	15,000	934,584	15,000
Cash advances to a third party *	7,913,590	7,913,590	7,913,590	7,913,590
Recoverable input value added tax	33,726	263,657	33,726	263,657
Others	525,818	155,390	370,428	–
	25,164,106	8,676,516	25,002,668	8,515,078

* *Cash advances to a third party were unsecured, interest-free and have been subsequently settled in July 2004.*

17. Cash at bank and in hand

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	**At 31 March 2004**	**At 31 December 2003**	**At 31 March 2004**
	RMB	*RMB*	*RMB*	*RMB*
Cash in hand and demand deposits	26,443,530	7,874,447	26,111,683	7,797,302
Restricted bank deposits for letters of credit and bills payable	10,277,805	–	10,277,805	–
	36,721,335	7,874,447	36,389,488	7,797,302

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC Government.

18. Bank loans – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

	At 31 December 2003	**At 31 March 2004**
	RMB	*RMB*
Bank loans – guaranteed	67,960,000	9,360,000

The above bank loans are guaranteed by Xinao Group Company Limited, a related party controlled by the major shareholder of Xinao Shijiazhuang. The annual rate of interest charged on the bank loans ranged from 5.3% to 6.5% and 5.1% to 5.8% for the year ended 31 December 2003 and the three months ended 31 March 2004 respectively.

19. Trade and bills payable

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
	RMB	*RMB*	*RMB*	*RMB*
Trade creditors	11,583,021	8,225,117	11,433,575	8,075,671
Bills payable	20,715,971	–	20,715,971	–
	32,298,992	8,225,117	32,149,546	8,075,671

An ageing analysis of trade and bills payable is as follows:

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
	RMB	*RMB*	*RMB*	*RMB*
Due within 3 months or on demand	809,226	5,060,097	809,226	5,060,097
Due after 3 months but within 6 months	21,680,419	781,630	21,680,419	781,630
Due after 6 months but within 1 year	2,945,001	948,947	2,945,001	948,947
Due over 1 year	6,864,346	1,434,443	6,714,900	1,284,997
	32,298,992	8,225,117	32,149,546	8,075,671

All of the trade and other payables are expected to be settled within one year.

20. Other payables and accrued expenses

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
	RMB	*RMB*	*RMB*	*RMB*
Advances from customers	6,445,656	8,103,211	6,385,593	8,043,149
Employees' bonus and welfare	1,746,614	897,313	1,706,119	856,818
Compensation to laid-off employees payable within one year	1,333,307	1,295,184	1,333,307	1,295,184
Payable for construction work	2,127,615	–	2,127,615	–
Accrued utilities expenses	–	197,412	–	197,412
Others	498,031	215,500	400,289	118,431
	12,151,223	10,708,620	11,952,923	10,510,994

21. Provision for product warranties – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

	Year ended 31 December 2003 *RMB*	Three months ended 31 March 2004 *RMB*
Opening balance	10,898	51,413
Provisions made	299,248	60,742
Provisions utilised	(258,733)	(21,624)
Ending balance	51,413	90,531

Under the normal terms of Xinao Shijiazhuang's sales agreements, Xinao Shijiazhuang will rectify any product defects arising within one year of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the one year prior to the balance sheet date.

22. Deferred tax liabilities/(assets) – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

The components of deferred tax liabilities/(assets) are set out below:

	At 31 December 2003 *RMB*	At 31 March 2004 *RMB*
Net unrealised gain on investment in Enric Gas Equipment carried at fair value	–	6,245,267
Tax losses	–	(14,411)
	–	6,230,856

The movements of deferred tax liabilities/(assets) during the Relevant Period are as follows:

	Tax losses *RMB*	Net unrealised gain on investment in Enric Gas Equipment carried at fair value *RMB*	Total *RMB*
Balance at 1 January 2004	–	–	–
Recognised in consolidated income statement *(see note 5(i))*	(14,411)	6,245,267	6,230,856
Balance at 31 March 2004	(14,411)	6,245,267	6,230,856

23. Other long-term liabilities – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

This represents compensation payable to laid-off employees which are payable after one year.

24. Reserves

The reserves of the Xinao Shijiazhuang Group for the Relevant Period are as follows:

	Capital Surplus *RMB* *Note (i)*	Retained profits/ (accumulated losses) *RMB*	Total *RMB*
At 1 January 2003	3,200,000	(11,572,017)	(8,372,017)
Profit for the year	–	1,547,800	1,547,800
At 31 December 2003	3,200,000	(10,024,217)	(6,824,217)
Profit for the period	–	12,177,666	12,177,666
At 31 March 2004	3,200,000	2,153,449	5,353,449

The reserves of Xinao Shijiazhuang for the Relevant Period are as follows:

	Capital Surplus *RMB* *Note (i)*	Retained profits/ (accumulated losses) *RMB*	Total *RMB*
At 1 January 2003	3,200,000	(11,549,421)	(8,349,421)
Profit for the year	–	1,571,953	1,571,953
At 31 December 2003	3,200,000	(9,977,468)	(6,777,468)
Profit for the period	–	12,177,666	12,177,666
At 31 March 2004	3,200,000	2,200,198	5,400,198

(i) Capital surplus

Capital surplus represents cash donations made by Xinao Group Company Limited to Xinao Shijiazhuang in 2002.

(ii) Distributable reserves

The distributable reserves at 31 December 2003 and 31 March 2004 of the Xinao Shijiazhuang Group, which were determined in accordance with the PRC accounting rules and regulations, were RMB nil.

25. Retirement benefits

Xinao Shijiazhuang and its subsidiary, Radiation Equipment, operating in the PRC participate in government pension schemes whereby they are required to pay annual contributions at the rate of 20% of the basic salaries of their employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and Xinao Shijiazhuang and Radiation Equipment have no further obligations beyond the annual contributions.

Xinao Shijiazhuang and Radiation Equipment do not operate any other schemes for retirement benefits provided to their employees.

26. Commitments – the Xinao Shijiazhuang Group and Xinao Shijiazhuang

Capital commitments in respect of capital expenditure at 31 December 2003 and 31 March 2004 not provided for in the Financial Information are as follows:

	At 31 December 2003 *RMB*	**At 31 March 2004** *RMB*
Contracted for	5,215,778	–
Authorised but not contracted for	–	–
	5,215,778	–

27. Material related party transactions

(a) Transactions

			Year ended 31 December	**Three months ended 31 March**	
			2003	**2003 (Unaudited)**	**2004**
			RMB	*RMB*	*RMB*
(I)	*Trade*				
	Sales	*(i)*	12,594,439	2,790,000	5,104,401
	Purchases	*(ii)*	5,774,799	1,363,662	8,054,350
(II)	*Non-trade*				
	Interest income on loans to a related party	*(iii)*	629,876	161,292	–
	Repayment of loans to a related party	*(iii)*	11,500,000	–	–
	Cash advances to related parties	*(iv)*	3,595,172	45,552	1,410,713
	Repayments of cash advances to related parties	*(iv)*	200,000	562,500	4,245,652
	Cash advances from related parties	*(v)*	205,038,368	–	129,374,897
	Repayments of cash advances from related parties	*(v)*	197,973,861	10,630,491	160,178,841

Notes:

(i) Sales to related parties mainly represent the sale of pressure vessels and related products. The selling prices are determined based on prevailing price of similar products to independent third party customers.

(ii) Purchases from related parties mainly represent purchases of raw materials.

(iii) These relate to loans to Xinao Group Company Limited. These loans carried interest at annual rates ranging from 5.3% to 5.8% for the year ended 31 December 2003.

(iv) Cash advances to related parties for the year ended 31 December 2003 and the three months ended 31 March 2003 and 2004 are as follows:

	Year ended 31 December	Three months ended 31 March	
	2003	2003 (Unaudited)	2004
Xinao Group Company Limited	–	–	1,306,953
Xinao Group Solar Energy Company Limited	1,118	–	103,760
Langfang Xinao Gas Company Limited	20,025	–	–
Hebei Veyong Group Company Limited	1,632,749	–	–
Enric (Bengbu) Compressors Company Limited	1,941,280	–	–
Shijiazhuang Xinao Gas Company Limited	–	45,552	–
Total	3,595,172	45,552	1,410,713

The above entities are companies controlled by Xinao Shijiazhuang's major shareholder, who is also a director of Xinao Shijiazhuang.

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

(v) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment.

(vi) Xinao Shijiazhuang had bank loans of RMB67,960,000 and RMB9,360,000 guaranteed by Xinao Group Company Limited as at 31 December 2003 and 31 March 2004 respectively (see note 18).

The directors of Xinao Shijiazhuang are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary and usual course of the Xinao Shijiazhuang Group's business.

(b) Balances with related parties

(I) Amounts due from related parties are as follows:

			The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
			At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
		Notes	*RMB*	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	2,552,768	1,267,342	2,552,768	1,267,342
(B)	Non-trade balances					
	• Interest receivables from loans	*(ii)*	1,006,222	1,006,222	1,006,222	1,006,222
	• Cash advances	*(iii)*	6,728,392	3,893,453	6,958,241	3,893,453
	Total		10,287,382	6,167,017	10,517,231	6,167,017

Notes:

(i) This represents the sales of pressure vessels and related products to related parties.

(ii) These relate to loans to Xinao Group Company Limited. These loans carried interest at annual rates ranging from 5.3% to 5.8% for the year ended 31 December 2003. The maximum balance of the loans to this related party, which is controlled by Xinao Shijiazhuang's major shareholder who is also a director of Xinao Shijiazhuang, and the related interest receivables were in aggregate RMB12,506,222 and RMB1,006,222 for the year ended 31 December 2003 and the three months ended 31 March 2004, respectively.

(iii) Cash advances to related parties are as follows:

	The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
	At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
	RMB	*RMB*	*RMB*	*RMB*
Xinao Group Company Limited	–	1,306,953	–	1,306,953
Xinao Group Solar Energy Company Limited	1,118	–	1,118	–
Langfang Xinao Gas Company Limited	20,025	–	20,025	–
Hebei Veyong Group Company Limited	1,432,749	–	1,432,749	–
Beijing Dingchangyuan Energy Resources Equipment Company Limited	2,586,500	2,586,500	2,586,500	2,586,500
Enric (Bengbu) Compressors Company Limited	2,688,000	–	2,688,000	–
Radiation Equipment	–	–	229,849	–
	6,728,392	3,893,453	6,958,241	3,893,453

The above entities are companies controlled by Xinao Shijiazhuang's major shareholder who is also a director of Xinao Shijiazhuang. The maximum balances of these cash advances during the year ended 31 December 2003 and the three months ended 31 March 2004 are as follows:

	Year ended 31 December 2003	Three months ended 31 March 2004
	RMB	*RMB*
Xinao Group Company Limited	–	1,306,953
Xinao Group Solar Energy Company Limited	1,118	104,878
Langfang Xinao Gas Company Limited	20,025	20,025
Hebei Veyong Group Company Limited	1,632,749	1,632,749
Beijing Dingchangyuan Energy Resources Equipment Company Limited	2,586,500	2,586,500
Enric (Bengbu) Compressors Company Limited	2,688,000	2,688,000
Shijiazhuang Xinao Gas Company Limited	45,552	–

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

(II) Amounts due to related parties are as follows:

			The Xinao Shijiazhuang Group		Xinao Shijiazhuang	
			At 31 December 2003	At 31 March 2004	At 31 December 2003	At 31 March 2004
		Notes	*RMB*	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	7,891,828	14,854,351	7,891,828	14,854,351
(B)	Non-trade balances					
	• Cash advances	*(ii)*	32,998,340	2,194,396	32,998,340	2,218,574
	Total		40,890,168	17,048,747	40,890,168	17,072,925

Notes:

(i) This represents purchases of raw materials and receipts in advance for sale of goods.

(ii) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment.

28. Ultimate holding company

The directors consider the ultimate holding company of Xinao Shijiazhuang at 31 March 2004 to be Xinao Group Company Limited, which is established in the PRC.

C. SUBSEQUENT EVENTS

The following events took place subsequent to 31 March 2004:

1. Disposal of the investment in Enric Gas Equipment

On 21 June 2004, Xinao Shijiazhuang entered into an equity transfer agreement with Shijiazhuang BVI, under which Xinao Shijiazhuang transferred all of its equity interests in Enric Gas Equipment to Shijiazhuang BVI at a cash consideration of RMB14,234,500. The transfer of equity interests in Enric Gas Equipment was approved by the Management Committee of Shijiazhuang High Technology Industry Development Zone on 16 July 2004.

