Enric

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)

Listing by Introduction

Sponsor

China Everbright Capital Limited

IMPORTANT

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

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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)

LISTING BY WAY OF INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE COMPANY ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock code on Main Board	**:**	**3899**
Stock code on GEM	**:**	**8289**

Sponsor

China Everbright Capital Limited

This document is published in connection with the listing by way of introduction of the entire issued share capital of Enric Energy Equipment Holdings Limited (the "Company") on the Main Board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This document contains particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Main Board Listing Rules") and the Securities and Futures (Stock Market Listing) Rules of Hong Kong for the purpose of giving information with regard to the Company.

This document does not constitute an offer of, nor is it calculated to invite offers for, the shares or other securities of the Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to members of the public. No new shares of the Company will be issued in connection with, or pursuant to, the publication of this document.

Your attention is drawn to the section headed "Risk Factors" in this document.

The shares of HK$0.01 each in the capital of the Company (the "Shares") have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("HKSCC") for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from 18 October 2005, the date on which dealings in the Shares on the Growth Enterprise Market of the Stock Exchange ("GEM") commenced. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continual compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence.

All necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

27 June 2006

EXPECTED TIMETABLE

Despatch of circular, the notice of the Extraordinary General Meeting and the related form of proxy to the Shareholders	Tuesday, 27 June 2006
Despatch of this document to the Shareholders	Tuesday, 27 June 2006
Latest time for lodgement of related form of proxy for the Extraordinary General Meeting	10:00 a.m. on Monday, 10 July 2006
Extraordinary General Meeting	10:00 a.m. on Wednesday, 12 July 2006
Announcement of results of the Extraordinary General Meeting to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the GEM website	Thursday, 13 July 2006
Last day of dealing in the Shares on GEM	Wednesday, 19 July 2006
Withdrawal of listing of the Shares on GEM effective from	9:30 a.m. on Thursday, 20 July 2006
Dealings in the Shares on the Main Board to commence on	9:30 a.m. on Thursday, 20 July 2006

Notes:

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

2. Shareholders will be informed by public announcement of any changes to the expected timetable above.

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You should rely only on the information contained in this document 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 document.

Any information or representation not made in this document must not be relied on by you as having been authorised by the Company, the Sponsor, their respective directors, or any other person or party involved in the Introduction.

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This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

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 document. You should read that section carefully before you decide to invest in the Shares.

BUSINESS OVERVIEW

The Group is an integrated business solutions provider in the gas energy industry in the PRC and one of the leading specialised gas equipment manufacturers in the PRC. The Group is principally engaged in the provision of integrated business solutions in the gas energy industry and the design, manufacture and sale of specialised gas equipment including compressors, pressure vessels, natural gas refueling stations and compressed natural gas trailers which are essential to the transportation, storage and distribution of natural gas 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. The Directors believe that such substantial investments combined with policies encouraging the utilisation of natural gas will result in increase in demand for integrated business solutions and specialised gas equipment in the gas energy industry.

According to China's Energy Development Report 2003 issued by Beijing Academy of Economic Development Institution, the demand for natural gas is forecasted to increase to approximately 200 bcm by 2020, representing an increase of approximately 785% when comparing with a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand for natural gas in the PRC in 2020 will be applied to the power generation sector and approximately 35% to the city gas sector including NGVs. 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 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.

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 three years ended 31 December 2005, the Group recorded turnover of approximately RMB68.9 million, RMB252.4 million and RMB513.0 million respectively. Such turnover of the Group for the year ended 31 December 2004 and the year ended 31 December 2005 represent an increase of approximately 266.3% and 103.3% when comparing with the turnover of the Group for the year ended 31 December 2003 and the year ended 31 December 2004 respectively.

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 Neogas, an 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.

In order to further enhance its services and products capabilities to its customers, the Group established Beijing Enric on 16 December 2005 as a focused arm for the purpose of carrying out research and development in manufacturing technology and integrated business solutions in order to strengthen technical service support to its customers.

The Shares have been listed on GEM since 18 October 2005 (Stock code: 8289). As at the Latest Practicable Date, based on the closing price of the Shares on GEM of HK$4.075 per Share, the Company had a market capitalisation of approximately HK$1,814.2 million. The Directors believe that the listing of the Shares on the Main Board will help to further enhance the profile of the Group and increase the trading liquidity of the Shares and recognition by attracting larger institutional, professional and retail investors. The Directors consider that the listing of the Shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Company.

The Directors believe that the Group has an established reputation within the PRC for its capabilities in providing integrated business solutions and specialised gas equipment for the gas energy market, which are reliable and supported by 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 and comprehensive services and products provider in the gas energy industry. The Group also plans to market and sell its integrated business solutions and energy equipment products in the international market.

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 demand 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 integrated services and products provider;
- Comprehensive sales and services network coupled with effective marketing strategies;
- Highly experienced management team; and
- Strong shareholder's background.

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

The Group is an integrated business solutions provider in the gas energy industry and one of the leading specialised gas equipment manufacturers 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 the committed effort of the PRC Government to ensure more efficient use of energy 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 and promotion of utilisation of natural gas 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 integrated business solutions and gas equipment are 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 services and products.

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 the PRC.

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 the United States and in the PRC (Details of which are set out in sections headed "Business – Intellectual property – Patented technologies" and "Connected transactions" in this document).

The Directors believe that such access to foreign technologies and advanced techniques affords the Group a technological 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 local as well as 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 and approval to manufacture seamless pressure cylinder from DOT in the U.S. and the Certificate of Registration for Manufacturing of Seamless Pressure Cylinder from the 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 requirements, standards and/or strict regulations imposed on participants in the provision of integrated business solutions and/or in the gas equipment market 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 gas equipment together with solid track record and experience 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 consists of over 120 professionals.

The Directors believe that the Group's research and development capability coupled with the Group's knowledge of the PRC market 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 integrated services and products provider

The Group is an integrated business solutions and gas equipment provider providing comprehensive services and products for the gas energy industry covering the design of complete system, manufacturing of specialised gas and related equipment, and also the installation, commissioning, testing, training and technical support service of equipment and systems (including maintenance and after sales services). The Directors are of the view that this is important in order to enable the Group to establish regular channel of communications with its customers and the gas energy industry in the PRC in order to gain better understanding and knowledge of the specific or special or changing needs of its customers as well as the development of the gas energy industry in the PRC as a whole.

The Directors believe that the comprehensive services and products provided by the Group afford the Group a competitive edge over its competitors by reason of being able to provide a broader spectrum of services and products for its customers and to be more effective in responding and adapting to the specific or special or changing needs of its customers and to the development of the gas energy market in the PRC as a whole.

Comprehensive sales and services network coupled with effective marketing strategies

The Group based its sales, services and marketing strategies on the concept of "Customers Come First". The Group has established a team of over 100 members with offices in nine cities in the PRC, namely Shanghai, Bengbu, Guangzhou, Chongqing, Langfang, Xi'an, Shenyang, Wuhan and Urumqi in order to cover customers based in those cities and in the nearby regions. The Group's sales and marketing team provides technical support, product orientation, on-site order and consultancy 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 marketing network provides a competitive edge to the Group over its main competitors, 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 an executive Director of the Company, has 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. Jin Yongsheng, the chief executive officer of the Company and an executive Director, has years of experience in both managing enterprises in the PRC and legal practice. Mr. Jin, who holds an executive master's degree in Business Administration and is also a qualified lawyer in the PRC, will be responsible for strategic planning jointly with Mr. Wang, investor relationship and executing the decisions made by the Board. Mr. Cai Hongqiu, the general manager 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 provider of integrated business solutions and specialised gas equipment manufacturer in the gas energy industry. Mr. Wang, a controlling Shareholder and the co-founder of the Group, has substantial experience in the natural gas industry in the PRC. Apart from his interests in the Group, Mr. Wang also has interests in (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 in, operating and managing gas pipeline infrastructure and the sale and distribution of piped and bottled 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 document). 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:

Time of grant	Awards and honours
October 2005	High and new technology enterprise
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

FUTURE PLANS AND PROSPECTS

The Directors anticipate strong growth in the demand for integrated business solutions in the gas energy industry and energy equipment in the PRC in the foreseeable future. The Directors believe that the Group is well positioned to capture this opportunity as the Group can leverage on its experience, established market position and solid track record. The Group plans to:

- **Enhance 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; and
- purchase of more advanced and efficient equipment and facilities for production and enhancement of its quality control capability.

● **Strengthen 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, 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 for use 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 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.

- **Expand and strengthen sales and marketing network and efforts**

The Group plans to expand its sales and marketing network and market coverage by increasing the coverage of sales network utilising existing sales network and strengthening its sales capabilities by focusing on products sales, selling its products through dealers and distributors, 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;
- advertising in well-known magazines in the PRC gas industry to enhance the Group's profile and promote its products and services; and
- enhancing overseas sales network by way of setting up the Group's overseas sales offices and/or appointment of distributors and dealers to move into international market gradually.

- **Upgrade 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. In November 2005, the Group has obtained the approval for manufacturing seamless pressure cylinder from DOT.

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

- **Establish strategic business collaborations and pursue 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 will 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.

USE OF PROCEEDS FROM THE PLACING IN OCTOBER 2005

The Company raised approximately HK$175 million of net proceeds through the Placing in October 2005. Set out below is the intended use of proceeds as stated in the Prospectus and as revised by the announcement of the Company regarding the exercise of the over-allotment option dated 31 October 2005:

- as to approximately HK$99.0 million for enhancing the productivity of the Group through expanding and upgrading the Group's production and related facilities;
- as to approximately HK$36.9 million for strengthening research and development capability of the Group to further develop key products and technologies;
- as to approximately HK$17.4 million for expanding the Group's sales and marketing efforts by increasing sales offices and promotion;
- as to approximately HK$4.2 million for upgrading the Group's business qualifications so as to establish a foundation for its expansion into the U.S. and European market with an aim to further consolidate its position; and
- as to approximately HK$17.5 million for general working capital of the Group.

The Group's actual use of proceeds for the period since the GEM Listing and up to the Latest Practicable Date was approximately HK$43.0 million in the following manner:

- as to approximately HK$31.6 million for productivity enhancement;
- as to approximately HK$7.2 million for research and development;
- as to approximately HK$3.5 million for marketing; and
- as to approximately HK$0.7 million for business qualifications.

The Group will use the remaining unutilised net proceeds of approximately HK$132.0 million in accordance with its plans as set out in the Prospectus and as revised by the announcement of the Company regrading the exercise of the over-allotment option dated 31 October 2005. The Group will from time to time review its business plans in the best interests of the Shareholders.