2. Liquidation of Radiation Equipment

On 5 July 2004, Radiation Equipment's shareholders resolved to put Radiation Equipment into liquidation. At the date of this report, the liquidation process is still in progress.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Xinao Shijiazhuang or by any of the companies of the Xinao Shijiazhuang Group in accordance with accounting principles generally accepted in Hong Kong in respect of any period subsequent to 31 March 2004.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules, is set out here to provide the prospective investors with further information about the effect of the Placing on the financial information of the Group as at 30 June 2005 as if it had taken place on that date.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that the unaudited pro forma financial information has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group.

(A) UNAUDITED PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2005

Unaudited forecast combined profit after taxation attributable to equity holders of the Company *(Note 1)*	Not less than RMB65,000,000 (approximately HK$62,500,000) *(Note 5)*
Unaudited pro forma forecast earnings per Share – weighted average *(Note 2)*	Not less than RMB0.22 (approximately HK$0.21) *(Note 5)*
– fully diluted (without the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 3)*	Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*
– fully diluted (with the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 4)*	Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*

Notes:

1. The bases and assumptions on which the above profit forecast for the year ending 31 December 2005 has been prepared are summarised in Appendix IV to this prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and a weighted average number of 298,765,151 Shares in issue for the year ending 31 December 2005 after the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

3. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis (without the exercise of the options granted under the Pre-IPO Share Option Plan) is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and as if the Capitalisation Issue, the Conversion and the Placing had been completed on 1 January 2005 and a total of 432,000,000 Shares were in issue throughout the year, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in Appendix VII to this prospectus.

4. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis (with the exercise of the options granted under the Pre-IPO Share Option Plan) is based on the unaudited forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 and as if the Capitalisation Issue, the Conversion and the Placing had been completed on 1 January 2005 and a total of 432,000,000 Shares were in issue throughout the year, as well as on the basis that the options granted under the Pre-IPO Share Option Plan were exercised in full on 1 January 2005, resulting in the issuance of 13,800,000 additional Shares, but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option.

5. The RMB figures are translated at an exchange rate of RMB1.04 to HK$1.00.

(B) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group which has been prepared for the purpose of illustrating the effect of the Placing as if it had been taken place on 30 June 2005 and based on the audited combined net assets of the Group as at 30 June 2005 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Audited combined net assets of the Group as at 30 June 2005	**Intangible assets as at 30 June 2005**	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
			(Note 1)		*(Notes 2)*
Based on the Placing Price of HK$1.12 per Share	97,878	(6,981)	111,927	202,824	0.47
Based on the Placing Price of HK$1.68 per Share	97,878	(6,981)	176,431	267,328	0.62

Notes:

1. The estimated net proceeds from the Placing is based on the Placing Price of HK$1.12 per Share (being the lower limit of the stated Placing Price range) and HK$1.68 per Share (being the upper limit of the Placing Price range), after deduction of the estimated underwriting fees and related expenses to be paid by the Company. The estimated net proceeds from the Placing have not taken into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme.

2. The unaudited pro forma adjusted net tangible assets per Share is based on 432,000,000 Shares in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing as if the Shares had been in issue on 30 June 2005, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme. The adjusted net tangible asset value per Share is based on an exchange rate of RMB1.04 to HK$1.00.

3. On 26 September 2005, a capitalisation agreement was entered into between the Company and XGII pursuant to which, conditional upon the Listing, the Company will allot and issue a total of 260,159,120 Shares, as to 234,143,208 to XGII and 26,015,912 Shares to Symbiospartners (as nominated by XGII), all credited as fully paid, on capitalisation of a sum of RMB45.0 million owed by the Company to XGII. The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share as shown in the above do not take into account such Capitalisation Issue of RMB45.0 million (equivalent to approximately HK$43.3 million) as it has not taken place at the moment. After taking into account the proceeds from the Capitalisation Issue, the unaudited pro forma adjusted net tangible assets per Share would have been increased to HK$0.57 (based on the Placing Price of HK$1.12 per Share) and HK$0.72 (based on the Placing Price of HK$1.68 per Share). The RMB figure is translated at an exchange rate of RMB1.04 to HK$1.00.

4. Pursuant to the Convertible Bond Subscription Agreement, EIGL issued to Investec, an Independent Third Party, convertible redeemable bonds in the aggregate principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000). The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the 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 have been or may be issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8:00 a.m. on the Listing Date. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised) and accordingly, 51,840,000 Shares are expected to be allotted and issued which is equivalent to a conversion price of approximately HK$0.75 per Share.

5. For the purpose of the Listing, the properties of the Group were revalued as at 31 August 2005 by an independent firm of surveyors, Sallmanns (Far East) Limited. A surplus of approximately RMB35 million arising as a result of the revaluation of the Group's properties as at 31 August 2005 will not be incorporated in the Group's financial statements. It is the Group's policy to state its property, plant and equipment at cost less accumulated depreciation and impairment losses in accordance with Hong Kong Accounting Standard 16 "Property, plant and equipment" issued by the Hong Kong Institute of Certified Public Accountants. If such revaluation surplus were to be included in the Group's financial statements, additional annual depreciation charges of approximately RMB2 million would be incurred.

(C) COMFORT LETTER ON THE UNAUDITED PROFORMA FINANCIAL INFORMATION

The following is the full text of a letter from the Company's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma forecast earnings per Share and the unaudited pro forma adjusted net tangible assets set out in parts (A) and (B) of Appendix III to this prospectus.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 October 2005

The Directors
Enric Energy Equipment Holdings Limited
China Everbright Capital Limited

Dear Sirs,

Enric Energy Equipment Holdings Limited (the "Company")
Placing of 120,000,000 shares with a par value of HKD0.01 each

We report on the unaudited pro forma forecast earnings per Share and the unaudited pro forma statement of adjusted net tangible assets (the "Unaudited Pro Forma Financial Information") set out in parts (A) and (B) of Appendix III to the prospectus dated 10 October 2005 (the "Prospectus"), which has been prepared by the Company solely for illustrative purposes to provide information about how the issuance of the Company's new shares, through placing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, might have affected the forecast earnings per Share and the combined net tangible assets of the Company and its subsidiaries (collectively, the "Group") as at 30 June 2005. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in parts (A) and (B) of Appendix III to the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules").

It is our responsibility to form an opinion, as required by the GEM Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

- the Group had the transactions actually occurred and share proceeds estimated by the Company been received on 30 June 2005; or
- the Group at any future date or for any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under the section headed "Statement of business objectives and strategies – Reasons for the Placing and the use of proceeds" in the Prospectus.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 31(1) of Chapter 7 of the GEM Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The Group's forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 is set out in the section headed "Financial information" of this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the Group's forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results of the Group based on the Group's management accounts for the two months ended 31 August 2005 and a forecast of the combined results of the Group for the remaining four months ending 31 December 2005. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2005.

This profit forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The Directors have made the following principal assumptions in the preparation of this profit forecast:

- there will be no material change in the existing political, legal, economic, fiscal or market conditions in the PRC or any other country or territory where the Group operates its business;

- there will be no change in the legislation, rules or regulations in the PRC, Hong Kong or any other country or territory in which the Group operates its business or with which the Group has arrangements or agreements, which will materially and adversely affect the Group's business;

- there will be no material change in the bases or rates of taxation or duties in the PRC or any other country or territory where the Group operates its business;

- there will be no material change in inflation, interest rates or foreign currency exchange rates from those currently prevailing;

- the Group is not materially and adversely affected by any of the risk factors set out in the section headed "Risk factors" of this prospectus; and

- the Group's operation and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.

(B) LETTERS

Set forth below is the text of the letters received by the Directors from KPMG and from the Sponsor in connection with the Group's profit forecast for the year ending 31 December 2005 and prepared for the purpose of inclusion in this prospectus.

(i) Letter from KPMG

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 October 2005

The Directors
Enric Energy Equipment Holdings Limited
China Everbright Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast combined profit after taxation attributable to equity holders of Enric Energy Equipment Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2005 (the "Forecast") as set out in the prospectus of the Company dated 10 October 2005 (the "Prospectus").

The Forecast, for which the directors of the Company (the "Directors") are solely responsible, has been prepared by the Directors based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results of the Group for the two months ended 31 August 2005 and a forecast of the combined results of the Group for the four months ending 31 December 2005.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in Part (A) of Appendix IV to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in our accountants' report dated 10 October 2005, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

(ii) Letter from China Everbright Capital Limited

China Everbright Capital Limited

10 October 2005

The Directors
Enric Energy Equipment Holdings Limited

Dear Sirs,

We refer to the forecast (the ''Forecast'') of the combined profit after taxation attributable to equity holders of Enric Energy Equipment Holdings Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2005 as set out in this prospectus of the Company dated 10 October 2005 (the ''Prospectus'').

The Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on (i) the audited combined results of the Group for the six months ended 30 June 2005, (ii) the unaudited combined results of the Group for the two months ended 31 August 2005 and (iii) a forecast of the combined results of the Group for the remaining four months ending 31 December 2005.

We have discussed with you the bases and assumptions upon which the Forecast has been made. We have also considered the letter dated 10 October 2005 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
China Everbright Capital Limited
Jacky Ho
Executive Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 August 2005 of the property interests of the Group.

Sallmanns

Corporate valuation and consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

10 October 2005

The Board of Directors
Enric Energy Equipment Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties of **ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED** (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 August 2005 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests in property nos. 3, 4 and 5 of Group I by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests in property nos. 1 and 2 of Group I have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the property interest which is currently under construction, we have assumed that it will be developed and completed in accordance with the Group's latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group II and III, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Group's PRC legal advisers – Beijing Grandfield Law Firm, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, 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 whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 22 years' experience in the valuation of properties in the PRC and 25 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital Value in existing state as at 31 August 2005 *RMB*
1.	Land, various buildings and ancillary structures located at Gaoji Da Street Zhaolingpu Village Xinhua District Shijiazhuang City Hebei Province The PRC	50,809,000
2.	Land, various buildings and ancillary structures No. 187 Yanshan Road Bengbu City Anhui Province The PRC	45,775,000
3.	Five residential units located at Zhanggongshan Village Yuhui District Bengbu City Anhui Province The PRC	No commercial value
4.	Two residential units and a commercial unit located at Tushan Road Bengbu City Anhui Province The PRC	No commercial value
5.	Unit No. 302, Entrance 1, Block No. 29 No. 420 Tushan Road Bengbu City Anhui Province The PRC	172,000
	Sub-total:	96,756,000

GROUP II – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital Value in existing state as at 31 August 2005 *RMB*
6.	Levels 1 and 4 of an office building located at Hongrun Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	No commercial value
7.	Room 310 of an office building No. 166 North Xinshi Road Shijiazhuang City Hebei Province The PRC	No commercial value
8.	17 units on Level 1 of a composite building No. 639 Huaihe Road Bengbu City Anhui Province The PRC	No commercial value
9.	An office building and an industrial building located at Langsen Vehicle Industrial Zone Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	No commercial value
10.	Four Rooms No. 46 Shandongpu Road Shenyang City Liaoning Province The PRC	No commercial value

No.	Property	Capital Value in existing state as at 31 August 2005 *RMB*
11.	Room 509 of Yuanjing Building No. 899 Sanyuanli Road Guangzhou City Guangdong Province The PRC	No commercial value
12.	Room B on Level 3 No. 94 Xiaguniuzhou San Cun Qingnian Road Wuhan City Hubei Province The PRC	No commercial value
13.	Room 2-2 of Entrance 5 Block B Huayu Building Chenjiaping Road Chongqing The PRC	No commercial value
14.	Units Jia-1 and Jia-2 of an office building No. 729 North Zhongshan Road Shanghai The PRC	No commercial value
15.	An office unit of an office building No. 31 Daqing Road Xi'an City Shaanxi Province The PRC	No commercial value
16.	Room 212 of a building No. 9 West Xingyuan Road Zhangjiadian District Zibo City Shandong Province The PRC	No commercial value

No.	Property	Capital Value in existing state as at 31 August 2005 *RMB*
17.	An office unit of an office building No. 7 Hetan North Road Urumqi City Xinjiang Uygur Autonomous Region The PRC	No commercial value
	Sub-total:	Nil

GROUP III – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

18.	A portion of office units of Nos. 1 to 3 31st Floor Tower One Lippo Centre No. 89 Queensway Hong Kong	No commercial value
	Sub-total:	Nil
	Grand-total:	96,756,000

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
1. Land, various buildings and ancillary structures located at Gaoji Da Street Zhaolingpu Village Xinhua District Shijiazhuang City Hebei Province The PRC	The property comprises a parcel of land with a site area of approximately 68,156 sq.m., on which are constructed 30 buildings and various ancillary structures and facilities completed in various stages between 1975 and 2004. The buildings have a total gross floor area of approximately 32,897.69 sq.m. The major buildings include workshops, transformer stations, water pump stations, office buildings, etc. The major ancillary structures and facilities include sheds, water pond, road, gate, etc. The land use rights of the property were granted for a term commencing from 21 December 2004 and expiring on 28 December 2048 for industrial uses.	The property is currently occupied by the Group for production and ancillary office purposes.	50,809,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Xin Hua Guo Yong (2004) Zi Di No. 0203(新華國用(2004)字第0203號) dated 21 December 2004 issued by the People's Government of Shijiazhuang City, the land use rights of a parcel of land with a site area of approximately 68,156 sq.m. were granted to Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment") for a term expiring on 28 December 2048 for industrial uses.