TRADING RECORD

The following table summarises the Group's consolidated income statements for each of the three years ended 31 December 2005. The summary should be read in conjunction with the accountants' report set out in Appendix I to this document:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Turnover	68,943,423	252,375,698	513,013,890
Cost of sales	(40,771,008)	(177,790,799)	(362,953,734)
Gross profit	28,172,415	74,584,899	150,060,156
Other revenue	5,846,076	5,109,203	3,537,864
Selling expenses	(7,633,349)	(12,803,532)	(23,150,938)
Administrative expenses	(11,636,603)	(23,110,803)	(51,441,412)
Other net income/(expenses)	302,158	2,681,210	(603,924)
Profit from operations	15,050,697	46,460,977	78,401,746
Finance costs	(4,443,570)	(6,082,089)	(7,813,959)
Profit before taxation	10,607,127	40,378,888	70,587,787
Income tax	–	(1,814,458)	(1,882,093)
Profit for the year	10,607,127	38,564,430	68,705,694
Attributable to:			
Equity shareholders of the Company	10,607,127	36,191,118	68,705,694
Minority interests	–	2,373,312	–
Profit for the year	10,607,127	38,564,430	68,705,694
Earnings per Share			
– Basic(1)	0.041	0.139	0.225
– Diluted(2)	N/A	N/A	0.224

Note:

(1) The calculation of basic earnings per Share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 305,283,288 Shares, after taking into account the 260,160,000 Shares

of the Company in issue and issuable as at the date of the Prospectus, as if the Shares were outstanding throughout the year ended 31 December 2005, and the issue of Shares by conversion of Convertible Redeemable Bonds and the Placing during the year ended 31 December 2005.

The calculation of basic earnings per Share for the years ended 31 December 2003 and 2004 was based on the profit attributable to ordinary equity shareholders of the Company of RMB10,607,127 and RMB36,191,118 respectively and on the 260,160,000 Shares of the Company in issue and issuable as at the date of the Prospectus, as if these Shares were outstanding throughout the years ended 31 December 2003 and 2004.

(2) The calculation of diluted earnings per Share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 306,681,163 Shares, after taking into account the potential dilutive effect of the Shares upon exercise of the options granted under the Pre-GEM Listing Share Option Plan.

UNAUDITED CONSOLIDATED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2006

On 10 May 2006, the Group announced the unaudited consolidated results for the three months ended 31 March 2006, which together with the comparative unaudited consolidated figures for the corresponding period in 2005, are as follows:

	For the three months ended 31 March	
	2006	**2005**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Turnover	128,313	83,127
Cost of sales	(89,019)	(57,631)
Gross profit	39,294	25,496
Other revenue	1,167	436
Selling expenses	(5,579)	(4,050)
Administrative expenses	(15,995)	(8,328)
Other net expenses	(260)	–
Profit from operations	18,627	13,554
Finance costs	(2,032)	(2,102)
Profit before taxation	16,595	11,452
Income tax	(1,179)	(664)
Profit for the period and attributable to equity shareholders of the Company	15,416	10,788
Earnings per Share		
– Basic	RMB 0.035	RMB 0.042
– Diluted	RMB 0.034	N/A

SUMMARY OF RISK FACTORS

Risk factors relating to the Group

- Sustainability of growth in turnover and profit
- Reliance on suppliers
- Reliance on key management
- Reliance on skilled employees
- Business licences, certificates and permits
- Reliance of banking facilities
- Decreasing gross profit margin in respect of sale of compressors
- Net current liabilities
- Relatively long inventory turnover period
- Relationship with the controlling Shareholders
- Concentration of ownership
- Reliance on the ultimate controlling Shareholders
- Legal risks on the loan receivable of the Group
- 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 Shares

- Proceeds obtained from the Placing may not be sufficient to finance the Group's business plan

- Potential dilutive effect of the Pre-GEM Listing Share Option Plan and the Proposed Share Option Scheme

CONDITIONS OF THE WITHDRAWAL AND THE INTRODUCTION

The implementation of the Withdrawal and the Introduction are conditional upon amongst other things:

(i) the Listing Committee granting approval for the listing on the Main Board of, and permission to deal on the Main Board in, (i) the 445,200,000 Shares in issue; (ii) 13,800,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Pre-GEM Listing Share Option Plan; and (iii) any Shares which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme;

(ii) the passing of an ordinary resolution by the Shareholders at the Extraordinary General Meeting to approve the Withdrawal and the proposed reduction in the notice period for the Withdrawal;

(iii) the publication of a notice of the Withdrawal after obtaining the approval of Shareholders referred to in condition (ii) above on a date that is not less than five clear Business Days prior to the Main Board Listing Date; and

(iv) the obtaining of all other relevant consents which are required in connection with the implementation of the Withdrawal and the Introduction and fulfillment of all conditions which may be attached to such consents.

KEY FINANCIAL INFORMATION

Earnings per Share for the financial year ended 31 December 2005 *(Note 1)* RMB0.225

Diluted earnings per Share for the financial year ended 31 December 2005 *(Note 2)* RMB0.224

Net tangible asset value per Share *(Note 3)* RMB0.895

Board lot size .... 2,000 Shares

Notes:

(1) The calculation of basic earnings per Share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 305,283,288 Shares, after taking into account the 260,160,000 Shares in issue and issuable as at the date of the Prospectus, as if the Shares were outstanding throughout the year ended 31 December 2005, and the issue of Shares by conversion of Convertible Redeemable Bonds and the Placing during the year ended 31 December 2005.

(2) The calculation of diluted earnings per Share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 306,681,163 Shares, after taking into account the potential dilutive effect of the Shares upon exercise of the options granted under the Pre-GEM Listing Share Option Plan.

(3) The net tangible asset value per Share has been arrived at based on the 445,200,000 Shares in issue as at the date of this document as if such Shares were outstanding throughout the financial year ended 31 December 2005 but not taking into account of any Shares which may be issued pursuant to the exercise of any options granted under the Pre-GEM Listing Share Option Plan or the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

In this document, 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 document.

"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 Main Board Listing Rules
"Beijing Enric"	Beijing Enric Energy Technologies Limited* (北京安瑞科新能能源科技有限公司), a wholly foreign owned enterprise with limited liability incorporated in the PRC on 16 December 2005, which is wholly owned by Langfang BVI
"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 on which the Stock Exchange is open for business of dealing in securities
"BVI"	the British Virgin Islands
"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 document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"China Everbright Capital" or "Sponsor"	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 (advising on corporate finance)
"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 Main Board Listing Rules
"controlling Shareholder(s)"	XGII, Mr. Wang and Ms. Zhao
"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), a wholly foreign owned enterprise which was incorporated with limited liability in the PRC on 14 March 2002, which is wholly owned by Anhui BVI
"Enric Gas Equipment"	Shijiazhuang Enric Gas Equipment Company Limited* (石家莊安瑞科氣體機械有限公司), a wholly foreign owned enterprise with limited liability incorporated in the PRC on 30 September 2003, which is wholly owned by Shijiazhuang BVI
"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
"Extraordinary General Meeting"	an extraordinary general meeting of the Company to be held at 10:00 a.m. on Wednesday, 12 July 2006 at Vinson Room, Pacific Place Conference Centre, Level 5 One Pacific Place, 88 Queensway, Hong Kong or any adjournment thereof
"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"	the listing of the Shares on GEM, the commencement of which took place on 18 October 2005
"GEM Listing Date"	18 October 2005, being the date on which tradings of the Shares on GEM commenced
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended from time to time
"GEM Share Option Scheme"	the share option scheme adopted by the Company pursuant to the written resolution of the then sole Shareholder 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 principal terms of the GEM Share Option Scheme" in Appendix VI to this document

"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 and the substantial shareholders of the Company, its subsidiaries and any of their respective associates
"Introduction"	the proposed listing of the Shares on the Main Board by way of an introduction pursuant to the Main Board Listing Rules
"Investec"	Investec Bank (UK) Limited, a company incorporated in the United Kingdom and a wholly owned subsidiary of Investec PLC, which is an international investment and private banking group and the shares of which are listed on the London Stock Exchange
"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"	20 June 2006, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document

"Listing Committee"	the listing committee of the Stock Exchange
"Main Board"	the securities market operated by the Stock Exchange prior to the establishment of GEM which continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Main Board Listing"	the listing of the Shares on the Main Board
"Main Board Listing Date"	the date on which the trading of the Shares commence on the Main Board, which is expected to be on or about Thursday, 20 July 2006
"Main Board Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"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 Cooperation 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 CNG and an Independent Third Party
"PBOC"	The People's Bank of China, the central bank of the PRC
"Placing"	the placing of an aggregate of 133,200,000 new Shares (after taking into account of 13,200,000 new Shares pursuant to the exercise of the over-allotment option of the underwriters) at HK$1.50 per Share as referred to in the Prospectus in connection with the GEM Listing
"PRC Government" or "State"	the government of the PRC
"Pre-GEM Listing 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 principal terms of the Pre-GEM Listing Share Option Plan" in Appendix VI to this document
"Proposed Share Option Scheme"	the share option scheme proposed to be conditionally adopted at the Extraordinary General Meeting, a summary of the principal terms of which is set out in the section headed "Share Option Schemes – Summary of the principal terms of the Proposed Share Option Scheme" in Appendix VI to this document
"Prospectus"	the prospectus of the Company dated 10 October 2005 in connection with the GEM Listing by way 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 pursuant to the Convertible Bond Subscription Agreement, the conversion rights of which were exercised in full on 18 October 2005
"Reorganisation"	the corporate reorganisation which the Group underwent in preparation of the GEM Listing
"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(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 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
"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
"substantial shareholder"	has the meaning given to it by the Main Board Listing Rules
"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 respectively
"Track Record Period"	the three years ended 31 December 2005
"United States" or "U.S."	the United States of America

"US$"	US dollars, the lawful currency of the United States
"Withdrawal"	the voluntary withdrawal of listing of the Shares on GEM
"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 73.0% 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) (Stock code: 2688), 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
"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.
"*"	for identification purposes only

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

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

HK$1.00	=	*RMB1.06 (for amounts of a date before 21 July 2005)*
	=	*RMB1.04 (for amounts of a date on or after 21 July 2005)*
US$1.00	=	*HK$7.8*

No representation is made that any amounts in RMB, HK$ or US$ 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 document 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 document. 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
"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 assembly and manufacture of related equipment, 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 uses 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

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

RISK FACTORS RELATING TO THE GROUP

Sustainability of growth in turnover and profit

During the year ended 31 December 2004 and the year ended 31 December 2005, the Group had experienced a growth rate in turnover of approximately 266.3% and 103.3% respectively and a growth rate in net profit attributable to equity holders of the Company of approximately 241.2% and 89.8% respectively (further details are set out in the section headed "Financial information" in this document). The Group's financial results in 2004 reflected the results of the two new product lines launched under Enric Gas Equipment. The Directors believe that the increase in the turnover and net profit for the year ended 31 December 2005 as compared with the year ended 31 December 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 year ended 31 December 2004 only included Enric Gas Equipment's nine months' operations whereas the turnover and net profit for the year ended 31 December 2005 reflected the full one-year period operations of the Group. There is no assurance that the turnover or the net profit attributable to equity holders of the Company 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 the Group's 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 three years ended 31 December 2005, purchases from the largest supplier of the Group, accounted for approximately 10.7%, 20.3% and 27.8% 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 46.2% of the total purchases of the Group respectively. For each of the three years ended 31 December 2005, the Group's purchases from related parties accounted for approximately 11.8%, 31.1% and 0.1% of the total purchases of the Group respectively. None of the Group's related parties were the largest or top five largest suppliers of the Group for the years ended 31 December 2003 and 31 December 2005. For the year ended 31 December 2004, Xinao Shijiazhuang and Xinao Group International Economic Development Limited were the two largest suppliers of the Group, which accounted for approximately 20.3% and 7.5% of the total purchases of the Group respectively.

The Group also purchased products from other overseas suppliers which are situated in Germany, Italy and the Netherlands. 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. 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, 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 document), in particular, Mr. Wang, Mr. Jin Yongsheng and Mr. Cai Hongqiu, all being the 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. Jin has been appointed as the chief executive officer of the Company and an executive Director with effect from 5 June 2006. Mr. Jin is responsible for the Group's strategic planning jointly with Mr. Wang, investor relationship and executing the decisions made by the Board. Mr. Cai is the general manager of the Company. He is fully responsible for the overall operations of the Group.

Other than Mr. Jin Yongsheng, who has been appointed as an executive Director and the chief executive officer of the Company with effect from 5 June 2006, each of the executive Directors has entered into a service agreement and a supplemental service agreement with the Company for an initial term of three years commencing on 1 October 2005. Mr. Jin Yongsheng has entered into a service agreement with the Company commencing on 5 June 2006 and expiring on 30 September 2008. Such service agreements may be terminated by the executive Director giving not less than six months' notice (as supplemented, if applicable) in writing. Each of the key technical and management personnel (as referred to in the section headed "Directors, senior management and staff – Senior management" in this document) 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 any 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 Group's future plans and prospects and the implementation of the Group's business strategies and objectives 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 offered 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.

Reliance on banking facilities

The Group generally finances its operation with internally-generated cashflow and short term banking facilities provided by its principal bankers in the PRC. As at 31 December 2003, 31 December 2004 and 31 December 2005, the gearing ratios of the Group (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 17.3% respectively. Apart from using internal cash flow to finance its operation, the Group may also require banking facilities to manage its operation. There is no guarantee that the existing banking facilities will be continued or new banking facilities can be obtained. In the event that the Group's bankers become reluctant to continue extending the existing banking facilities or the Group is unable to obtain new banking facilities from the Group's bankers, the Group's operation and financial position may be adversely affected.

Decreasing gross profit margin in respect of sale of compressors

The gross profit margin of the Group in respect of sale of compressors for each of the three years ended 31 December 2005 were approximately 41.0%, 36.6% and 29.6% respectively. Such decreasing trend in gross profit margin was mainly due to the increasing cost of manufacturing overhead and raw materials for compressors. Should the manufacturing overhead and raw materials for compressors continue to increase the gross profit margin in respect of sale of compressors might be adversely affected.

Net current liabilities

The Group had net current liabilities of approximately RMB10.7 million as at 31 December 2003 and approximately RMB75.1 million as at 31 December 2004, and net current assets of approximately RMB266.1 million as at 31 December 2005. As at 31 December 2003, the Group's current liabilities mainly comprised short-term bank loans of approximately RMB84.0 million, amounts due to related parties of approximately RMB51.6 million and trade and bills payable of approximately RMB16.8 million. As at 31 December 2004, the Group's current liabilities mainly comprised short-term bank loans of approximately RMB 132.9 million, amounts due to related parties of approximately RMB65.2 million and trade and bills payables of approximately RMB41.7 million. As at 31 December 2005, the Group's current liabilities mainly comprised short-term bank loans of RMB125.0 million, trade and bills payable of approximately RMB95.2 million and other payables and accrued expenses of RMB86.2 million. The change from net current liabilities as at 31 December 2004 to net current assets as at 31 December 2005 was mainly due to a substantial increase in cash in the amount of approximately RMB307.7 over the said period and the capitalisation of cash advances in the sum of RMB45.0 million due to XGII pursuant to a capitalisation agreement dated 26 September 2005 entered into between the Company and XGII in connection with the GEM Listing. However, there is no assurance that the net assets position of the Group will be maintained in the future.

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 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. Further details of indebtedness and liquidity, financial resources and capital structure of the Group are set out in the section headed "Financial information" in this document.

Relatively long inventory turnover period

The average inventory turnover days of the Group for each of the three years ended 31 December 2005 were 194, 110 and 103 respectively. 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.

Relationship with the controlling Shareholders

Mr. Wang and Ms. Zhao, whether collectively or individually, 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; and
- provision of finance lease.

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

Concentration of ownership

XGII, an associate of Mr. Wang and Ms. Zhao, controls approximately 52.6% of the total issued share capital of the Company. 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 Shareholders

The Group has been and will continue to carry out certain connected transactions with companies, which Mr. Wang and/or Ms. Zhao directly or indirectly have or has interests in, in particular with 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 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 year ended 31 December 2005, the sales of products by the Group to Xinao Gas Group, amounted to approximately RMB97 million, representing approximately 18.9% 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 RMB185 million and RMB271 million for each of the two years ending 31 December 2007 respectively, representing approximately 36.1% and 52.8% of the Group's total turnover in 2005 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 RMB23 million, RMB31 million for each of the two years ending 31 December 2007 respectively, representing approximately 4.5% and 6.0% of the Group's total turnover in 2005 respectively.

For further information on these connected transactions, please refer to the section headed "Connected transactions" in this document. 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.

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 (《關於對企業借貸合同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 of the loan and interest thereon are fully repaid, the penalties will be withdrawn.

As the Group has been repaid the outstanding loan together with interest accrued thereon on or before 31 March 2005 and has not been 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, 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 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.

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, amendments to existing or new 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.

RISK 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 the Group's business is substantially 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 falls 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$, has been based on rates set by the PBOC, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of RMB into HK$ and US$ have generally 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

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. In addition, Enric Gas Equipment has received an award recognising it as a high and new technology enterprise (高新技術企業) from the Hebei Science and Technology Office (河北省科學技術廳) on 1 July 2005 and Enric Gas Equipment is entitled to a preferential tax rate of 15% on its taxable profits with effect from the year ended 31 December 2005. 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.

RISK FACTOR RELATING TO THE SHARES

Proceeds obtained from the Placing may not be sufficient to finance the Group's business plan

The Group's business plan is expected to be financed in part by the net proceeds from the Placing and in part from internal resources and banking facilities. In the event that the said net proceeds, internal resources and/or available banking facilities are insufficient to finance the business plan of the Group and the Group is unable to obtain additional banking facilities and/or to raise funding by way of equity fund raising pursuant to which the Company will be subject to certain restrictions, details of which are set out in the sub-section headed "Waivers from strict compliance with Rules 10.07(1) and 10.08 of the Main Board Listing Rules" under the section headed "Waiver from strict compliance with the Main Board Listing Rules" in this document, the business plan of the Group may not materialise or may be adversely affected.

Potential dilutive effect of the Pre-GEM Listing Share Option Plan and the Proposed Share Option Scheme

The Company has granted options over an aggregate of 13,800,000 Shares pursuant to the Pre-GEM Listing Share Option Plan to a total of 12 participants (including six executive Directors, five members of the senior management and one employee of the Group). Such options are all exercisable at an exercise price equal to the placing price of the Share of HK$1.50 under the Placing. If the above options are exercised in full, the Shares to be issued would represent approximately 3.1% of the issued share capital of the Company as at the date hereof.

If the options granted under the Pre-GEM Listing Share Option Plan are exercised in full, the audited diluted earnings per Share for the financial year ended 31 December 2005 will be approximately RMB0.224 (approximately HK$0.215), the amount of which is not significantly different when compared with the audited basic earnings per Share for the financial year ended 31 December 2005 of approximately RMB0.225 (approximately HK$0.216) without taking into account of the exercise of the options granted under the Pre-GEM Listing Share Option Plan. Full particulars of the options that have been granted pursuant to the Pre-GEM Listing Share Option Plan are set out under the section headed "Share Option Schemes – Summary of the principal terms of Pre-GEM Listing Share Option

Plan" in Appendix VI to this document. The Company has also in place the GEM Share Option Scheme and, as at the Latest Practicable Date, no options were granted under the GEM Share Option Scheme. In addition, the Company will propose at the Extraordinary General Meeting to approve the adoption of the Proposed Share Option Scheme subject to the Introduction, and, if approved, the Company will be able to issue further options under the Proposed Share Option Scheme amounting up to a maximum of 10% of the issued share capital of the Company as at the date of passing of the relevant resolution approving the Proposed Share Option Scheme, provided that the limit of the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the number of Shares in issue from time to time.

FORWARD-LOOKING STATEMENTS

The Company has made certain forward-looking statements in this document regarding, among other things, the Group's future performance, conditions, plans, prospects, business strategies and objectives. These forward-looking statements are based on the Company's current expectations and projections about future events. Although the Company believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things, those risks identified in the section headed "Risk Factors" in this document.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would", "aim" and similar expression(s), as they relate to the Group, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of the Company and/or its management (as the context requires) with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialise, or should underlying assumptions or projections prove to be incorrect, the Group's future performance, conditions, plans, prospects, business strategies and objectives may be adversely affected and may vary materially from those statements in this documents where the abovementioned words or similar expressions have been used. Accordingly, such statements are not a guarantee of future performance, conditions, plans, prospects, business strategies and objectives, and you should not place undue reliance on such forward-looking information.

In connection with the Introduction, the Company has applied for three waivers under the Main Board Listing Rules: (a) a waiver from strict compliance with Rule 8.12 of the Main Board Listing Rules relating to sufficient management presence in Hong Kong; (b) a waiver from restrictions on further issues of securities within six months of listing on the Main Board as required under Rule 10.08 of the Main Board Listing Rules and a consequential waiver from strict compliance with the restrictions under Rule 10.07(1) of the Main Board Listing Rules in respect of the deemed disposal of Shares by the controlling Shareholders upon the issue of securities by the Company within the six months of listing on the Main Board; and (c) a waiver from the announcement and Shareholders' approval requirements as required under Rule 14A.35 of the Main Board Listing Rules for certain continuing connected transactions.

WAIVERS FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE MAIN BOARD LISTING RULES

Pursuant to Rule 8.12 of the Main Board Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong and this normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

As at the Latest Practicable Date, the Board consists of six executive Directors, namely Mr. Wang, Mr. Jin Yongsheng, Mr. Cai Hongqiu, Mr. Yu Jianchao, Mr. Zhao Xiaowen and Mr. Zhou Kexing, all of whom ordinarily reside in the PRC. Since the operations of the Group are managed and conducted principally in the PRC and no business activity is carried out or managed in Hong Kong, the Company considers that it would be practically difficult and commercially unnecessary for the Company to either relocate two executive Directors to Hong Kong or to appoint two additional executive Directors who are Hong Kong residents.