2. Enric Gas Equipment is a wholly foreign-owned subsidiary of the Group.

3. Pursuant to 4 Building Ownership Certificates – Shi Fang Quan Zheng Xin Zi Di Nos. 370000010 to 370000012 (石房權證新字第370000010至370000012號) dated 15 November 2004 and Shi Fang Quan Zheng Xin Zi Di No. 370000013 (石房權證新字第370000013號) dated 30 March 2005 issued by the Real Estate Administrative Bureau of Shijiazhuang City, 20 buildings with a total gross floor area of approximately 28,107.69 sq.m. are owned by Enric Gas Equipment.

4. Pursuant to one of the aforesaid Certificates there is a building with a gross floor area of approximately 4,812.8 sq.m.. As confirmed by the Company, the aforesaid gross floor area of 4,812.8 sq.m. is a portion of a building with a total gross floor area of approximately 6,702 sq.m. which is completed recently. For the remaining portion of the building with a gross floor area about 1,889.2 sq.m., the Company occupies it as a temporary facility and will demolish it. As such, we have attributed no commercial value to this portion of the building. However, for reference purpose, we are of the opinion that the capital value of this portion as at the date of valuation would be RMB2,970,000 assuming all relevant title ownership certificates had been obtained.

5. In the valuation of this property, we have attributed no commercial value to the 9 buildings with a total gross floor area of approximately 2,900.8 sq.m. which have not been granted with any proper title certificates. However, for reference purpose, we are of the opinion that the capital value of the buildings (excluding the land) as at the date of valuation would be RMB1,574,000 assuming all relevant title ownership certificates had been obtained.

   As advised by the Company, the reason that there is no Building Ownership Certificate for these 9 buildings is that they are used as temporary facilities and will be demolished or rebuilt soon.

6. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) the land use rights of the property are legally owned by the Group and can be freely transferred, sublet, mortgaged or otherwise handled by the Group;

   (ii) the building ownership rights of the buildings with a total gross floor area of 28,107.69 sq.m. are legally owned by the Group and can be freely transferred, sublet, mortgaged or otherwise handled by the Group; and

   (iii) the property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
2. Land, various buildings and ancillary structures No. 187 Yanshan Road Bengbu City Anhui Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 118,779.60 sq.m. on which are constructed 48 buildings and various ancillary structures completed in various stages between 1962 and 2004. The buildings have a total gross floor area of approximately 49,638.61 sq.m. The buildings mainly include workshops, mess hall, bathroom, office buildings, garage, etc. The ancillary structures mainly comprise boundary fences, chimney, roads, etc. The land use rights of both parcels of land were granted for terms of 50 years expiring on 30 March 2052 and 18 January 2054 respectively for industrial uses. The property also includes 29 rooms with a total gross floor area of approximately 1,105.30 sq.m. in 4 residential buildings completed in about 1964 or 1970. These 4 buildings are erected on land adjoining the above 2 parcels of land. In addition to the completed buildings, the property also includes a building that was still under construction as at the date of valuation (the "CIP Building"). The estimated total construction cost is approximately RMB1,380,000, of which approximately RMB597,355 has been paid at the date of valuation. The total gross floor area of the CIP Building will be approximately 1,617 sq.m. upon completion. The CIP Building is scheduled to be completed in October 2005.	The completed buildings are currently occupied by the Group for production and ancillary office purposes.	45,775,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates – Beng Guo Yong (Chu Rang) Zi Di Nos. 202031 and 04053 (蚌國用(出讓)字第202031號及04053號) issued by the Land Administration Bureau of Bengbu City, the land use rights of 2 parcels of land with a total site area of approximately 118,779.6 sq.m. were granted to Enric (Bengbu) Compressor Company Limited ("Enric Compressor") 安瑞科蚌埠壓縮機有限公司, a wholly foreign-owned subsidiary of the Group, for terms of 50 years expiring on 30 March 2052 and 18 January 2054 respectively for industrial uses.

2. Pursuant to 45 Building Ownership Certificates – Fang Di Quan Beng Zi Di Nos. 01144, 01147, 014387 to 014395, 014397 to 014403, 014405 to 014411, 014413, 014414, 014416 to 014418, 014421, 014422, 014424 to 014426 and 014428 to 014437 issued by Real Estate Administration Bureau of Bengbu City, the building ownership rights of 45 buildings with a total gross floor area of approximately 49,463.42 sq.m. are owned by Enric Compressor.

3. Pursuant to 6 Building Ownership Certificates – Fang Di Quan Beng Zi Di Nos. 015221 to 015225 and 015234 issued by Real Estate Administration Bureau of Bengbu City, the building ownership rights of 29 rooms with a total gross floor area of approximately 1,105.30 sq.m. are owned by Enric Compressor.

   As advised by the Company, the reason that there is no land title certificate for these rooms is that these 29 rooms will be sold to the staff of the Group, which shall apply for the relevant land title certificates.

   As Enric Compressor has not obtained relevant land title for these 29 rooms, we have attributed no commercial value to them. For reference purpose, we are of the opinion that the capital value of the rooms (excluding the land on which they are erected) as at the date of valuation would be RMB907,000 assuming all relevant title ownership certificates had been obtained.

4. In the valuation of this property, we have not attributed any commercial value to the 3 buildings erected on the property land with a total gross floor area of approximately 175.19 sq.m. which have not been granted with any proper title certificates. However, for reference purpose, we are of the opinion that the capital value of the buildings (excluding the land) as at the date of valuation would be RMB66,000 assuming all relevant title ownership certificates had been obtained.

   As advised by the Company, the reason that there is no Building Ownership Certificate for these 3 buildings is that they are used as temporary facilities and will be demolished or rebuilt soon.

5. Pursuant to a Construction Work Planning Permit – Huai Fang Jian Zi Di (2005) No.010 issued by the City Planning Bureau of Bengbu City and a Construction Commencement Permit – No.030005080022 issued by the City Building Bureau of Bengbu City in favour of Enric Compressor, the CIP Building with a total gross floor area of approximately 1,617 sq.m. has been approved for construction.

6. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) the land use rights of the property are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group;

   (ii) the building ownership rights of the buildings with a total gross floor area of 49,463.42 sq.m. are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group;

   (iii) the construction of the CIP Building is in compliance with the relevant PRC laws and regulations;

   (iv) Enric Compressor can legally own and occupy the 29 rooms with a total gross floor area of approximately 1,105.3 sq.m. and can only transfer the rooms to its staff; and

   (v) the property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
3. Five residential units located at Zhanggongshan Village Yuhui District Bengbu City Anhui Province The PRC	The property comprises 5 residential units in 3 residential buildings completed in about 1984. The property have a total gross floor area of approximately 243 sq.m.	The property is currently occupied by the Group as staff quarters.	No commercial value

Notes:

1. Pursuant to 5 Real Estate Title Certificates - Fang Di Quan Beng Zi Zi Di Nos. 01154, 015230, 015235, 015237 and 015238 (房地權蚌自字第01154號, 015230號, 015235號, 015237號及015238號) issued by the Real Estate Administration Bureau of Bengbu City, the building ownership rights of the 5 units with a total gross floor area of approximately 243 sq.m. are owned by Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly foreign-owned subsidiary of the Group.

   As advised by the Company, the reason that there is no land title certificate for these units is that these 5 units will be sold to the staff of the Group, which shall apply for the relevant land title certificates.

   As the Group has not obtained relevant land title to the property, we have attributed no commercial value to it. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB288,000 assuming all relevant title ownership certificates had been obtained.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) the Group legally owns the building ownership rights of the 5 units with a total gross floor area of approximately 243 sq.m. and can legally occupy the property;

   (ii) Enric Compressor can only transfer the property to its staff; and

   (iii) the property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
4. Two residential units and a commercial unit located at Tushan Road Bengbu City Anhui Province The PRC	The property comprises 2 residential units and a commercial unit in 3 composite buildings completed in various stages between 1982 and 1990. The property have a total gross floor area of approximately 190.29 sq.m.	The property is currently occupied by the Group as staff quarters and office.	No commercial value

Notes:

1. Pursuant to 3 Real Estate Title Certificates - Fang Di Quan Beng Zi Zi Di Nos. 015226, 015229 and 015233 (房地權蚌自字第015226號, 015229號及015233號) issued by the Real Estate Administration Bureau of Bengbu City, the building ownership rights of 2 residential units with a total gross floor area of approximately 92.9 sq.m. and a commercial unit with a total gross floor area of approximately 97.39 sq.m. are owned by Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly foreign-owned subsidiary of the Group.

   As advised by the Company, the reason that there is no land title certificate for these units is that these 3 units will be sold to the staff of the Group, which shall apply for the relevant land title certificates.

   As the Group has not obtained relevant land title to the property, we have attributed no commercial value to it. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB401,000 assuming all relevant title ownership certificates had been obtained.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) the Group legally owns the building ownership rights of the 3 units with a total gross floor area of approximately 190.29 sq.m. and can legally occupy the property;

   (ii) Enric Compressor can only transfer the property to its staff; and

   (iii) the property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
5. Unit No. 302 Entrance 1 Block No. 29 No. 420 Tushan Road Bengbu City Anhui Province The PRC	The property comprises a residential unit on Level 3 of a 7-storey residential building completed in about 2004. The property has a gross floor area of approximately 87.16 sq.m.	The property is currently occupied by the Group as staff quarters.	172,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Fang Di Quan Beng Zi Zi Di No. 020730 (房地權蚌自字第020730號) dated 31 August 2005 issued by the Real Estate Administration Bureau of Bengbu City, the building ownership rights of the property with a gross floor area of approximately 87.16 sq.m. is owned by Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly foreign-owned subsidiary of the Group.

2. Pursuant to a Purchase Agreement dated 6 January 2004, Enric Compressor acquired the property at a consideration of RMB163,165.

3. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) the property is legally owned by the Group and can be freely transferred, sublet or mortgaged by the Group; and

   (ii) the property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Group II – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
6. Levels 1 and 4 of an office building located at Hongrun Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	The property comprises Levels 1 and 4 of a 4-storey office building completed in about 2002. The property has a total gross floor area of approximately 1,620.47 sq.m. Pursuant to a tenancy agreement dated 30 September 2004, the property is leased by Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment") from Xinao Group Solar Energy Company Limited (the "Lessor"), a connected party of the Company, for a term of 3 years commencing from 30 September 2004 and expiring on 29 September 2007 at an annual rental of RMB520,000 inclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Gas Equipment is a wholly foreign-owned subsidiary of the Group.

2. Pursuant to an agreement dated 10 January 2005 entered into between Enric Gas Equipment and Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), Enric Gas Equipment has licensed Enric Compressor to use the units with a total gross floor area of 50 sq.m. at nil consideration from 10 January 2005 to 29 September 2007.

3. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property;

   (ii) Enric Gas Equipment has the legal rights to use the property in accordance with the tenancy agreement; and

   (iii) Enric Compressor has the legal rights to use the units licenced by Enric Gas Equipment.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
7. Room 310 of an office building No. 166 North Xinshi Road Shijiazhuang City Hebei Province The PRC	The property comprises an office unit on Level 3 of a 7 storey office building completed in about 1990. The property has a gross floor area of approximately 25 sq.m. According to a tenancy agreement dated 1 September 2003, the property is leased by Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment") from Hebei Veyong Group Company Limited (the "Lessor"), a connected party of the Company, for a term of 20 years commencing from 1 September 2003 and expiring on 1 September 2023 at a monthly rental of RMB300 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Gas Equipment is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor is applying for the Building Ownership Certificate of the property;

   (ii) The Lessor has the legal rights to lease the property; and

   (iii) Enric Gas Equipment has the legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
8. 17 units on Level 1 of a composite building No. 639 Huaihe Road Bengbu City Anhui Province The PRC	The property comprises 17 office units on Level 1 of a 7-storey composite building completed in about 1983. The property have a total gross floor area of approximately 318 sq.m. Pursuant to a tenancy agreement dated 18 December 2004, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party (the "Lessor") for a term of 6 years commencing from 15 January 2000 and expiring on 14 January 2006 at an annual rental of RMB340,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group as marketing centre.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has the legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
9. An office building and an industrial building located at Langsen Vehicle Industrial Zone Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	The property comprises an office building and an industrial building completed in about 2002. The property have a total gross floor area of approximately 2,366.93 sq.m. Pursuant to a tenancy agreement dated 1 November 2004 and a renewal tenancy agreement dated 26 April 2005, the property is leased by Enric (Langfang) Energy Equipment Integration Limited ("Enric Integration") from an independent party (the "Lessor") for a term of 2 years commencing from 1 November 2004 and expiring on 31 October 2006 at an annual rental of RMB388,768.25 exclusive of water, heat and electricity charges plus an annual management fee of RMB56,806.32.	The property is currently occupied by the Group for production and ancillary office purposes.	No commercial value

Notes:

1. Enric Integration is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Integration has the legal rights to use the property in accordance with the tenancy agreements.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
10. Four Rooms No. 46 Shandongpu Road, Shenyang City Liaoning Province The PRC	The property comprises 4 office rooms on Level 1 of a 6-storey office building completed in about 1993. The property has a total gross floor area of approximately 90 sq.m. According to a tenancy agreement dated 30 July 2004, the property is leased to Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of 2 years commencing from 8 August 2004 and expiring on 8 August 2006 at an annual rental of RMB30,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
11. Room 509 of Yuanjing Building No. 899 Sanyuanli Road Guangzhou City Guangdong Province The PRC	The property comprises an office unit on Level 5 of a 9-storey office building completed in about 2003. The property has a gross floor area of approximately 70 sq.m. According to a tenancy agreement dated 2 October 2004 and a renewal tenancy agreement dated 16 September 2005, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of 2 years commencing from 29 September 2004 and expiring on 28 September 2006 at an annual rental of RMB24,696 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreements.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
12. Room B on Level 3 No. 94 Xiaguniuzhou San Cun Qingnian Road Wuhan City Hubei Province The PRC	The property comprises an office unit on Level 3 of a 4-storey office building completed in about 1998. The property has a gross floor area of approximately 155 sq.m. According to a tenancy agreement dated 25 April 2005, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of a year commencing from 18 March 2005 and expiring on 18 March 2006 at an annual rental of RMB6,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
13. Room 2-2 of Entrance 5 Block B Huayu Building Chenjiaping Road Chongqing The PRC	The property comprises an office unit on Level 2 of a 7-storey office building completed in about 1999. The property has a gross floor area of approximately 108 sq.m. According to a tenancy agreement dated 18 March 2005, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of a year commencing from 19 March 2005 and expiring on 18 March 2006 at an annual rental of RMB19,200 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
14. Units Jia-1 and Jia-2 of an office building No. 729 North Zhongshan Road Shanghai The PRC	The property comprises 2 office units on Level 1 of a 3-storey office building completed in about 1992. The property has a total gross floor area of approximately 80 sq.m. According to a tenancy agreement dated 1 December 2004, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of a year commencing from 1 December 2004 and expiring on 30 November 2005 at an annual rental of RMB54,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
15. An office unit of an office building No. 31 Daqing Road Xi'an City Shaanxi Province The PRC	The property comprises an office unit on Level 1 of a 2-storey office building completed in about 2003. The property has a gross floor area of approximately 60 sq.m. According to a tenancy agreement dated 1 December 2004, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of a year commencing from 7 December 2004 and expiring on 6 December 2005 at an annual rental of RMB16,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
16. Room 212 of a building No. 9 West Xingyuan Road Zhangjiadian District Zibo City Shandong Province The PRC	The property comprises an office unit on Level 2 of a 6-storey composite building completed in about 1993. The property has a gross floor area of approximately 32.4 sq.m. According to a renewal tenancy agreement dated 26 July 2005, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party ("the Lessor") for a term of a year commencing from 20 August 2005 and expiring on 19 August 2006 at an annual rental of RMB22,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
17. An office unit of an office building No. 7 Hetan North Road Urumqi City Xinjiang Uygur Autonomous Region The PRC	The property comprises an office unit on Level 5 of a 6-storey office building completed in about 1994. The property has a gross floor area of approximately 87.44 sq.m. According to a tenancy agreement dated 29 December 2004, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party (the "Lessor") for a term of a year commencing from 1 January 2005 and expiring on 31 December 2005 at an annual rental of RMB7,200 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has the legal rights to lease the property; and

   (ii) Enric Compressor has legal rights to use the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

GROUP III – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 August 2005 *RMB*
18. A portion of office units of Nos. 1 to 3 31st Floor Tower One Lippo Centre No. 89 Queensway Hong Kong	The property comprises a portion of 3 office units on the 31st floor of a 41-storey office building completed in about 1988. The property has a saleable area of approximately 964.46 sq.ft. According to a tenancy agreement dated 7 February 2005, the property is leased by Enric Investment Group Limited ("EIGL") from Xinao Gas Investment Group Limited ("the Lessor"), a connected party of the Company, for a term of 3 years commencing from 1 February 2005 and expiring on 31 January 2008 at a monthly rent of HK$37,962, exclusive of rates, management fee and utility charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Note:

EIGL is a wholly-owned subsidiary of the Group.

Set out below is a summary of certain provisions of the Memorandum and the Articles and of certain aspects of the Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 September 2004 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, amongst others, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted, and 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.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 26 September 2005. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments 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 be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for 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 or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or 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 or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board 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. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet 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.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) 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; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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 the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and 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 any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to 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) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) percent in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles 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.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (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 demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five percent (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) 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 deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of 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:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) 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 ninety-five (95) percent in nominal value of the issued 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:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) percent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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 board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares 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 at 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 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 a good discharge to 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.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) percent per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) percent per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) 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 of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles 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 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.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

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 (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of 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 authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants. In respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12-year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) 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 of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's 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 amount of its authorised share capital.

(b) Share capital

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 premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums 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 the company subject to the provisions, if any, of its memorandum and articles of association in (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) 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 business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), 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.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any 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).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person 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 acting 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) Purchase of shares and warrants by a company and its subsidiaries

Subject to the 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 or 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.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as be persuasive in the Cayman Islands, 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 paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative 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 and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court 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 Court shall direct.

Any shareholder of a company may petition the Court 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.

Generally claims against a company by its shareholders must 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.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) 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) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Cayman Islands Governor-in-Cabinet that:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax which is in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company; or by way of the withholdings in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

These undertakings are for a period of twenty years from 12 October 2004.

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.

(k) 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.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the 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.

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 the 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 of 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.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) percent in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

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 ninety (90) percent 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 in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the 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.

(q) 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 court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, are available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VIII to this prospectus. Any person wishing to have a detailed summary of the Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY

Incorporation of the Company

The Company was incorporated in the Cayman Islands under the name of Enric Energy Equipment Holdings Limited under the Companies Law as an exempted company with limited liability on 28 September 2004. By written resolutions of the Shareholder dated 10 December 2004, the Company changed its name to Enric Energy Equipment Investment Limited, which name was subsequently changed to Enric Energy Equipment Holdings Limited 安瑞科能源裝備控股有限公司 on the same date. The Company has established a place of business in Hong Kong at Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong and was registered on 25 October 2004 as an oversea company in Hong Kong under Part XI of the Companies Ordinance, with LAM Hung, Elaine of Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, 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. A summary of certain relevant parts of the Company's constitution and relevant aspects of the Companies Law is set out in Appendix VI to this prospectus.

Changes in share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was HK$390,000 divided into 39,000,000 shares of HK$0.01 each. On 12 October 2004, one subscriber's share of HK$0.01 in the Company was allotted and issued for cash at par to the initial subscriber and was transferred to XGII.

On 26 September 2005, the authorised share capital of the Company was increased from HK$390,000 to HK$100,000,000 by the creation of an additional 9,961,000,000 Shares.

On 26 September 2005, pursuant to the deed for sale and purchase of the entire share capital of EIGL referred to in the section headed "Summary of material contracts" in this Appendix, XGII and Symbiospartners transferred 90 and 10 shares respectively in EIGL to the Company in consideration for which the Company allotted and issued 791 and 88 Shares, credited as fully paid, to XGII and Symbiospartners respectively. Immediately following the above transfer, allotment and issue, the Company became owned as to 90% by XGII and 10% by Symbiospartners.

Upon the Conversion, all Redeemable Convertible Bonds (if not already so converted) will be mandatorily converted into Shares and the Company will allot and issue such number of Shares which represents 12% of the enlarged issued shares capital of the Company to Investec if the Listing Committee grants the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of such agreement or otherwise.

Investec is expected to be allotted and issued 51,840,000 Shares on the Listing Date. Otherwise, 120 Shares will be allotted and issued to Investec if the Underwriting Agreement is terminated by the Lead Manager (for and on behalf of the underwriters) in accordance with the terms of such agreement or otherwise.

Upon the Placing becoming unconditional, the Company will allot and issue 260,159,120 Shares, as to 234,143,208 Shares to XGII and 26,015,912 Shares to Symbiospartners (as nominated by XGII) respectively, all credited as fully paid, on capitalisation on the cash advances in the sum of RMB45,000,000 due and owing by the Company to XGII pursuant to a capitalisation agreement dated 26 September 2005 entered into between the Company and XGII.

Assuming that the Placing becomes unconditional and the issue of Shares under the Capitalisation Issue, the Conversion and the Placing are made, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK$100,000,000 divided into 10,000,000,000 Shares and the issued share capital of the Company will be HK$4,320,000 divided into 432,000,000 Shares fully paid or credited as fully paid, with 9,568,000,000 Shares remaining unissued. Other than the Shares to be issued pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the general mandate to issue Shares as referred to in the section headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" in this Appendix, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without 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 disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of its incorporation.

Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively

On 26 September 2005 and 7 October 2005, written resolutions of the Shareholder(s) were passed as ordinary resolutions pursuant to which, among other things:

(1) the authorised share capital of the Company was increased from HK$390,000 to HK$100,000,000 by the creation of an additional 9,961,000,000 Shares;

(2) the Directors were authorised to allot and issue, credited as fully paid, 791 and 88 Shares to XGII and Symbiospartners respectively as consideration for the acquisition by the Company of 90% of the issued share capital of EIGL from XGII and 10% of the issued share capital of EIGL from Symbiospartners;

(3) conditional on (i) the Listing Committee granting the 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 issued pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option); and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise:

(a) the Placing and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Placing Shares and any Shares which may be required to be issued if the Over-allotment Option is exercised;

(b) the Directors were authorised to allot and issue, credited as fully paid, 51,840,000 Shares to Investec, pursuant to the exercise of conversion rights of the Redeemable Convertible Bonds;

(c) the Directors were authorised to allot and issue 260,159,120 Shares, as to 234,143,208 Shares to XGII and 26,015,912 Shares to Symbiospartners (as nominated by XGII) respectively, all credited as fully paid, on capitalisation of RMB45,000,000 due and owing by the Company to XGII;

(d) the rules of the Pre-IPO Share Option Plan were approved and the Directors were authorised to grant options to subscribe for Shares thereunder as set out in the section headed "Share option schemes – Outstanding options granted under the Pre-IPO Share Option Plan" in this Appendix and to allot and issue Shares pursuant to the exercise of subscription rights under any options which may be granted under the Pre-IPO Share Option Plan and to take all such steps as they consider necessary, desirable or expedient to implement the Pre-IPO Share Option Plan; and

(e) 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 and issue the 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, desirable or expedient 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 pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to the participants thereunder or any other person 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 or a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, 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 any applicable laws of the Cayman Islands or the Articles 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 exchanges 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% of the total nominal value of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, 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 any applicable laws of the Cayman Islands or the Articles or to be held; and

(c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(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 the total nominal value of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing.

On 26 September 2005, a written resolution of the sole Shareholder was passed as special resolution under which the Company approved and adopted the new Articles.

Corporate reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. As a result, the Company became the holding company of the Group. The following steps are the major steps of the Reorganisation and the introduction of an Institutional Investor, Symbiospartners, into the Group:

(1) Pursuant to an equity transfer agreement dated 10 June 2004 entered into between Enric Compressor as transferor and Langfang Guofu as transferee, Enric Compressor transferred all its 12.2727% equity interests in XGCL to Langfang Guofu at a consideration of RMB26,190,000.