In connection with the Introduction, the Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Main Board Listing Rules. In order to maintain effective communication with the Stock Exchange, the Company has put in place the following measures to ensure that sufficient communication is maintained between the Stock Exchange and the Company:

(a) the Company (i) has appointed Mr. Cai Hongqiu, an executive Director and Mr. Cheong Siu Fai, the company secretary and qualified accountant of the Company who ordinarily resides in Hong Kong, as the authorised representatives of the Company; (ii) has authorised the said two authorised representatives and their alternates to act as the principal channel of communication between the Company and the Stock Exchange; (iii) will ensure that the authorised representatives and their alternates will comply with the relevant requirements of the Main Board Listing Rules at all times; and (iv) will provide the Stock Exchange with the contact details of each of the authorised representatives and their respective alternates. The authorised representatives and their alternates will have access to the Board and senior management of the Company at all times;

(b) each of the Directors (including the independent non-executive Directors) possesses valid travel documents and will be able to meet with the Stock Exchange on reasonable notice as and when required;

(c) Mr. Wong Chun Ho, one of the independent non-executive Directors, and Mr. Cheong Siu Fai, the company secretary and qualified accountant as well as one of the authorised representatives of the Company, both of whom ordinarily reside in Hong Kong, will be available to meet with the Stock Exchange on reasonable notice as and when required;

(d) all of the Directors will be readily contactable through the authorised representatives by telephone, facsimile, or email; and

(e) the Company will retain a compliance adviser in accordance with Rule 3A.19 of the Main Board Listing Rules which will act as the alternative channel of communication with the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH RULES 10.07(1) AND 10.08 OF THE MAIN BOARD LISTING RULES

In connection with the Introduction, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the restrictions on further issues of securities within six months of listing on the Main Board as required under Rule 10.08 of the Main Board Listing Rules and a consequential waiver from Rule 10.07(1) of the Main Board Listing Rules in respect of the deemed disposal of Shares by the controlling Shareholders upon the issue of securities by the Company within six months of listing on the Main Board subject to the following conditions:

(i) any issue of Shares (or convertible securities) during the first six months after listing on the Main Board must be either for cash to fund a specific acquisition or as part or full consideration for acquisitions;

(ii) the acquisition(s) mentioned in (i) above must be for asset(s) or business(es) that will contribute to the growth of the operation of the Group; and

(iii) XGII will not cease to be a controlling Shareholder as a result of the deemed disposal of the Shares within six months of listing on the Main Board.

Save and except for the deemed disposal of Shares by the controlling Shareholders upon the issue of securities by the Company (subject to the restriction on deemed disposal of Shares by XGII as set out in condition (iii) above), the controlling Shareholders have confirmed that they will comply with the restrictions on the disposal of securities under Rule 10.07(1) of the Main Board Listing Rules.

The Company has applied to the Stock Exchange for waivers from strict compliance with Rule 10.08 of the Main Board Listing Rules and a consequential waiver from Rule 10.07(1) of the Main Board Listing Rules for the following reasons:

(i) the Company will not raise any new funds pursuant to the Introduction. Therefore, the Shareholders would not suffer any dilution of their interests as a result of the Company's listing on the Main Board;

(ii) upon the GEM Listing and as at the Latest Practicable Date, XGII owned approximately 52.6% of the Company's issued share capital. Thus demonstrating that XGII, as a controlling Shareholder, has not been actively disposing of its Shares; and

(iii) the Company is of the view that the interests of the Shareholders are protected since any further issue of Shares by the Company would be subject to Shareholders' approval as required under Rule 13.36 of the Main Board Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35 OF THE MAIN BOARD LISTING RULES

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 document following the Introduction and these transactions will constitute continuing connected transactions of the Company (collectively, the "Continuing Connected Transactions") under the Main Board Listing Rules upon the Main Board Listing. According to the Main Board 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 two years ending 31 December 2007 or 2.5% of the total market capitalisation of the Group as at the Main Board Listing Date, these transactions will be subject to the reporting, announcement and independent Shareholders' approval requirements under Rule 14A.35 of the Main Board Listing Rules upon the Main Board 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 and the Company has already obtained a waiver from the Stock Exchange in respect of these transactions under the requirements of the GEM Listing Rules upon the GEM Listing, the Directors (including the independent non-executive Directors) consider that full compliance with the disclosure and the independent Shareholders' approval requirements under the Main Board Listing Rules 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 14A.42 of the Main Board Listing Rules. The Company will comply with Rules 14A.36 to 14A.41 of the Main Board 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 two financial years ending 31 December 2007 shall not exceed the respective caps below:

	Annual cap	
Type of transactions	**2006**	**2007**
	RMB million	*RMB million*
Product sales agreement with Xinao Gas as purchaser (representing itself and as trustee of its subsidiaries)	185	271
Product sales and finance lease agreement with Hebei Finance Leasing Company Limited as purchaser	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; 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 above are fair and reasonable so far as the Shareholders taken as a whole are concerned.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules and the Main Board 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 document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. the information contained in this document 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 document misleading; and

3. all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to the offer, of the Shares or other securities of the Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of the Company and the Sponsor to subscribe for or purchase any of the Shares. Neither this document nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Introduction may be used for the purpose of making, and the delivery, distribution and availability of this document or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of the Company and the Sponsor to subscribe for or purchase any of the Shares.

NO CHANGE IN NATURE OF BUSINESS

No change in the nature of business of the Group is contemplated following the Introduction.

APPLICATION FOR LISTING ON THE MAIN BOARD

The Company has applied to the Listing Committee for the listing of, and permission to deal in, on the Main Board (i) the 445,200,000 Shares in issue; (ii) 13,800,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Pre-GEM Listing Share Option Plan; and (iii) any Shares which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme.

At present, the Company is not seeking or proposing to seek listing or permission to deal in any of its securities on any other stock exchange.

DISCONTINUATION OF QUARTERLY REPORTING

Under the GEM Listing Rules, the Company is required to publish its quarterly results on the internet website operated by the Stock Exchange. Upon the listing of the Shares on the Main Board, the Company will cease the practice of quarterly reporting and will follow the relevant requirements of the Main Board Listing Rules which include, among other things, through paid announcements in newspapers generally circulated in Hong Kong, publishing its interim results within three months from the end of the relevant period and its annual results within four months from the financial year-end. The Directors are of the view that following the reporting requirements under the Main Board Listing Rules will provide investors and the Shareholders with a high degree of transparency and a complete picture of the performance of the Group during the relevant period. The Directors also believe that the cessation of quarterly reporting would save significant publishing costs and other related expenses, and enable management to devote more management time to other key aspects of the operation of the Group's business.

SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 18 October 2005, the date on which dealings in the Shares on GEM commenced. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continual compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence.

All necessary arrangements have been made with HKSCC for (i) the 445,200,000 Shares in issue; (ii) 13,800,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Pre-GEM Listing Share Option Plan; and (iii) any Shares which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

STAMP DUTY

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, the Sponsor, any of their respective directors, agents or advisers or any other person or party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, any person resulting from the holding or dealing of Shares.

CONDITIONS OF THE WITHDRAWAL AND THE INTRODUCTION

The implementation of the Withdrawal and the Introduction are conditional upon, amongst other things:

(i) the Listing Committee granting approval for the listing on the Main Board of, and permission to deal on the Main Board in, (i) the 445,200,000 Shares in issue; (ii) 13,800,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Pre-GEM Listing Share Option Plan; and (iii) any Shares which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme;

(ii) the passing of an ordinary resolution by the Shareholders at the Extraordinary General Meeting to approve the Withdrawal and the proposed reduction in the notice period for the Withdrawal;

(iii) the publication of a notice of the Withdrawal after obtaining the approval of Shareholders referred to in condition (ii) above on a date that is not less than five clear Business Days prior to the Main Board Listing Date; and

(iv) the obtaining of all other relevant consents which are required in connection with the implementation of the Withdrawal and the Introduction and fulfillment of all conditions which may be attached to such consents.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board is expected to commence on or about Thursday, 20 July 2006. Shares will be traded in board lots of 2,000 Shares each.

ROUNDING

Any discrepancies in any table or chart in this document between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this document and their English translations, the Chinese names shall prevail.

Name	Residential address	Nationality
Executive Directors		
Wang Yusuo (王玉鎖) *(Chairman)*	No. 18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	Chinese
Jin Yongsheng (金永生) *(Chief Executive Officer)*	No. 1-502, Jin Cheng Lane Langfang City Hebei Province The PRC	Chinese
Cai Hongqiu (蔡洪秋)	903C, 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
Yu Jianchao (于建潮)	1503C, 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

Name	Residential address	Nationality
Independent non-executive Directors		
Wong Chun Ho (王俊豪)	Flat E, 6th Floor Block 27, South Horizons Ap Lei Chau Hong Kong	Chinese
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

Sponsor	China Everbright Capital Limited 40th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Legal advisers to the Company	*as to Hong Kong law:* Woo, Kwan, Lee & Lo 27th Floor, Jardine House 1 Connaught Place Central Hong Kong *as to PRC law:* Beijing Grandfield Law Firm 18th Floor, Tower C International Investment Building 6-9, North Fu Chengmen Street Xicheng District Beijing 100034 PRC *as to Cayman Islands law:* Conyers Dill & Pearman Century Yard, Cricket Square Hutchins Drive George Town Grand Cayman British West Indies
Legal advisers to the Sponsor	*as to Hong Kong law:* Jackson Woo & Associates 11th Floor, Kailey Tower 16 Stanley Street Central Hong Kong
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 website	www.enricgroup.com www.enricgroup.com.cn
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*
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
Audit committee	Wong Chun Ho (王俊豪) *(Chairman)* Gao Zhengping (高正平) Shou Binan (壽比南)

Remuneration committee	Jin Yongsheng (金永生) *(Chairman)* Gao Zhengping (高正平) Shou Binan (壽比南)
Nomination committee	Jin Yongsheng (金永生) *(Chairman)* Wong Chun Ho (王俊豪) Gao Zhengping (高正平)
Compliance adviser	China Everbright Capital Limited 40th Floor, Far East Finance Centre 16 Harcourt Road 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
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 **Bank of China (Hong Kong)** Bank of China Tower 1 Garden Road Hong Kong

Certain statistics and information provided in this section are derived from various official sources and other publications more specifically described in this section. 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 any facts or statistics which are directly or indirectly derived from official sources. None of the Company and the Sponsor, their respective directors, agents or advisers makes any representation or accepts responsibility for the accuracy or completeness of such statistics and information which are directly or indirectly derived from official sources.

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, the world's primary energy consumption is forecasted to increase at an average annual rate of approximately 2.0% over the period from 2003 to 2025, higher than the corresponding rate of approximately 1.5% over the preceding 14-year period (1990 – 2003). The world's primary energy consumption in 2025 is expected to reach approximately 644.6 quadrillion Btu, representing an increase of approximately 52.9% from approximately 421.5 quadrillion Btu in 2003. The following table shows the amount of world's primary energy consumption by different types of energy sources in 1990 and 2003 and the forecasted amounted in 2025 respectively:

Primary energy consumption (history and projections)	Quadrillion Btu			Share (%)			Average annual growth rate(%)	
	1990	2003	2025	1990	2003	2025	1990-2003	2003-2025
Total	**348.2**	**421.5**	**644.6**	**100**	**100**	**100**	**1.5**	**2.0**
Oil	136.0	162.2	243.4	39	38	38	1.4	1.9
Natural gas	75.0	99.1	162.1	22	24	25	2.2	2.3
Coal	90.5	100.7	156.1	26	24	24	0.8	2.0
Nuclear	20.3	26.5	34.1	6	6	5	2.1	1.2
Other	26.4	32.9	48.9	7	8	8	1.7	1.8

*Source: **History**: EIA, International Energy Annual 2003, (Washington, DC, May 2005); **Projections**: EIA, Annual Energy Outlook 2005, (Washington, DC, February 2005).*

Global natural gas market

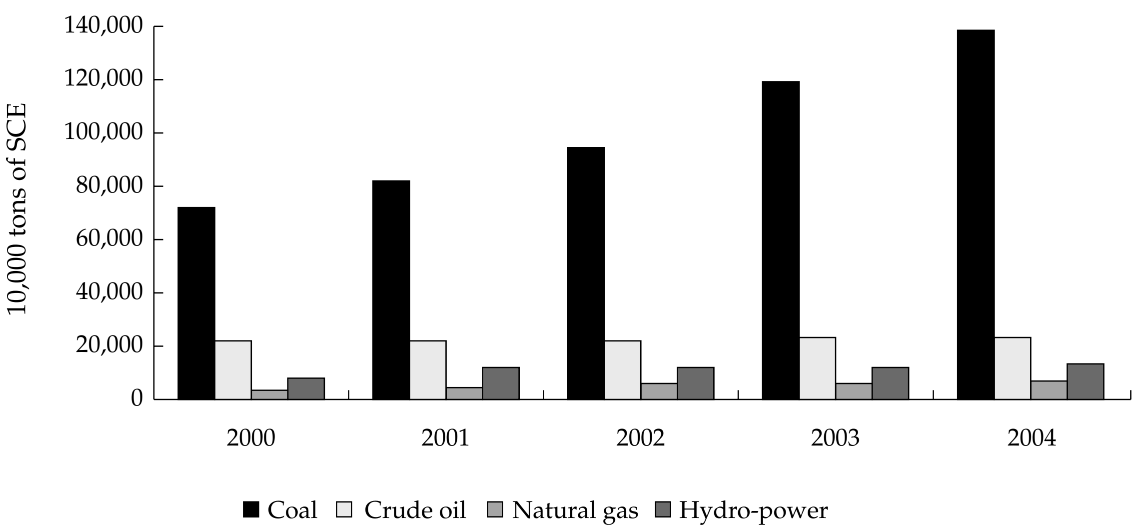
Natural gas is an important energy source in the world, representing approximately 24% of the world's primary energy consumption in 2003. It is one of the cleanest, safest, and most useful of all energy sources. The Directors consider that as the pollutants emitted by natural gas are only a fraction 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 the 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 world'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 – Global primary energy consumption" in this document, the consumption of natural gas is projected to increase by approximately 63.5% between 2003 and 2025, from approximately 99.1 quadrillion Btu in 2003 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 the world's 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 2004:

Total production of energy and its composition



Source:China Statistical Yearbook 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.

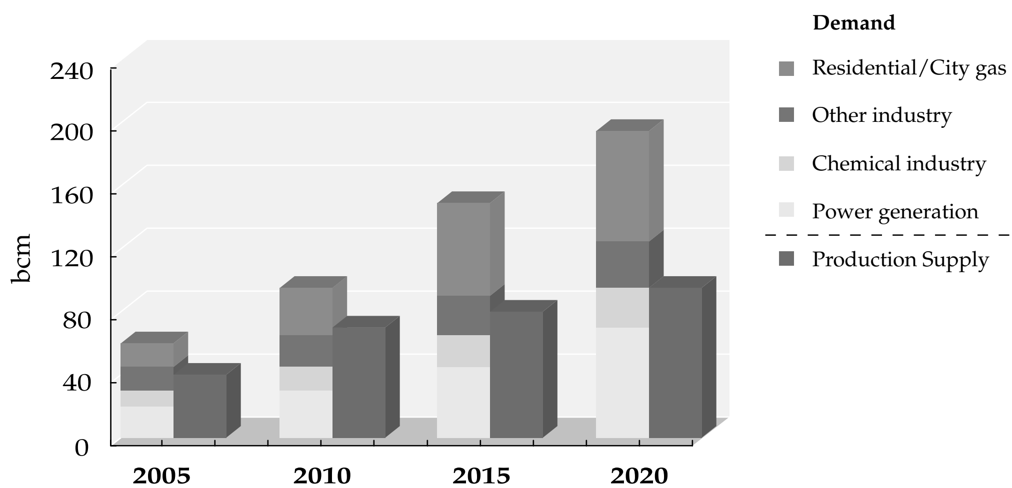
The PRC natural gas market

The production supply of natural gas in the PRC accounted for approximately 3.2% in the PRC 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 24%.

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 was 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% and 10% of the total PRC primary energy consumption by 2010 and 2020, respectively. Major natural gas infrastructures in the PRC include the country's first LNG import terminal in Guangdong which is expected to start operation in 2006 and the 4,000 km-long "West-to-East Pipeline" which was completed by the end of 2004. According to the National Development and Reform Commission (國家發展與改革委員會) of the PRC, investment in the PRC natural gas industry is estimated to reach RMB20 billion to RMB30 billion per annum in the next five years.

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 2006, 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 for natural gas is forecasted to increase to approximately 200 bcm, representing an increase of approximately 785% when comparing with a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand for natural gas in the PRC in 2020 will apply to the power generation sector and approximately 35% is forecasted to apply to the city gas sectors including NGVs.

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 NGVs since 1999.

Currently, there are more than 20 cities in the PRC that have launched the reinstallation of gas engines and conversion to NGVs. According to statistics issued by the International Association for Natural Gas Vehicles in January 2005, there were approximately 97,200 NGVs in the PRC with more than 300 related gas fuelling stations to facilitate the convenient use of NGVs. In addition, a number of cities such as Shanghai, Chongqing and Hainan have also promulgated policies to encourage or require the use of environmentally friendly vehicles, including NGVs.

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 new taxis will be required to meet minimum emission standard. The Directors expect that in the future, buses and taxis run on CNG in large cities in the PRC will increase rapidly. 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 NGVs, construction of natural gas refueling stations is being expedited which the Directors expect will increase demand for the related integrated business solutions and gas equipment.

Supply of natural gas in the PRC

According to (i) the IEA, the PRC has proven reserves of natural gas of approximately 1.5 trillion m^3, and (ii) a forecast made by the general office of the National Energy Leading Group, natural gas reserves in the PRC are estimated to record an annual growth in the region of approximately 400 bcm to 450 bcm during the 2006 to 2010 period.

The PRC Government completed the construction of a 4,000 km-long pipeline network by the end of 2004, known as the "West-to-East Pipeline" project, carrying natural gas from deposits in the western Xinjiang 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 oil pipeline project was completed in 2005 and a natural gas pipeline is being negotiated 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.

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. The first phase of such terminal is currently expected to begin operation in 2006 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 to the Fujian Province. In addition, construction of other LNG terminals along the coastline in Quanzhou, Ningbo, Shanghai, Shenzhen and Zhuhai are either underway or are being planned.

Apart from the above, other pipelines are being developed to link smaller natural gas deposits to consumers. A pipeline was completed in late 2001 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

Historically, the PRC's natural gas consumption has been limited to areas close to the gas fields, mainly owing to the fact that there is a lack of long-distance pipelines for transportation of natural gas in the PRC. The PRC Government has already commenced the planning in respect of a nationwide framework for piped natural gas. Examples of major pipeline construction projects are the "West-to-East Pipeline" project, which was completed by the end of 2004 and runs through nine provinces, and the "Sino-Kazakh natural gas pipeline" project which is currently under negotiation for transporting gas from Kazakhstan to the PRC. Further, the PRC Government in its 11th Five-year Plan of the Tenth National People's Congress reinforced its commitment to further accelerate the construction of natural gas pipelines and confirmed the need to construct a second "West to East Pipeline" at the appropriate time.

According to the China Statistical Yearbook 2005, the length of pipelines for natural gas in the PRC increased by approximately 49.9% from 47,652 km in 2002 to 71,411 km in 2004 and the population in PRC with access to natural gas increased by approximately 51.4% from approximately 37 million persons in 2002 to approximately 56 million persons in 2004. Total natural gas supply in the PRC in 2004 was approximately 16,930 million cubic meters, and increased at an annual growth rate of approximately 19.5% from approximately 14,160 million cubic meters in 2003. Total consumption of natural gas for residential use in the PRC also increased by approximately 21.1% from approximately 3,750 million cubic meters in 2003 to approximately 4,540 million cubic meters in 2004.

The Directors believe that such substantial investment in natural gas infrastructure in the PRC will potentially give rise to substantial business opportunities for the Group to expand its customer base. Given the PRC's proven natural gas reserve, the Directors believe that there is continued growth potential for the natural gas market in the PRC.

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 further processing and distribution in accordance with customer needs. Large storage and processing facilities are generally constructed at the terminals.

Regarding the "West-to-East Pipeline" project, the construction of which has been completed, and the "Sino-Kazakh natural gas pipeline" project, which is currently under negotiation, natural gas is to be delivered onshore through the pipeline networks from gas fields to the depots where there are concentrated demands.

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 places 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, equipment, 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 transportation facilities. The PRC Government has been making a long-term plan to better exploit and utilise natural gas to speed up the national energy security.

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 Vessels (《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 vessels

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 Vessels (《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 Vessels Manufacture Licensing (《鍋爐壓力容器製造許可條件》), the Procedures for Manufacture Licensing of Boiler and Pressure Vessels (《鍋爐及壓力容器製造許可工作程序》), and Supervisory Inspection Rule for Safety Performance of Boiler and Pressure Vessels Products《鍋爐壓力容器產品安全性能監督檢驗規則》 took effect on 1 January, 2004. The key terms of these regulations include: (1) All boiler and pressure vessels 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 (《壓力容器壓力管道設計單位資格許可與管理規則》) classified all pressure vessels into four classes: A, C, D 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.

In August 2002, GAQSIQ announced 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》). 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 (《特種裝備的安全監管規例》) on 11 March 2003 to supervise the safety performance inspection of production process (including design and manufacturing), the testing and examination process and the associated service (including installation, alteration, maintenance and repair) of special gas equipment including boilers, pressure vessels, pressure pipelines, etc.

The Group has obtained Manufacturing Licence for Pressure Vessels, Certificate of Registration for Manufacturing of Seamless Pressure Cylinder, Design Permit for Pressure Vessels and Approval to Manufacture Pressure Cylinder to conduct its manufacture and design activities in relation to pressure vessels.

According to the Notice Relating to the Reform of Vehicles Production Enterprises and Products Record Management (《關於車輛生產企業及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 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 (《管理工業產品製造牌照的措施》) ("Measures"), enacted by GAQSIQ in 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 customers who are operators of CNG refueling stations and which does not involve the manufacture of special equipment, the regulations in relation to the gas equipment including compressors and pressure vessels do not apply to this business as at the Latest Practicable Date.

As confirmed by the PRC legal advisers to the Company, the Group has obtained 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.

INTRODUCTION

The Group is an integrated business solutions provider in the gas energy industry and one of the leading specialised gas equipment manufacturers in the PRC. The Group is principally engaged in the provision of integrated business solutions and the design, manufacture and sale of specialised gas equipment including compressors, pressure vessels, natural gas refueling stations and compressed natural gas trailers which are essential to the transportation, storage and distribution of natural gas 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 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.

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 three years ended 31 December 2005, the Group recorded turnover of approximately RMB68.9 million, RMB252.4 million and RMB513.0 million respectively. Such turnover of the Group for the year ended 31 December 2004 and the year ended 31 December 2005 represent an increase of approximately 266.3% and 103.3% when comparing with the turnover of the Group for the year ended 31 December 2003 and the year ended 31 December 2004 respectively.