(2) On 8 July 2004, Enric Compressor was converted from a Sino-foreign equity joint venture enterprise to a wholly foreign owned enterprise in the PRC by way of XGII and Langfang Guofu transferring their respective 47% and 53% equity interests in Enric Compressor to Anhui BVI at an aggregate consideration of HK$21,320,000 pursuant to an equity transfer agreement dated 21 June 2004 entered into among XGII and Langfang Guofu as transferors and Anhui BVI as transferee.

(3) On 3 September 2004, Enric Gas Equipment was converted from a Sino-foreign equity joint venture enterprise to a wholly foreign owned enterprise in the PRC by way of Xinao Shijiazhuang transferring its entire 70% equity interest in Enric Gas Equipment to Shijiazhuang BVI at a consideration of US$1,715,000 pursuant to an equity transfer agreement dated 21 June 2004 entered into between Xinao Shijiazhuang as transferor and Shijiazhuang BVI as transferee.

(4) On 14 September 2004, Langfang BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, was incorporated in BVI with limited liability whereby one share in Langfang BVI was allotted and issued to EIGL on 15 November 2004.

(5) On 28 September 2004, the Company with an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each, was incorporated in the Cayman Islands as an exempted company with limited liability whereby one subscriber's share in the Company was allotted and issued to the initial subscriber and was transferred to XGII on 12 October 2004.

(6) On 28 December 2004, Enric Integration with a registered capital of HK$10,000,000 was established in PRC as a wholly foreign owned enterprise with limited liability, and was wholly owned by Langfang BVI.

(7) On 21 January 2005, a share subscription agreement was entered into between Symbiospartners as subscriber and EIGL and XGII as warrantor pursuant to which 10 shares in EIGL were allotted and issued to Symbiospartners on 31 January 2005, representing 10% of the enlarged issued share capital of EIGL at a total subscription price of US$1,900,000.

(8) On 26 September 2005, a deed for sale and purchase of the entire share capital of EIGL was entered into between XGII and Symbiospartners as vendors, the Company as purchaser and Mr. Wang and Ms. Zhao as indemnifiers, pursuant to which the Company acquired 90% and 10% of the issued share capital of EIGL from XGII and Symbiospartners respectively in consideration of the allotment and issue of 791 and 88 Shares credited as fully paid to XGII and Symbiospartners respectively.

Changes in the share capital of subsidiaries of the Company

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 14 September 2004, Langfang BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, was incorporated in BVI with limited liability whereby 1 share in Langfang BVI was allotted and issued to EIGL on 15 November 2004.

(2) On 28 December 2004, Enric Integration with a registered capital of HK$10,000,000 was established in the PRC as a wholly foreign owned enterprise with limited liability, and was wholly owned by Langfang BVI.

(3) On 22 January 2005, 89 shares in EIGL of US$1.00 each was allotted and issued to XGII for cash at par.

(4) On 31 January 2005, 10 shares in EIGL of US$1.00 each were allotted and issued to Symbiospartners representing 10% of the enlarged issued share capital of EIGL at a total subscription price of US$1,900,000 pursuant to a share subscription agreement dated 21 January 2005 entered into between Symbiospartners, EIGL and XGII.

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.

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 the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange 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 the written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively, a general unconditional mandate (the "Share Repurchase Mandate") was given to the Directors authorising any repurchases by the Company of Shares on the Stock Exchange or on any other stock exchanges on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange of up to 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws of the Cayman Islands or the Articles to be held or the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(b) Source of funds

Any repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands.

(c) Trading restrictions

A company is authorised to repurchase on the Stock Exchange 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% 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 (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. In addition, a company shall not repurchase its shares on the Stock Exchange if the purchase price is higher than 5% or more than the average closing market price for the five preceding trading days on which the shares in the company were traded on the Stock Exchange. A company is also prohibited from making securities repurchases on the Stock Exchange if the result of the repurchases would be that the number of the listed securities in public hands would fall below the relevant prescribed minimum percentage as required by the Stock Exchange, which is currently 25% in the case of the Company. A company shall procure that any broker appointed by it to effect the purchase of securities shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the Company as the Stock Exchange may request.

(d) Status of repurchased securities

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relevant 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 is made publicly available. In particular, during the period of one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for the company to publish an announcement of its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, the Company may not purchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if a company has breached the GEM Listing Rules.

(f) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange in the prescribed form not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Business Day following any day on which the company makes a repurchase of shares. In addition, a company's annual report and accounts are required to disclose details regarding securities repurchases made during the financial year under review, including the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the aggregate prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases.

(g) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a connected person (as defined under the GEM Listing Rules) and a connected person shall not knowingly sell securities in the company to the company on the Stock Exchange.

(2) Exercise of the Share Repurchase Mandate

Exercise in full of the Share Repurchase Mandate, on the basis of 432,000,000 Shares in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, could accordingly result in up to 43,200,000 Shares being repurchased by the Company during the period until 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 or any other applicable laws of the Cayman Islands to be held; or (c) the revocation, variation or renewal of the share repurchase mandate by ordinary resolution of the Shareholders in general meeting.

(3) Reasons for repurchases

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at that 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 its Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase securities on the Stock Exchange 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 Share Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Share Repurchase 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 Share Repurchase Mandate only in accordance with the GEM Listing Rules and all applicable laws of the Cayman Islands.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, has any present intention, if the Share Repurchase Mandate is approved by the Shareholders, to sell any Shares to the Company or any of its subsidiaries.

No connected person of the Company has notified the Company that he or she has a present intention to sell any Shares to the Company or has undertaken not to do so, if the Share Repurchase Mandate is exercised.

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 purposes of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Code), depending on the level of increase in the interest of the Shareholder(s), 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. Save as aforesaid, the Directors are not aware of any other consequence under the Code as a result of a repurchase of Shares made immediately after the Listing.

Particulars of subsidiaries of the Company incorporated in the PRC

(1)	Name	:	Enric Gas Equipment
	Nature	:	Wholly foreign owned enterprise
	Term	:	50 years (from 30 September 2003 to 30 September 2053)
	Registered capital	:	RMB20,335,000
	Beneficial shareholder	:	Shijiazhuang BVI
	Number of directors	:	5
(2)	Name	:	Enric Compressor
	Nature	:	Wholly foreign owned enterprise
	Term	:	50 years (from 14 March 2002 to 14 March 2052)
	Registered capital	:	HK$21,320,000
	Beneficial shareholder	:	Anhui BVI
	Number of directors	:	5
(3)	Name	:	Enric Integration
	Nature	:	Wholly foreign owned enterprise
	Term	:	30 years (from 28 December 2004 to 27 December 2034)
	Registered capital	:	HK$10,000,000
	Beneficial shareholder	:	Langfang BVI
	Number of directors	:	3

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

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 dated 20 December 2003 entered into between Shijiazhuang BVI and Xinao Shijiazhuang whereby it was agreed, amongst other things, that the capital contribution by Xinao Shijiazhuang into Enric Gas Equipment was to be delayed until Xinao Shijiazhuang had obtained the relevant approval(s) for the design, manufacture and sale of assets to be injected into Enric Gas Equipment.

(2) an agreement dated 31 March 2004 entered into among Shijiazhuang BVI, Enric Gas Equipment and Xinao Shijiazhuang whereby, amongst other things, Xinao Shijiazhuang and Shijiazhuang BVI agreed a list of assets and liabilities to be injected by Xinao Shijiazhuang into Enric Gas Equipment in relation to the establishment of Enric Gas Equipment by Xinao Shijiazhuang and Shijiazhuang BVI.

(3) an equity transfer agreement dated 10 June 2004 entered into between Enric Compressor as transferor and Langfang Guofu as transferee whereby Enric Compressor agreed to transfer all its 12.2727% equity interests in XGCL to Langfang Guofu at a consideration of RMB26,190,000.

(4) an equity transfer agreement dated 21 June 2004 entered into between Xinao Shijiazhuang as transferor and Shijiazhuang BVI as transferee whereby Xinao Shijiazhuang agreed to transfer all its 70% equity interests in Enric Gas Equipment to Shijiazhuang BVI at a consideration of US$1,715,000.

(5) an equity transfer agreement dated 21 June 2004 entered into among XGII and Langfang Guofu as transferors and Anhui BVI as transferee whereby XGII and Langfang Guofu agreed to transfer all their equity interests of 47% and 53% in Enric Compressor respectively to Anhui BVI at an aggregate consideration of HK$21,320,000.

(6) a patent licence agreement dated 3 July 2004 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby Xinao Shijiazhuang has granted to Enric Gas Equipment an exclusive right to apply the technologies under the patent of seamless pressure cylinders (patent no. ZL.02.2.41723.0) in the PRC for seven years commencing on 3 July 2004 at nil consideration.

(7) a patent licence agreement dated 3 July 2004 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby Xinao Shijiazhuang has granted to Enric Gas Equipment an exclusive right to apply the technologies under the patent of gas storage cylinder group for use at gas refueling stations (patent no. ZL.02.2.41724.9) in the PRC for seven years commencing on 3 July 2004 at nil consideration.

(8) a patent licence agreement dated 3 July 2004 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby Xinao Shijiazhuang has granted to Enric Gas Equipment an exclusive right to apply the technologies under the patent of containers for seamless pressure gas cylinders (patent no. ZL.02.2.41725.7) in the PRC for seven years commencing on 3 July 2004 at nil consideration.

(9) a trademark licence agreement dated 28 July 2004 entered into between Enric Compressor and XGCL whereby XGCL has granted to Enric Compressor a right to use the trademarks "Enric 安瑞科" (registration no. 3121213), "Enric" (registration no. 3121214) and "安瑞科" (registration no. 3121215) from 28 July 2004 to 1 January 2013 at nil consideration.

(10) a trademark licence agreement dated 28 July 2004 entered into between Enric Gas Equipment and XGCL whereby XGCL has granted to Enric Gas Equipment a right to use the trademarks "安瑞科" (registration no. 3121216), "Enric" (registration no. 3121217) and "Enric 安瑞科" (registration no. 3121218) from 28 July 2004 to 13 June 2013 at nil consideration.

(11) a tenancy agreement dated 30 September 2004 entered into between Enric Gas Equipment as tenant and Xinao Solar Energy Company Limited* (新奧太陽能有限公司) as landlord whereby Enric Gas Equipment has rented from Xinao Solar Energy Company Limited two floors (including their ancillary facilities and office equipment) of an office building located in the Langfang Economic and Technical Development Zone in the PRC at a rent of RMB520,000 per annum for a term of three years commencing on 30 September 2004 for office purpose.

(12) a property management services agreement dated 30 September 2004 entered into between Enric Gas Equipment and Langfang Xinao Property Management Company Limited* (廊坊新奧物業管理有限公司) whereby Langfang Xinao Property Management Company Limited agreed to provide property management services in relation to the rented properties under the tenancy agreement as mentioned in material contract (11) above to Enric Gas Equipment for a term of three years commencing on 1 October 2004 at a consideration of RMB180,000 per year.

(13) a trademark transfer agreement dated 10 October 2004 entered into between Enric Compressor and XGCL whereby XGCL agreed to transfer the ownership of trademarks of "Enric 安瑞科" (registration no. 3121213), "Enric"(registration no. 3121214) and "安瑞科" (registration no. 3121215) to Enric Compressor at nil consideration.

(14) a trademark transfer agreement dated 10 October 2004 entered into between Enric Gas Equipment and XGCL whereby XGCL agreed to transfer the ownership of trademarks of "安瑞科" (registration no. 3121216), "Enric" (registration no. 3121217) and "Enric 安瑞科" (registration no. 3121218) to Enric Gas Equipment at nil consideration.

(15) a share subscription agreement dated 21 January 2005 entered into between Symbiospartners as subscriber, EIGL and XGII as warrantor whereby 10 shares in EIGL were allotted and issued to Symbiospartners representing 10% of the enlarged issued share capital of EIGL at a total subscription price of US$1,900,000.

(16) a tenancy agreement dated 7 February 2005 entered into between EIGL as tenant and Xinao Gas Investment Group Limited as landlord whereby EIGL has rented from Xinao Gas Investment Group Limited a portion of certain properties in an office building located in Tower One, Lippo Centre, No. 89 Queensway, Hong Kong at a rent of HK$455,544 per annum for a term of three years commencing on 1 February 2005 for office purpose.

(17) a patent transfer agreement dated 10 March 2005 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby Xinao Shijiazhuang agreed to transfer the ownership of the patent in relation to seamless pressure cylinders (patent no. ZL.02.2.41723.0) to Enric Gas Equipment at nil consideration.

(18) a patent transfer agreement dated 10 March 2005 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby Xinao Shijiazhuang agreed to transfer the ownership of patent in relation to gas storage cylinder group for use at gas refueling stations (patent no. ZL.02.2.41724.9) to Enric Gas Equipment at nil consideration.

(19) a patent transfer agreement dated 10 March 2005 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby Xinao Shijiazhuang agreed to transfer the ownership of patent in relation to containers for seamless pressure gas cylinders (patent no. ZL.02.2.41725.7) to Enric Gas Equipment at nil consideration.

(20) an agreement for subscription of convertible redeemable bonds issued by EIGL dated 29 August 2005 between EIGL, Investec, the Company, XGII and Symbiospartners pursuant to which Investec was issued the Redeemable Convertible Bonds in the aggregate principal amount of US$5,000,000 by EIGL.

(21) a cancellation agreement dated 16 September 2005 entered into between Enric Gas Equipment and Xinao Shijiazhuang whereby the three patent licence agreements all dated 3 July 2004 between Enric Gas Equipment and Xinao Shijiazhuang (as described as material contracts nos. (6), (7) and (8) respectively in this section) were cancelled upon completion of the transfers of the three patents under the three patent transfer agreements all dated 10 March 2005 between Enric Gas Equipment and Xinao Shijiazhuang (as described as material contracts nos. (17), (18) and (19) respectively in this section).

(22) a cancellation agreement dated 16 September 2005 entered into between Enric Compressor and XGCL whereby the trademark licence agreement dated 28 July 2004 between Enric Compressor and XGCL (as described as material contract no. (9) in this section) was cancelled upon completion of the transfers of the three trademarks under the trademark transfer agreement dated 10 October 2004 between Enric Compressor and XGCL (as described as material contract no. (13) in this section).

(23) a cancellation agreement dated 16 September 2005 entered into between Enric Gas Equipment and XGCL whereby the trademark licence agreement dated 28 July 2004 between Enric Gas Equipment and XGCL (as described as material contract no. (10) in this section) was cancelled upon completion of the transfers of the trademarks under the trademark transfer agreement dated 10 October 2004 between Enric Gas Equipment and XGCL (as described as material contract no. (14) in this section).

(24) a licence agreement dated 16 September 2005 (the "Licence Agreement") entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric Integration jointly as licensees whereby it was agreed, during the remaining term of the agreement dated 6 May 2003 between Neogas and Xinao Shijiazhuang (the "Neogas Agreement") and commencing on the Listing Date, that (i) Xinao Shijiazhuang shall grant its rights under the Neogas Agreement to Enric Gas Equipment and Enric Integration exclusively at nil consideration; (ii) Xinao Shijiazhuang shall unconditionally and irrevocably undertake not to use its rights under the Neogas Agreement and not to grant any licences under the Neogas Agreement to any other parties outside the Group; (iii) any licence fees, royalties and other related fees (if any) payable under the Neogas Agreement shall be paid by Enric Gas Equipment and/or Enric Integration directly to Neogas; and (iv) Xinao Shijiazhuang shall fully indemnify the Group for any losses, damages and liabilities which may be suffered by any members of the Group as a result of the breach of the Licence Agreement and/or the Neogas Agreement by Xinao Shijiazhuang.

(25) a deed of non-competition undertaking dated 26 September 2005 given by the Initial Management Shareholders (collectively, the "Covenantors") in favour of the Company (for itself and as trustees of its subsidiaries) whereby each of the Covenantors has irrevocably given, in favour of the Company, certain non-competition undertakings as referred to in the section headed "Relationship with the controlling Shareholders — Non-competition undertakings" in this prospectus.

(26) a deed for sale and purchase of the entire issued share capital of EIGL dated 26 September 2005 entered into between XGII and Symbiospartners as vendors, the Company as purchaser and Mr. Wang and Ms. Zhao as indemnifiers, pursuant to which the Company acquired 90% and 10% of the issued share capital of EIGL from XGII and Symbiospartners respectively in consideration of the allotment and issue of 791 and 88 Shares credited as fully paid to XGII and Symbiospartners respectively.

(27) a capitalisation agreement dated 26 September 2005 entered into between the Company and XGII whereby, conditional upon the Placing becomes unconditional, the Company will allot and issue a total of 260,159,120 Shares, as to 234,143,208 Shares to XGII and 26,015,912 Shares to Symbiospartners (as nominated by XGII) respectively, all credited as fully paid, on capitalisation of cash advances in the sum of RMB45,000,000 due and owing by the Company to XGII.

(28) a deed of indemnity dated 10 October 2005 entered into among XGII, Mr. Wang and Ms. Zhao (collectively, the "Indemnifiers") and the Company for itself and as trustee for its subsidiaries, under which the Indemnifiers have given certain indemnities referred to in the section headed "Other information – Estate duty and tax and other indemnities" in this Appendix.

(29) the Underwriting Agreement.

Intellectual property rights

(1) Trademarks

(a) As at the Latest Practicable Date, the Group had registered the following trademarks in the PRC:

Name of registered owner	Trademark	Class	Registration no.	Valid period
Enric Compressor		7, 9 (air compressors (空氣壓縮機) only)	149460	7 December 2002- 28 February 2013

(b) As at the Latest Practicable Date, the ownership of the following trademarks had been transferred from XGCL to the Group pursuant to two trademark transfer agreements both dated 10 October 2004 between the Group and XGCL (each being a material contract as referred to in the section headed "Summary of material contracts" in this Appendix):

	Name of registered owner	Trademarks	Class	Registration no.	Valid period
1.	Enric Compressor	Enric 安瑞科	7	3121213	21 April 2004- 20 April 2014
2.	Enric Compressor	Enric	7	3121214	21 April 2004- 20 April 2014
3.	Enric Compressor	安瑞科	7	3121215	21 September 2003- 20 September 2013
4.	Enric Gas Equipment	安瑞科	6	3121216	14 June 2003- 13 June 2013
5.	Enric Gas Equipment	Enric	6	3121217	14 June 2003- 13 June 2013
6.	Enric Gas Equipment	Enric 安瑞科	6	3121218	14 June 2003- 13 June 2013

(c) As at the Latest Practicable Date, the Group had applied for registration of the following trademarks :

Trademark	Name of applicant	Place of application	Class	Application date
Enric 安瑞科	Enric Integration	PRC	2-5, 13-45	4 July 2005
Enric	Enric Integration	PRC	2-5, 13-45	4 July 2005
安瑞科	Enric Integration	PRC	2-5, 13-45	4 July 2005
Enric	The Company	HK	6, 7	15 September 2005

(2) Patents

As at the Latest Practicable Date, the ownership of the following patents had been transferred from Xinao Shijiazhuang to the Group pursuant to three patent transfer agreements all dated 10 March 2005 between Enric Gas Equipment and Xinao Shijiazhuang (each being a material contract as referred to in the section headed "Summary of material contracts" in this Appendix).

	Patent	Patent no.	Valid period
1.	Seamless pressure cylinders 高壓氣體瓶式壓力容器	ZL.02.2.41723.0	3 July 2004-2 July 2011
2.	Gas storage cylinder group for use at gas refueling stations 站用儲氣瓶組	ZL.02.2.41724.9	3 July 2004-2 July 2011
3.	Containers for seamless pressure gas cylinders 高壓氣體瓶式集裝箱	ZL.02.2.41725.7	3 July 2004-2 July 2011

As at the Latest Practicable Date, Enric Gas Equipment and Enric Integration have been granted the exclusive rights of Xinao Shijiazhuang to apply the technologies of the following patent of Neogas pursuant to a licence agreement dated 16 September 2005 between Xinao Shijiazhuang, Enric Gas Equipment and Enric Integration (being a material contract as referred to in the section headed "Summary of material contracts" in this Appendix). Neogas has been granted a patent of the relevant technologies in United States and has applied to the State Intellectual Property Office of the PRC for registration of such patent in the PRC.

Patent	Application no.	Application date
Compressed Natural Gas Dispensing System	02803740.5	15 March 2002

(3) Domain name

As at the Latest Practicable Date, the Group had registered the following domain names in the PRC:

Domain Name	Registration date	Expiry date
enricgroup.com	3 June 2002	3 June 2010
enricgroup.com.cn	31 July 2005	31 July 2010

FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

(1) Directors

Immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions) once the Shares are listed, or will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

(a) Beneficial interests in the Company

Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Total
Mr. Wang	–	–	234,144,000 Shares[(1)]	4,000,000 Shares[(2)]	238,144,000 55.13%
Ms. Zhao	–	4,000,000 Shares[(3)]	234,144,000 Shares[(1)]	–	238,144,000 55.13%
Mr. Cai Hongqiu	–	–	–	1,400,000 Shares[(4)]	1,400,000 0.32%
Mr. Yu Jianchao	–	–	–	1,000,000 Shares[(5)]	1,000,000 0.23%
Mr. Zhao Xiaowen	–	–	–	1,000,000 Shares[(6)]	1,000,000 0.23%
Mr. Zhou Kexing	–	–	–	1,000,000 Shares[(7)]	1,000,000 0.23%

Notes:

(1) The two references to 234,144,000 Shares relate to the same block of Shares. Such Shares are held by XGII which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. Ms. Zhao is the spouse of Mr. Wang and therefore both Mr. Wang and Ms. Zhao are deemed to be interested in such 234,144,000 Shares under the SFO.

(2) The 4,000,000 Shares represent underlying interests in Shares pursuant to share options granted by the Company to Mr. Wang under the Pre-IPO Share Option Plan. Further details of such options are disclosed under the paragraph headed "Outstanding options granted under the Pre-IPO Share Option Plan" in this Appendix.

(3) Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted to Mr. Wang.

(4) The 1,400,000 Shares represent underlying interests in Shares pursuant to share options granted by the Company to Mr. Cai Hongqiu under the Pre-IPO Share Option Plan. Further details of such options are disclosed under the paragraph headed "Outstanding options granted under the Pre-IPO Share Option Plan" in this Appendix.

(5) The 1,000,000 Shares represent underlying interests in Shares pursuant to share options granted by the Company to Mr. Yu Jianchao under the Pre-IPO Share Option Plan. Further details of such options are disclosed under the paragraph headed "Outstanding options granted under the Pre-IPO Share Option Plan" in this Appendix.

(6) The 1,000,000 Shares represent underlying interests in Shares pursuant to share options granted by the Company to Mr. Zhao Xiaowen under the Pre-IPO Share Option Plan. Further details of such options are disclosed under the paragraph headed "Outstanding options granted under the Pre-IPO Share Option Plan" in this Appendix.

(7) The 1,000,000 Shares represent underlying interests in Shares pursuant to share options granted by the Company to Mr. Zhou Kexing under the Pre-IPO Share Option Plan. Further details of such options are disclosed under the paragraph headed "Outstanding options granted under the Pre-IPO Share Option Plan" in this Appendix.

(8) The shareholding percentages listed above refer to the relevant shareholdings in the issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing (without taking into account any exercise of the Over-allotment Option or the exercise of the options which have been granted under the Pre-IPO Share Option Plan and may be granted under the Share Option Scheme).

(b) Beneficial interests in the shares of associated corporations

	Name of associated corporation	Name of Director	Personal interests	Family interests	Corporate interests	Interests in underlying shares pursuant to outstanding share options	Aggregate interests	Approximate shareholding percentage
(i)	XGII	Mr. Wang	500 shares	500 shares	–	–	1,000 shares	100.00%
		Ms. Zhao	500 shares	500 shares	–	–	1,000 shares	100.00%
(ii)	Xinao Gas	Mr. Wang	2,594,000 shares	–	384,486,000 shares *(Note 2)*	700,000 shares	387,780,000 shares	43.02%
		Ms. Zhao	–	2,594,000 shares *(Note 3)*	384,486,000 shares *(Note 2)*	700,000 shares *(Note 4)*	387,780,000 shares	43.02%

Notes:

(1) All shares and underlying shares stated in the above table, unless otherwise stated, relate to ordinary shares of the relevant associated corporation.

(2) The two references to 384,486,000 shares relate to the same block of shares. Such shares are held by XGII which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

(3) Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares by virtue of the SFO.

(4) Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted to Mr. Wang by virtue of the SFO.

Save as disclosed herein and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company will, immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, have any interests and short positions in the share capital, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions) once the Shares are listed, or will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed.