The Group has adopted advanced manufacturing technique for its products and has formed strategic relationship with Neogas, an international natural gas technology provider, by way of introducing patented natural gas technology in its products for use in the PRC market, details of which are set out in the paragraph headed "Patented technologies" under the sub-section headed "Intellectual property" in this section.

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.

In order to enhance its services and products capabilities to its customers, the Group established Beijing Enric in December 2005 as a focused arm for the purpose of carrying out research and development in manufacturing technology and integrated business solutions in addition to strengthening technical service support to its customers.

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 supported by customer-oriented after-sales services. By virtue of the Group's proven series of products in the gas equipment market, the Directors aim to position the Group to become a leading and comprehensive services and products provider in the gas energy industry. The Group also plans to market and sell its integrated business solutions and energy equipment products in the international market.

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 demand 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 integrated services and products provider;
- Comprehensive sales and services network coupled with effective marketing strategies;
- Highly experienced management team; and
- Strong shareholder's background.

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

The Group is an integrated business solutions provider in the gas energy industry and one of the leading specialised gas equipment manufacturers 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 the committed effort of the PRC Government to ensure more efficient use of energy 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 and promotion of utilisation of natural gas 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 integrated business solutions and gas equipment are 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 services and products.

Furthermore, 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 the PRC.

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 patents in United States and in the PRC (details of which are set out in sections headed "Business – Intellectual property – Patented technologies" and "Connected transactions" in this document).

The Directors believe that such access to foreign technologies and advanced techniques affords the Group a technological 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 local as well as 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 and approval to manufacture seamless pressure cylinder from DOT in the U.S. and the Certificate of Registration for Manufacturing of Seamless Pressure Cylinder from the 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 requirements, standards and/or strict regulations imposed on participants in the provision of integrated business solutions and/or in the gas equipment market 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 gas equipment together with solid track record and experience 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 consists of over 120 professionals.

The Directors believe that the Group's research and development capability coupled with the Group's knowledge of the PRC market 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 integrated services and products provider

The Group is an integrated business solutions and gas equipment provider providing comprehensive services and products for the gas energy industry covering the design of complete system, manufacturing of specialised gas and related equipment, and also the installation, commissioning, testing, training and technical support service of equipment and systems (including maintenance and after sales services). The Directors are of the view that this is important in order to enable the Group to establish regular channel of communications with its customers and the gas energy industry in the PRC in order to gain better understanding and knowledge of the specific or special or changing needs of its customers as well as the development of the gas energy industry in the PRC as a whole.

The Directors believe that the comprehensive services and products provided by the Group afford the Group a competitive edge over its competitors by reason of being able to provide a broader spectrum of services and products for its customers and to be more effective in responding and adapting to the specific or special or changing needs of its customers and to the development of the gas energy market in the PRC as a whole.

Comprehensive sales and services network coupled with effective marketing strategies

The Group based its sales, services and marketing strategies on the concept of "Customers Come First". The Group has established a team of over 100 members with offices in nine cities in the PRC, namely Shanghai, Bengbu, Guangzhou, Chongqing, Langfang, Xi'an, Shenyang, Wuhan and Urumqi in order to cover customers based in those cities and in the nearby regions. The Group's sales and marketing team provides technical support, product orientation, on-site order and consultancy 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 marketing network would provide a competitive edge to the Group over its main competitors, 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.

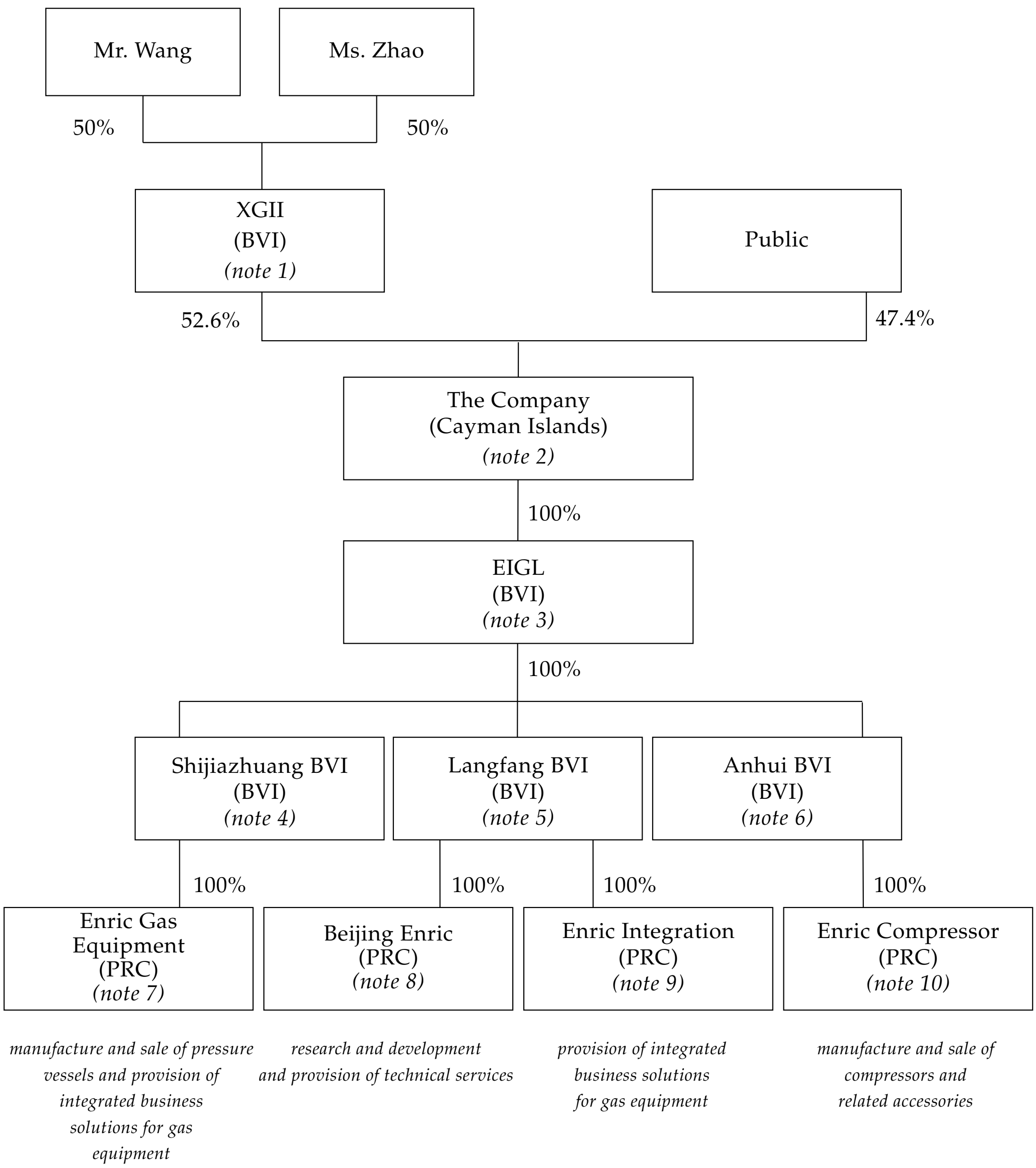
While the management team of the Group as a whole plays a significant role in the development of the Group's business, certain members of the team play key roles in the future success of the Company: Mr. Wang, the co-founder, chairman and an executive Director, has years of experience in the investment 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. Jin Yongsheng, the chief executive officer of the Company and an executive Director, has years of experience in both managing in the PRC and legal practice. Mr. Jin, who holds an executive master's degree in Business Administration and is also a qualified lawyer in the PRC, will be responsible for strategic planning jointly with Mr. Wang, investor relationship and executing the decisions made by the Board. Mr. Cai Hongqiu, the general manager of the Company 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 provider of integrated business solutions and specialised gas equipment manufacturer in the gas energy industry. Mr. Wang, a controlling Shareholder and the co-founder of the Group, has substantial experience in the natural gas industry in the PRC. Apart from his interests in the Group, Mr. Wang also has interests in (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 in, operating and managing gas pipeline infrastructure and the sale and distribution of piped and bottled 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 document). 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 after the commencement of listing of the Shares on the Main Board, without taking into account any Shares which may be issued pursuant to the exercise of any options which have been granted under the Pre-GEM Listing Share Option Plan or which may be granted under the Proposed Share Option Scheme and assuming no changes in shareholding after the Latest Practicable Date:



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

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

4. Shijiazhuang BVI is an investment holding company incorporated in BVI with limited liability on 29 April 2002 and is wholly owned by EIGL.

5. Langfang BVI is an investment holding company incorporated in BVI with limited liability on 14 September 2004 and is wholly owned by EIGL.

6. Anhui BVI is an investment holding company incorporated in BVI with limited liability on 29 April 2002 and is wholly owned by EIGL.

7. 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.

8. Beijing Enric is a wholly foreign owned enterprise with limited liability incorporated in the PRC on 16 December 2005 and is wholly owned by Langfang BVI.

9. 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.

10. 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.

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 the 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 million.

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).

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

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.

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.

EIGL was incorporated in BVI with limited liability on 1 May 2002 and is wholly owned by the Company.

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 Gao 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 City (石家莊市人民政府), the Administrative Committee of Shijiazhuang Gao Xin District (石家莊高新技術產業開發區管理委員會) 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 approximately US$1 million), 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 Shijiazhuang 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. Furthermore, 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. Pursuant to the business licence of Enric Gas Equipment dated 30 September 2003, Enric Gas Equipment was principally engaged in the production of chemical and gas related machinery and equipment and pressure vessels, the re-installation of compressed gas transportation equipment, and the sale and installation of its products.

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 assets of approximately RMB14.2 million.

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 approximately US$1.7 million 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 (石家莊高新技術產業開發區管理委員會).

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 (石家莊工商局), as provided under clause 14 of the Regulations for the Implementation of the Law of the People's Republic of China on Sino-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, Shijiazhuang BVI and Enric Gas Equipment entered into an 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.

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 12.3% in XGCL to Langfang Guofu at a consideration of approximately RMB26.2 million.

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 approximately US$1.7 million, 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.

On 14 September 2004, Langfang BVI was incorporated in BVI with limited liability whereby 1 share in Langfang BVI was allotted to EIGL on 15 November 2004.

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

On 21 January 2005, EIGL entered into a subscription agreement with Symbiospartners for the subscription of 10% of the enlarged issued share capital of EIGL by Symbiospartners for a subscription price 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 redeemable convertible bonds in the aggregate principal amount of US$5 million. The Redeemable Convertible Bonds were mandatorily converted into Shares in full prior to the GEM Listing. Upon exercise of the conversion rights under the Redeemable Convertible Bonds, Investec was allotted and issued 51,840,000 Shares, representing approximately 11.6% of the enlarged issued share capital of the Company after the GEM Listing.

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. On 20 September 2005, the Management Committee of Langfang Economic and Technical Development Zone (廊坊經濟技術開發區管理委員會) approved the increase of the registered capital of Enric Integration from HK$10 million to HK$50 million.