(2) Substantial Shareholders

Save as disclosed in the section headed "Substantial, Initial Management and Significant Shareholders" in this prospectus, the Directors are not aware of any persons, not being a Director or chief executive of the Company, who will immediately following completion of the Capitalisation Issue, the Conversion and the Placing be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or who are expected to have interests or short positions in the Shares and underlying Shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(3) Particulars of service agreements

Each of the executive Directors has entered into a service agreement with the Company. Particulars of these agreements, except as indicated, are in all material respects identical and are summarised below:

(a) each service agreement is of an initial term of three years commencing on the 1 October 2005 and shall continue thereafter until terminated in accordance with the terms of the agreement. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than six months' prior written notice, provided that such notice is not to be given at any time prior to the six months before expiry of the initial term;

(b) the monthly salary for each of Mr. Wang, Cai Hongqiu, Yu Jianchao, Zhao Xiaowen and Zhou Kexing from the commencement of his appointment as executive Director in 2005 and for 2006 and 2007 shall be HK$75,000, HK$50,000, HK$25,000, HK$33,000 and HK$33,000 respectively. As from 2008, the annual salary of each executive Director shall be as determined by the Board, provided that any increment of which 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, in its absolute discretion approve provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year; and

(d) each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolutions of the Board regarding the amount of annual salary and management bonus and, where applicable, housing allowance payable to himself.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any other members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(4) Directors' remuneration

(a) The Company's policies concerning remuneration of the executive Directors are:

(i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided to the Directors under their remuneration package; and

(iii) the executive Directors may be granted, at the discretion of the Board, options pursuant to the Share Option Schemes, as part of their remuneration package.

(b) An aggregate of approximately RMB142,000 and RMB154,000 were paid to the Directors as remuneration for the financial year ended 31 December 2004 and the six months ended 30 June 2005. No directors' remuneration was incurred for the year ended 31 December 2003. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

(c) An aggregate of approximately HK$1,043,000 (excluding any management bonus which may be paid) is expected to be paid as remuneration to the Directors by the Group in respect of the financial year ending 31 December 2005 pursuant to the present arrangement.

(d) 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 two financial years ended 31 December 2004 and the six months ended 30 June 2005 (i) as an inducement to join or upon joining the Company; or (ii) 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.

(e) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two financial years ended 31 December 2004 and the six months ended 30 June 2005.

(f) The non-executive Director and each of the independent non-executive Directors has been appointed for a term of three years, commencing on the Listing Date and on 7 February 2005 respectively and thereafter eligible for re-election. Save for monthly remuneration of HK$5,000, none of the non-executive Director and the independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or as an independent non-executive Director, respectively.

(g) Save as disclosed in Note 6 of Appendix I to this prospectus, none of the Directors received any remuneration or benefits in kind from the Group for each of the two financial years ended 31 December 2004 and the six months ended 30 June 2005. Particulars of emoluments paid to the five persons who received the highest emoluments from the Group for each of the two financial years ended 31 December 2004 and the six months ended 30 June 2005 are set out in Note 7 to the accountants' report set out in Appendix I to this prospectus.

(h) Each of Mr. Wang and Ms. Zhao, by virtue of his/her directorship (or then directorship) of the other companies involved in the Reorganisation, is or may be considered to be interested in the steps of Reorganisation and in related transactions and arrangements.

(i) Each of Mr. Wang and Ms. Zhao, by virtue of his/her interests in the shares in the other companies involved in the Reorganisation, is or may be considered to be interested in the steps of Reorganisation and in related transactions and arrangements.

(5) Disclaimers

Save as disclosed herein:

(a) none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required pursuant to section 352 of the SFO to be entered in the register referred to in that section, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules once the Shares are listed;

(b) none of the Directors nor any of the persons whose names are listed in the section headed "Consents 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;

(c) none of the Directors nor any of the persons whose names are listed in the section headed "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;

(d) none of the persons whose names are listed in the section headed "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;

(e) 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);

(f) 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

(g) so far as is known to the Directors and save as disclosed in this prospectus, none of the Directors, their respective associates (as defined in the GEM Listing Rules) 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.

SHARE OPTION SCHEMES

Summary of the terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved by the written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively:

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants (as defined in paragraph (2) below) and for such other purposes as the Board may approve from time to time.

(2) Who may join

The Board may, at its absolute discretion, invite (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any substantial Shareholders or any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professionals and other advisers to each member of the Group (or persons firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial Shareholders; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial Shareholders (respectively, the "Participants" and each a "Participant"), to take up options ("Options") to subscribe for Shares at a price calculated in accordance with paragraph (5) below.

In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(3) Grant of Options

Any grant of Options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of: (a) the date of the meeting of the Board for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (b) the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the relevant results announcement, no Option may be granted.

(4) Payment on acceptance of option offer

HK$1.00 is payable by the Participant to the Company on acceptance of the Option as consideration for the grant. The Option to which the offer relates shall be deemed to have been granted on the date of offer of such Option.

(5) Subscription price of Shares

Subject to any adjustments made pursuant to paragraph (12) below and pursuant to Rule 23.01(3) of the GEM Listing Rules, the subscription price in respect of each Share issued pursuant to the exercise of the Options granted under the Share Option Scheme will be a price solely determined by the Board and notified to a Participant and shall be at least 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 of the Option to the Participant, which must be a day (other than a Saturday or a Sunday) on which licenced banks are open for business in Hong Kong and the Stock Exchange is open for the business of dealing in securities (a "Trading Day"); (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer of the Option to the Participant (provided that the Placing Price shall be used as the closing price for any Trading Day falling within the period before the Listing if the Shares have been listed for less than five Trading Days before the offer date of the Option); and (c) the nominal value of a Share.

(6) Maximum number of Shares available for subscription and maximum entitlement of Shares of each Participant

(a) The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% (the "Scheme Mandate Limit") of the total number of Shares in issue on the Listing Date (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option), which is expected to be 43,200,000 Shares, unless the Company obtains a fresh approval from the Shareholders pursuant to sub-paragraph (b) below. Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

(b) The Company may seek approval of the Shareholders in general meeting for refreshing the Scheme Mandate Limit such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% (the "Refreshed Limit") of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Limit. In such a case, the Company shall send a circular to the Shareholders containing the information required under the GEM Listing Rules.

(c) The Company may seek approval by the Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit or Refreshed Limit provided the Options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. In such a case, the Company shall send a circular to the Shareholders containing the information required under the GEM Listing Rules.

(d) Notwithstanding the above and subject to paragraph (12) below, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

(e) Subject to paragraph (6)(f) below, the maximum number of Shares issued and to be issued upon exercise of the options granted pursuant to the Share Option Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

(f) Notwithstanding paragraph (6)(e) above, any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the Shareholders' approval in general meeting with such Participant and his associates abstaining from voting. The number of Shares and the terms of the Options to be granted to such Participants shall be fixed before the Shareholders' approval and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price. In such a case, the Company shall send a circular to the Shareholders containing the information required under the GEM Listing Rules.

(7) Requirements on granting Options to connected persons

Any grant of Options to a Participant who is a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates (including a discretionary trust whose discretionary objects include a director, chief executive, management shareholder or substantial shareholder of the Company or a company beneficially owned by any director, chief executive, management shareholder or substantial shareholder of the Company) must be approved by the independent non-executive Directors (excluding an independent non-executive Director who is the grantee). Where the board of Directors proposes to grant any Option to a Participant who is a substantial shareholder or an independent non-executive Director or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial Shareholder or an independent non-executive Director or a company beneficially owned by any substantial Shareholder or independent non-executive Director), would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted pursuant to the Share Option Scheme and other share option schemes of the Company (including options exercised, cancelled and outstanding) to such Participant in the 12-month period up to and including the date of grant:

(a) representing in aggregate more than 0.1% of the total number of Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000,

such proposed further grant of Options must be approved by the Shareholders in general meeting. In such a case, the Company shall send a circular to the Shareholders containing all those terms as required under the GEM Listing Rules. All connected persons of the Company must abstain from voting at such general meeting (except that any connected person may vote against the relevant resolution provided that his intention to do so has been stated in the circular). Any vote taken at the meeting to approve the grant of such Options must be taken on a poll. Shareholders' approval as required under this paragraph

(7) is also required for any changes in the terms of Options granted to a Participant who is a substantial Shareholder or an independent non-executive Director, or any of their respective associates.

(8) 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 more than 10 years to be notified by the Board to each grantee, which period shall deem to commence on the date of the offer of the Option to the Participant and expire on the last day of such period as determined by the Board.

Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance targets that need to be achieved by the grantee before an Option can be exercised nor any minimum period for which an Option must be held before it can be exercised.

(9) Rights are personal to grantee

An Option shall be personal to the grantee and shall not be transferable nor assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third parties over or in relation to any Options (where the Grantee is a company, any changes of its major shareholder or any substantial changes in its management (to be determined by the Board at its absolute discretion) will be deemed to be a sale or transfer of interest aforesaid). Any breaches of the foregoing by a grantee shall entitle the Board to cancel any outstanding Options or part thereof.

(10) Rights on ceasing employment or engagement

If the grantee of an option ceases to be a Participant for any reason other than on his death or termination of his employment, directorship, office or appointment on one or more of the grounds specified in paragraph (17)(e) below, 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 been exercised) within the period of 3 months (or such longer period as the Board may determine) following the date of such cessation. Such date of cessation shall be, in the case of an employee, a director, a consultant, professional and other advisers or chief executives of the relevant company, the last actual working day with the relevant company whether salary is paid in lieu of notice or not, or the last date of office or appointment, or in the case of a discretionary object, the date of the last actual working day with the relevant company or the last date of office or appointment of the settlor of the discretionary trust and the date of cessation as determined by a resolution of the board of directors or governing body of the relevant company shall be conclusive.

(11) Rights on death

If the grantee of an Option, if an individual, dies before exercising the Option in full and none of the events which would be a ground for termination of his employment, directorship, office or appointment under paragraph (17)(e) below arises, his personal representative(s) of the grantee shall be entitled within a period of 12 months, or such longer period as the Board may determine, from the date of death, to exercise the Option up to the entitlement of such grantee as at the date of death (to the extent that the Option has become exercisable and not already been exercised).

(12) Reorganisation of capital structure

In the event of any alternations in the capital structure of the Company whilst any Option remain exercisable, whether by way of capitalisation issue, rights issue, sub-division, consolidation of Shares or reduction of the share capital of the Company (other than as a result of an issue of Shares as consideration in a transaction), such corresponding alterations (if any) must be confirmed in writing by an independent financial adviser appointed by the Company or the auditors for the time being of the Company to the Directors, provided that any such alterations shall be in compliance with the requirements of the GEM Listing Rules but so that no such alterations shall be made to the effect that any Share would be issued at less than its nominal value.

(13) Rights on take-over

If a general offer by way of take-over (other than by way of scheme of arrangement pursuant to paragraph (14) below) is made to all the Shareholders (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) and if such offer becomes or is declared unconditional prior to the expiry of the relevant period of which an Option may be exercised, the Company shall forthwith give notice thereof to the grantee and the grantee (or his personal representative(s)) may by notice in writing to the Company within 21 days of such notice of the offeror exercise the Option (to the extent that the Option has become exercisable on the date of the notice of the offeror and not already been exercised) to its full extent or to the extent specified in such notice.

(14) Rights on scheme of arrangement

If a general offer by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall forthwith give notice thereof to the grantee and the grantee (or his personal representative(s)) may thereafter (but only until such time as shall be notified by the Company, after which it shall lapse) exercise the Option (to the extent the Option has become exercisable and not already been exercised) to its full extent or to the extent specified in such notice.

(15) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its 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, other than a general offer or a scheme of arrangement contemplated in paragraph (13) or (14) above, the Company shall give notice thereof to the grantee on the same date as it despatches 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 his personal representative(s)) may forthwith and until the expiry of the period commencing on such date and ending on the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court, exercise any of his Options (to the extent the Option has become exercisable and not already been 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 his personal representative(s)) 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 would have been the case had such Shares been subject to such compromise or arrangement.

(16) Voluntary wind-up

If a notice is given by the Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice give notice thereof to all grantees. Each grantee (or his legal personal representative(s)) may by notice in writing to the Company (such notice to be received by the Company not later than two Trading Days prior to the date of the proposed general meeting, exercise the Option (to the extent the Option has become exercisable and not already been exercised) in accordance with the Share Option Scheme whereupon the Company shall as soon as possible and, in any event, no later than the Trading Day immediately prior to the date of the proposed general meeting allot the relevant Shares to the grantee credited as fully paid.

(17) Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already been exercised) on the earliest of:

(a) the expiry of the option period;

(b) the expiry of the periods referred to in paragraph (10), (11), (13) or (16) above respectively;

(c) subject to the scheme of arrangement referred to in paragraph (14) becoming effective, the expiry of the period referred to in paragraph (14) above;

(d) subject to the compromise or arrangement referred to in paragraph (15) becoming effective, the expiry of the period referred to in paragraph (15) above;

(e) the date on which the grantee ceases to be a full-time or part-time employee, director, consultant, professional or other adviser, discretionary objects of a discretionary trust or chief executive of the relevant company or substantial shareholder of the Company (as the case may be) by reason of the termination of his employment, directorship, office or appointment on the grounds that he has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect of being able to pay debts, or has become insolvent, or has made any arrangements or compositions with his creditors generally, or has been convicted of any criminal offences involving his integrity or honesty, in the event of which the board of directors of the relevant company or substantial shareholder of the Company (as the case may be) shall at its absolute discretion determine whether the employment, directorship, office or appointment of the Grantee has been terminated on one or more of the grounds specified in this paragraph (17)(e);

(f) the close of two Trading Days prior to the general meeting of the Company held for the purpose of approving the voluntary winding-up of the Company or the date of commencement of the winding-up of the Company referred in paragraph (16) above;

(g) the date on which the Option is cancelled by the Board as provided in paragraph (9) above; or

(h) the date on which the Option is cancelled by the Board as set forth in paragraph (19) below.

(18) Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to the Memorandum and the Articles and will rank pari passu in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in 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 shall be before the date of allotment and issue.

(19) Cancellation of Options granted

The Board may, with the consent of the relevant grantee, at any time at its absolute discretion cancel any Option granted but not exercised. Where the Company cancels Options and makes an offer of grant of new Options to the same grantee, the offer of such new Options may only be made under the Share Option Scheme with available Options (to the extent not yet granted and excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in paragraph (6) above.

(20) Period of the Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by written resolution of the Shareholder, after which period no further Options will be issued but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme, 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.

(21) Alteration to the Share Option Scheme

The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of Participants except with the prior approval of a resolution of the Shareholders in general meeting (with Participates 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 in writing of such majority of the affected grantees as would be required the Shareholders under the Articles for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature shall be approved by the Shareholders, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. Any changes to the authority of the Board or scheme administrators in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting. The terms of the Share Option Scheme, as it may from time to time be amended, must comply with the relevant requirements of Chapter 23 of the GEM Listing Rules and the laws of Hong Kong in force from time to time.

(22) Termination

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect.

Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme and (if applicable) Options that become void or non-exercisable as a result of the termination must be disclosed in the circular to the Shareholders seeking approval of the first new share option scheme to be established after such termination of the Share Option Scheme.

(23) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (a) the passing of the necessary resolution to adopt the Share Option Scheme by the Shareholder; (b) no objection having been received by the Company from the Listing Committee prior to the Listing in relation to the adoption of any terms of the Share Option Scheme; (c) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the granting of the 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; (d) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise.

Application has been made to the 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 the date of this prospectus, no Option has been granted or agreed to be granted by the Company under the Share Option Scheme.

Summary of the terms of the Pre-IPO Share Option Plan

The principal terms of the Pre-IPO Share Option Plan approved by the written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively are substantially the same as the terms of the Share Option Scheme except that:

(a) the purpose of the Pre-IPO Share Option Plan is to recognise the contribution of certain existing and past employees and directors of the Group to the growth of the Group and/or to the Listing;

(b) the total number of Shares in respect of which options may be granted under the Pre-IPO Share Option Plan is 13,800,000 Shares, and the total number of Shares to be issued upon exercise of options granted to each participant must not exceed 13,800,000 Shares;

(c) the exercise price of the options is equal to the Placing Price;

(d) the Pre-IPO Share Option Plan is valid from 26 September 2005 until the day immediately prior to the Listing Date, after which no further options will be issued but its provisions will remain in force to give effect to the exercise of any options granted prior thereto;

(e) the Pre-IPO Share Option Plan takes effect upon its adoption by the written resolution of the Shareholder, but the exercise of any option granted is conditional upon:

(i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Plan and to be granted under the Share Option Scheme; and

(ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise.

Application has been made to the 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 Pre-IPO Share Option Plan.

Outstanding options granted under the Pre-IPO Share Option Plan

As at the date of this prospectus, the following options have been granted under the Pre-IPO Share Option Plan:

Name of grantee	Address	Number of Shares subject to the options	Approximate percentage of issued share capital of the Company immediately upon the Listing (if the Over-allotment Option is not exercised) *(Note 1)*	Approximate percentage of issued share capital of the Company immediately upon the Listing (if the Over-allotment Option is exercised in full)
Directors				
Mr. Wang	No.18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	4,000,000 *(Note 2)*	0.926%	0.898%
Mr. Cai Hongqiu	903C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	1,400,000	0.324%	0.314%
Mr. Yu Jianchao	1503C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	1,000,000	0.231%	0.225%

Name of grantee	Address	Number of Shares subject to the options	Approximate percentage of issued share capital of the Company immediately upon the Listing (if the Over-allotment Option is not exercised) *(Note 1)*	Approximate percentage of issued share capital of the Company immediately upon the Listing (if the Over-allotment Option is exercised in full)
Mr. Zhao Xiaowen	101,2-3, Jinhua Lane Jinsanjiao District Yinhe Street Langfang City Hebei Province The PRC	1,000,000	0.231%	0.225%
Mr. Zhou Kexing	603C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	1,000,000	0.231%	0.225%
Senior management				
Mr. Cheong Siu Fai	Flat D, 27th Floor, Block 2 Sunshine Grove Tak Yi Street, Shatin New Territories Hong Kong	700,000	0.162%	0.157%
Mr. Yang Weifeng	2-1-503, Fenghe Xingyuen Xishi Dajie, Nankai District Tianjin City the PRC	600,000	0.139%	0.135%
Mr. Ren Yingjian	603C, Block 8 Kongzhong Garden Langfang City Hebei Province The PRC	600,000	0.139%	0.135%
Mr. Ren Zhiqing	5-1-602, Jinhua Lane Langfang City Hebei Province The PRC	500,000	0.116%	0.112%
Mr. Tu Guangzong	304D, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	500,000	0.116%	0.112%

Name of grantee	Address	Number of Shares subject to the options	Approximate percentage of issued share capital of the Company immediately upon the Listing (if the Over-allotment Option is not exercised) *(Note 1)*	Approximate percentage of issued share capital of the Company immediately upon the Listing (if the Over-allotment Option is exercised in full)
Employee				
Mr. Jin Yongsheng	No.1-502, Jin Cheng Lane Langfang City Hebei Province The PRC	2,000,000	0.463%	0.450%
Mr. Guo Wei	1-3-5, Xijia Bei'eryuan 100 Xiyuan, Haidian District Beijing The PRC	500,000	0.116%	0.112%
		13,800,000		

Notes:

1. Refers to the issued share capital of the Company immediately following the completion of the Capitalisation Issue, the Conversion and the Placing, without taking into account any exercise of the Over-allotment Option or the exercise of the options which have been granted under the Pre-IPO Share Option Plan and may be granted under the Share Option Scheme.

2. Any Shares to be issued upon exercise of options granted to Mr. Wang under the Pre-IPO Share Option Plan shall be subject to restriction on disposal during the Lock-up Period.

The above options granted under the Pre-IPO Share Option Plan are exercisable by each grantee in the following manner:

Maximum percentage of option exercisable	Period for exercise of the relevant percentage of the option
50% of the total number of the options granted to any grantee (rounded down to the nearest whole number of Shares)	Upon the expiry of six months after the Listing Date up to 10 years from the date of grant of the options
100% of the total number of the options granted to any grantee (rounded down to the nearest whole number of Shares)	Upon the expiry of 24 months after the Listing Date up to 10 years from the date of grant of the options

There is no performance target that needs to be achieved by the grantee before an option can be exercised.

Upon the completion of the Capitalisation Issue, the Conversion and the Placing and assuming that all of the outstanding options granted under the Pre-IPO Share Option Plan were exercised in full upon the Listing, the respective shareholding interests of XGII, Investec, Symbiospartners and the public would be reduced from approximately 54.20%, 12.00%, 6.02% and 27.78% of the issued share capital of the Company prior to issue of Shares pursuant to the exercise of such options to approximately 52.52%, 11.63%, 5.84% and 26.92% of the issued share capital of the Company as enlarged by the issue of Shares pursuant to the exercise of such options granted under the Pre-IPO Share Option Plan, taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

In the event that the options granted under the Pre-IPO Share Option Plan are exercised in full or in part, the earnings per Share and the shareholding interests of the then existing Shareholders would be diluted.

OTHER INFORMATION

Estate duty and tax and other indemnities

XGII, Mr. Wang and Ms. Zhao (collectively, the "Indemnifier(s)") have entered into a deed of indemnity with and in favour of the Group to provide indemnities on a joint and several basis in respect of, among other matters, (1) any liabilities for Hong Kong estate duty which might be incurred by any members of the Group by reason of any transfers of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any members of the Group on or before the date on which the Placing becomes unconditional; (2) any losses, damages and liabilities which may be suffered by any members of the Group as a result of the title defects of certain property interests of the Group; (3) any penalty imposed by PBOC or such other appropriate authority on any unlawful loans receivables of the Group or any loss suffered in connection with such penalty; and (4) any losses, damages and liability which may be suffered by any members of the Group as a result of failure to renew the tenancy agreement in respect of premises in Langsen Vehicle Industrial Zone.

The Indemnifiers will however, not be liable under the deed of indemnity for taxation where (i) provision or allowance has been made for such taxation in the audited consolidated accounts of the Group for the period from 1 January 2003 to 30 June 2005 (the "Accounts"); (ii) the taxation arises or is incurred as a result of a retrospective change in law or an increase in tax rates coming into force after the date of the deed of indemnity; and (iii) unless notice in respect of such taxation claim has been given to the Indemnifiers within six years after the effective date of the deed of indemnity.

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 Cayman Islands, BVI or the PRC, being the jurisdictions in which one or more of the companies comprising the Group were incorporated.

Litigation

No member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Sponsor

China Everbright has made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein (including but not limited to any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and pursuant to the exercise of any options granted under the Pre-IPO Share Option Plan and to be granted under the Share Option Scheme).

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US$2,800 and are payable by the Company.

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
China Everbright Capital	Registered investment adviser
KPMG	Certified public accountants
Sallmanns (Far East) Limited	Property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Beijing Grandfield Law Firm	PRC lawyers

Consents of experts

Each of China Everbright Capital, KPMG, Sallmanns (Far East) Limited, Conyers Dill & Pearman and Beijing Grandfield Law Firm 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.

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.

Advisory fees or commissions received

The Underwriters will receive an underwriting commission and the Sponsor will receive an advisory fee as referred to in the section headed "Underwriting – Commission and expenses" in this prospectus.

Miscellaneous

Save as disclosed in this prospectus:

- 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;
- 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;
- no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
- 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; and
- none of China Everbright Capital, KPMG, Sallmanns (Far East) Limited, Conyers Dill & Pearman and Beijing Grandfield Law Firm:
  - is interested beneficially or non-beneficially in any shares in any member of the Group; or
  - 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.

No company within the Group is presently listed on any stock exchange or traded on any trading system.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and registered and filed by the Registrar of Companies in Hong Kong were, amongst other documents, (a) the written consents referred to in the section headed "Consent of experts" in Appendix VII to this prospectus; (b) copies of the material contracts referred to in the section headed "Summary of material contracts" in Appendix VII to this prospectus; and (c) the statements of adjustments to the accountants' reports as set out in Appendices I and II to this prospectus prepared by KPMG.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountants' reports prepared by KPMG, the texts of which are set out in Appendices I and II to this prospectus, together with the statements of adjustments;

(c) the letter relating to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this prospectus;

(d) where applicable, the audited financial statements of the companies now comprising the Group for each of the two financial years ended 31 December 2004 (or for the period since their respective dates of incorporation/establishment where it is shorter);

(e) the letters relating to the profit forecast for the financial year ending 31 December 2005, the text of which is set out in Appendix IV to this prospectus;

(f) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix V to this prospectus;

(g) the material contracts referred to under the section headed "Summary of material contracts" in Appendix VII to this prospectus;

(h) the service agreements referred to under the section headed "Particulars of service agreements" in Appendix VII to this prospectus;

(i) the rules of the Pre-IPO Share Option Plan and the Share Option Scheme;

(j) the written consents referred to under the section headed "Consents of experts" in Appendix VII to this prospectus;

(k) the letter prepared by Conyers Dill and Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix VI to this prospectus; and

(l) the Companies Law.