Immediately prior to the GEM Listing, 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 (as nominated by XGII).

On 12 December 2005, the Administrative Committee of Shijiazhuang Gao Xin District (石家莊高新技術產業開發區管理委員會) approved the increase in the registered capital of Enric Gas Equipment from approximately US$2.5 million to US$7 million.

In order to further enhance its services and products capabilities, Beijing Enric was established as a wholly foreign owned enterprise with limited liability in the PRC on 16 December 2005 with a registered capital of HK$40 million and wholly owned by Langfang BVI, as a focused arm to carry out research and development in manufacturing technology and integrated business solutions in addition to strengthen technical services support to its customers.

Listing on GEM

The Shares have been listed on GEM since 18 October 2005 (stock code: 8289). As at the Latest Practicable Date, based on the closing price of the Shares on GEM of HK$4.075 per Share, the Company had a market capitalisation of approximately HK$1,814.2 million.

After the GEM Listing, the Company was owned as to approximately 52.6% by XGII, a company which is beneficially owned as to 50% by each of Mr. Wang and Ms. Zhao. The Directors believe that the listing of the Shares on the Main Board will help to enhance the profile of the Group and increase the trading liquidity of the Shares and recognition by attracting larger institutional, professional, and retail investors. The Directors consider that the Main Board Listing will be beneficial to the future growth, financial flexibility and business development of the Company.

Business development

The Group strives to be a leading integrated business solutions provider and specialised gas equipment manufacturer 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 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, the 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 in 2000, has taken identifiable steps to rationally build up the Group and hence its business in accordance with the resolved strategy. The manufacturing and sales activities of gas equipment, comprising mainly compressors and pressure vessels, at targeted natural gas market demonstrates different stages of continual development of the Group's 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 products 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 energy industry.

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, system 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.

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 gas equipment which includes compressors and pressure vessels. The Group's compressors, pressure vessels and integrated business solutions accounted for approximately 99.5%, 0.5% and nil of the Group's turnover respectively for the year ended 31 December 2003, approximately 45.7%, 47.6% and 6.7% of the Group's turnover respectively for the year ended 31 December 2004, and approximately 22.9%, 51.2% and 25.9% of the Group's turnover respectively for the year ended 31 December 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 solutions for CNG and LCNG refueling stations
	Integrated business solutions 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 pressure vessels 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 2003.

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 trailers 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 (3AAX Seamless Steel Pipes) issued by DOT. The Group has obtained approval to manufacture seamless pressure cylinder issued by DOT in November 2005.

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 an LNG mother-daughter storage tank 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 insulation performance is superior. The LNG containers are compact and are ideal for storage and transportation of LNG on land and at sea. The Group has obtained 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 23 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 1 and 60 tonnes.

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.

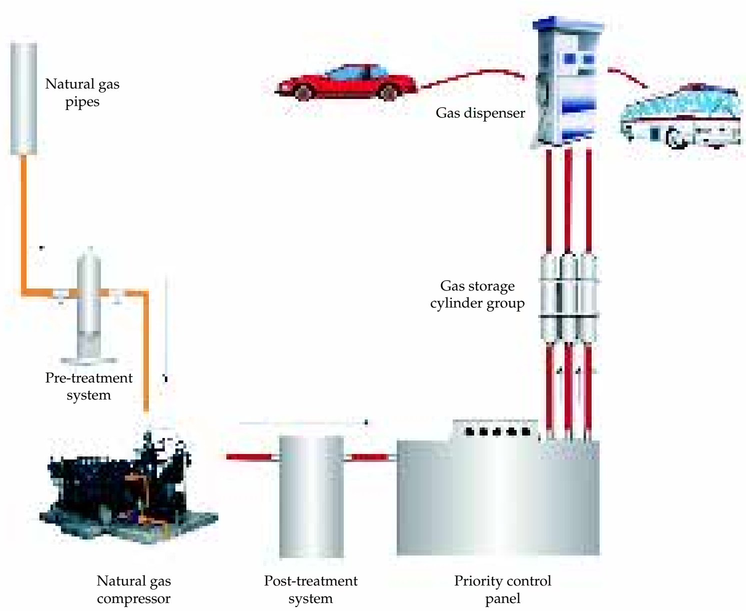
The principal products in relation to this service are as follows:

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 and 4.0 MPa, the gas is 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 then 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, and accordingly, may overcome selection of construction 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 comprises a 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 dispenser, which is 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 such further development has improved 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 collectively result in a higher refueling rate. The stations are space-saving, easy-to-construct, energy saving and of low noise. 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)

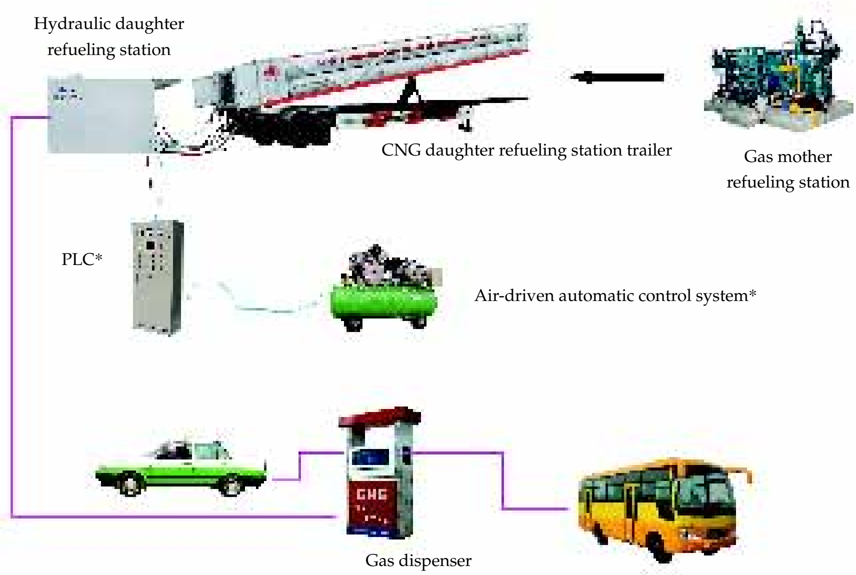
The CNG daughter refueling station trailer is developed based on the principle of CNG trailer. It consists of chassis and a group of seamless pressure cylinders, which can be tilted to different angles in order to facilitate the back flow of hydraulic oil inside the cylinders. The group of seamless pressure 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)

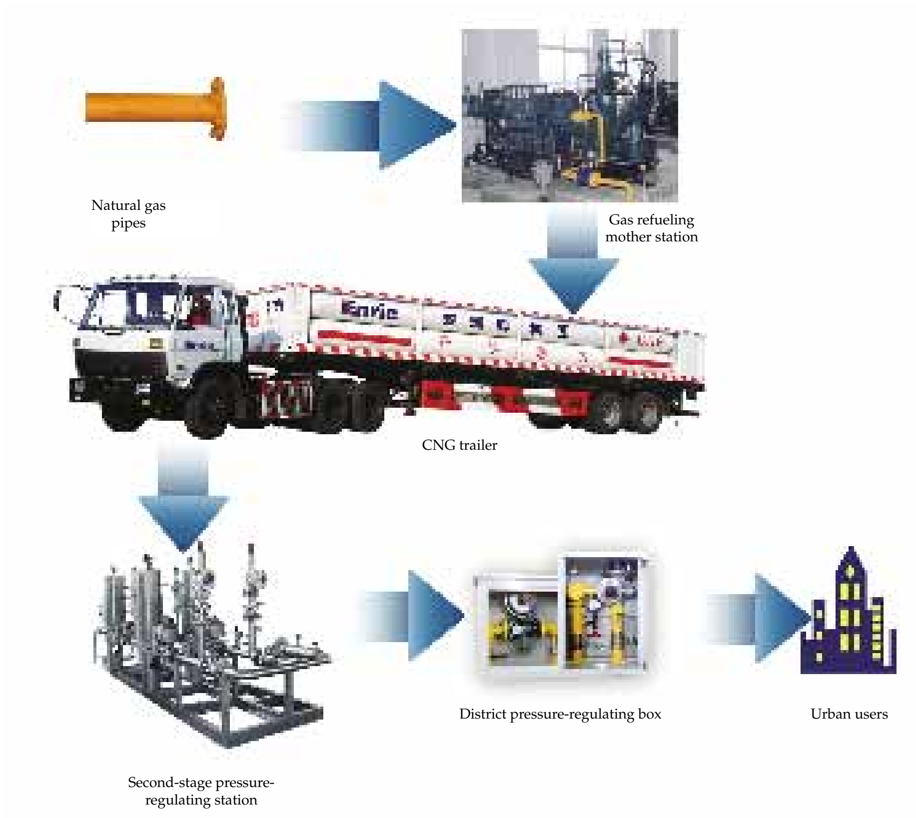
The Company is in the process of developing and has recently commenced the testing of an LCNG refueling station system which uses LNG as a feedstock to deliver CNG to vehicles. The refueling station system carries out the processes of transportation, storage, pressurising and gasification which allow 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 gas equipment, on-site installation, commissioning and testing, staff training and technical support services.

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 gas pipeline networks 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:

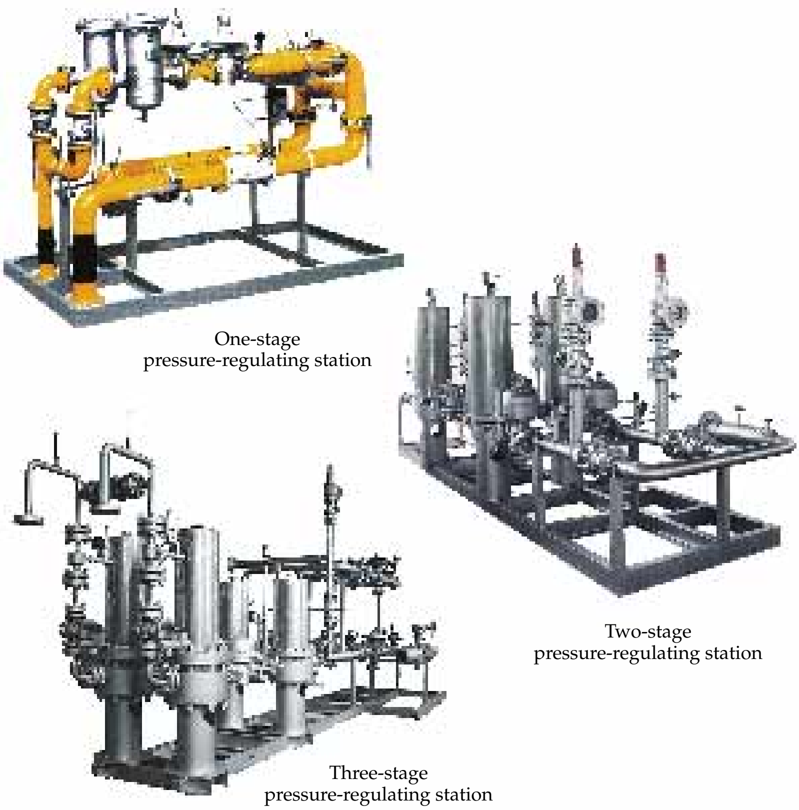


Integrated business solutions for city gas projects

Although this particular business solution is yet to be commenced, relevant marketing activities have been carried out. The Group has also 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 of natural gas in cities and towns. These equipment 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.



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, pressure vessels and integrated business solutions. All of the 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 Vessels Safety Supervision Bureau of the GAQSIQ and the manufacture of these products requires specific licences, permits and registrations, 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 equipment has been enacted by the PRC Government, including without limitation, the Supervision Administration Regulation for Manufacture of Boiler and Pressure Vessels (《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 (《工業產品生產許可證管理辦法》) 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
November 2005	Approval to Manufacture Pressure Cylinder	Enric Gas Equipment	DOT3AAX seamless pressure cylinder	807-05-04	DOT	*(Note 2)*
January 2005	Manufacturing Licence for Pressure Vessels	Enric Gas Equipment	Pressure vessels	34,230 and 34,231	ASME	November 2006
December 2004	Manufacturing Licence for Pressure Vessels	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	X-ray fault detection machines	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 *(Note 1)*	Enric Gas Equipment	Seamless pressure cylinder	ES-27	Ministry of Commerce, Industry and Energy of Korea	August 2007 *(Note 3)*
July 2004	Registration on the Nationwide Catalogue of Enterprises engaged in the Production of Automobiles	Enric Gas Equipment	Not applicable	Not applicable	NDRC	*(Note 2)*
December 2003	Licence for Design of Special Equipment in the PRC	Enric Compressor	D1 type 1 pressure vessels D2 type 2 low-medium pressure vessels	TS1234009-2007	Bureau of Quality and Technical Supervision of the Anhui Province	December 2007
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 Vessels	Enric Gas Equipment	A1, A2, C2, C3 and SAD	SPR (A、C、SAD) 003-2007	Boiler and Pressure Vessels Safety Supervision Bureau	February 2007
May 2002	Manufacturing Licence for Pressure Vessels	Enric Compressor	BR1 pressure vessels	RZZ Wan 023-2006	Bureau of Quality and Technical Supervision of the Anhui Province	December 2006

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

Note 2: The certificate/notice of registration does not specify the expiry date and will continue to remain valid unless and until revocation of the same by the issuing authority.

Note 3: According to the enforcement regulations amendments (MOCIE Act No.322) announced on 6 February 2006, the validity of the certificate has been regulated to a 3-year term and the Company can apply for re-registration prior to expiration of the said term.

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 to promote customers' awareness of the Group's brandname and expand the Group's sales and marketing 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 integrated business solutions and a leading specialised gas equipment 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 sales and marketing activities within the PRC. The Group has established offices in nine cities in the PRC, namely Shanghai, Bengbu, Chongqing, Guangzhou, Langfang, Shenyang, Xi'an, Wuhan and Urumqi. Besides of general marketing functions, the sales and marketing team is also responsible for providing its customers with timely after-sales and consultancy services.

While the Group's products have been sold in many regions within the PRC, during the Track Record Period, the Group aimed to further expand its sales and marketing network in order to better cover its customers.

As for sale of the Group's products overseas, the Group mainly exported its products directly to Brazil and Korea, and also through its dealers, to Algeria, Angola, Iran, Kazakhstan, Pakistan, Sudan and Thailand. Currently, the Group has approximately ten dealers for the export of its compressors and gas storage cylinder group. All of these dealers are Independent Third Parties.

Prior to the GEM Listing, 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 only assisted the Group to handle the import and export documentation work, which is clerical in nature and did not receive 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 ceased after the GEM Listing as an international business department was established in 2005 to handle the Group's import and export matters. The Directors believe that if Xinao Group International Economic Development Company Limited charged the Group handling fees, the fees would be minimal and should not be more than 1% of the total sales amount.

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 has also established an international business department in order to enhance its exporting business. Furthermore, 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 1.5% of the total amount of sale of the Group for each of the three years ended 31 December 2005 respectively. Such dealers are responsible for the Group's export sales of products including compressors and seamless pressure cylinders and they would directly place purchase orders to the Group. The Group is currently revamping its website to facilitate future sales to the Group's overseas customers.

According to the Circular of the MOC 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 this respect, the Group's export arrangement with Xinao Group International Economic Development Company Limited ceased to exist after the GEM Listing, instead an international business department has been set up in order to conduct its own exporting business. 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.

The Group has a total of 4 distributors for the sale of its compressors only in the PRC. A standard form of contract has been entered into between the Group and each of the distributors. Pursuant to the contracts, 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%, 0.6% and 0.1% of the total sales of the Group for each of the three years ended 31 December 2005 respectively.

In addition to its sales and marketing 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.

In the case of compressors and pressure vessels, generally, the Group receives purchase orders from its customers or invitations from its customers to submit tenders in relation to equipment required by the customers and in accordance with the customers' specification. The tender documents prepared by the Group will provide details relating to the specifications of the products and other requirements of the customers. In accordance with the terms and requirements of purchase orders or after a tender has been accepted by the customer, a sales contract would be entered into by both parties which, among other terms, would state clearly the specifications of the product and other requirements of the customers. The Group will then commence production of the products based on the specifications as set out in the sales contracts.

In the case of integrated business solutions, the Group obtains business by way of purchase orders from its customers, invitations from customers to submit tenders or through marketing initiatives to targeted customers. The sales and marketing team of the Group will ascertain the requirements of the customers in relation to a project, including but not limited to the proposed budget, related government regulations, legal requirements and, in the case of integrated business solutions for refueling stations, the physical characteristics of the site of the proposed refueling station(s). After understanding the requirements of the project, an integrated business solution would be formulated in relation to the services and equipment which could be provided by the Group in relation to such project which comprises consultation service on the design of the entire system, selection, procurement and manufacture of equipment, on-site installation and staff training. Finally, a sales contract for the integrated business solution would be entered into by both parties.

Customer service and after-sales service

The Group is committed to ensure consumers' satisfaction with its products. A customer service team maintains frequent communication with its major customers through visits and holding periodical meetings with them. Generally, the Group provides staff training to its customers relating to operation and safety aspects of the products provided by the Group. In the case of integrated business solutions, the Group further provides regular after-sales training in order to maintain the skill level of the operators of the relevant equipment.

The Group's customer service 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. In recognition of the Group's quality customer services, the Group was awarded "Chinese Consumers (User) Quality and Service Satisfaction Entity" (中國消費者(用戶)質量服務滿意單位) issued by the Chinese Association for Quality (中國質量學會), the Chinese Quality Service Science Association (中國優質服務科學學會) and the China Product Safety Evaluating and Monitoring Centre (中國產品安全評價監測中心) in 2005.

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 18.9% of the Group's turnover respectively and the Group's sales to its five largest customers accounted for approximately 19.3%, 32.6% and 38.8% 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 year ended 31 December 2005, the Group's aggregated sales to Xinao Gas Group, XGCL Group and Hebei Finance Leasing Company Limited accounted for approximately 18.9%, 0.1% and 0.9% of the Group's turnover respectively.

Save for the Xinao Gas Group (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), which represented approximately 18.9% of the Group's turnover for the year ended 31 December 2005, the remaining four of the five largest customers of the Group are Independent Third Parties. In addition, save for Xinao Shijiazhuang, a subsidiary of XGCL (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), 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 document), 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. Furthermore, the five largest customers of the Group for the year ended 31 December 2003 are all Independent Third Parties.

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 Introduction nor any of their respective associates had any interest in any of the five largest customers of the Group during the Track Record Period.

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 of 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 or 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 RMB or US$. According to the Directors, subject to negotiation, credit terms ranging from 3 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 within 3 days from 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 31 December 2005, the Group had made provision for impairment losses for doubtful debts of approximately RMB3.4 million and the net outstanding trade and bills receivables for the Group were approximately RMB72 million.

D. PRODUCTION

Production facilities

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 500 units of manufacturing equipment located in Bengbu Facilities, amongst which are four 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 more than 500 units of manufacturing equipment, amongst which are 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 has rented a premises 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 Langfang Facilities are the assembly centre for the Group's integrated business solutions business with most of the more significant manufacturing activities remaining in the better equipped manufacturing plants in the Bengbu Facilities and Shijiazhuang Facilities. Currently, besides of 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.

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

The Group manufactures various types of compressors, which manufacturing process for each type of compressor varies. As at 31 December 2005, there were approximately 400 staff working in relation to the production facility of Enric Compressor. 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 eight hours per day for the manufacturing of compressors. The Group has fully utilised its workshops for the year ended 31 December 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 or hours per shift each day. For illustration purpose, the aggregate capacity for the production of compressors was 1,000 sets for the year ended 31 December 2005.

In addition, the actual production volumes of the different types of compressor of the Group for the year ended 31 December 2005 are set out in the following table:

Compressor

Product	**Actual production volume in 2005** *(set)*
Gas compressor series	116
Special-purpose compressor series	110
General-purpose compressor series	319
Total	545

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

Pressure vessels

Production line	**Production capacity in 2005** *(set)*	**Actual production volume in 2005** *(set)*
Seamless pressure cylinder storage and transportation equipment series	760	496
Cryogenic liquid storage and transportation equipment series	120	78
Chemical material storage and transportation equipment series	435	432
Total	930	723

Integrated business solutions

Since the provision of integrated business solutions involves the offering of a complete set of business solutions for the purpose of either setting up businesses for city gas projects or CNG or LNG refueling stations, 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, depend on the production capacity of compressors and pressure vessels.

There are more than 30 units of manufacturing equipment used in relation to the Group's integrated business solutions business. The Group plans to expand the production capacity of its core products and products relating to the Group's integrated business solutions as mentioned in the section headed "Future Plans and Prospects" in this document.

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, vessels 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 also purchases the following imported components including:

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 pipes, loading and unloading valves
Accessories for pressure-regulating stations and pressure-regulating boxes	Pressure regulators, relief valves, slam shut valves
Accessories for LNG storage tanks and tank trucks	Cryogenic valves and liquid level indicators

Integrated business solutions

The major raw materials and components required by the Group for the provision of integrated business solutions 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.

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 three 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 MOC 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 said 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, all being subsidiaries of XGCL (particulars of which are set out in the section headed "Relationship with the controlling Shareholders), 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 46.2% respectively of the Group's total purchases for the same periods, while the largest supplier accounted for approximately 10.7% and 20.3% and 27.8% 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 0.01% of the Group's total purchases for the year ended 31 December 2005.

Currently, the Group has more than 500 suppliers for raw materials and components, of which one is a related party, namely Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited, a subsidiary of XGCL. The Group has over two years of relationship with most of its suppliers of raw materials and components. Purchases from Xinao Group International Economic Development Company Limited and Xinao Shijiazhuang, both subsidiaries of XGCL, have ceased after the GEM Listing. The Group generally has not less than two to three suppliers for each of the raw materials and components, which allows the Group to compare their product quality, price and credit policies.

The Group has 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 Introduction 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 approximately 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 Directors believe that there is ample supply of these subcontractors.

The costs of outsourcing the processing of parts and components incurred during each of the three years ended 31 December 2005 were approximately RMB19,413.9, RMB1.0 million and RMB0.5 million respectively, amounting to approximately 0.04%, 0.5% and 0.1% of the total purchase of the relevant year respectively.

E. PRODUCTION PROCESS

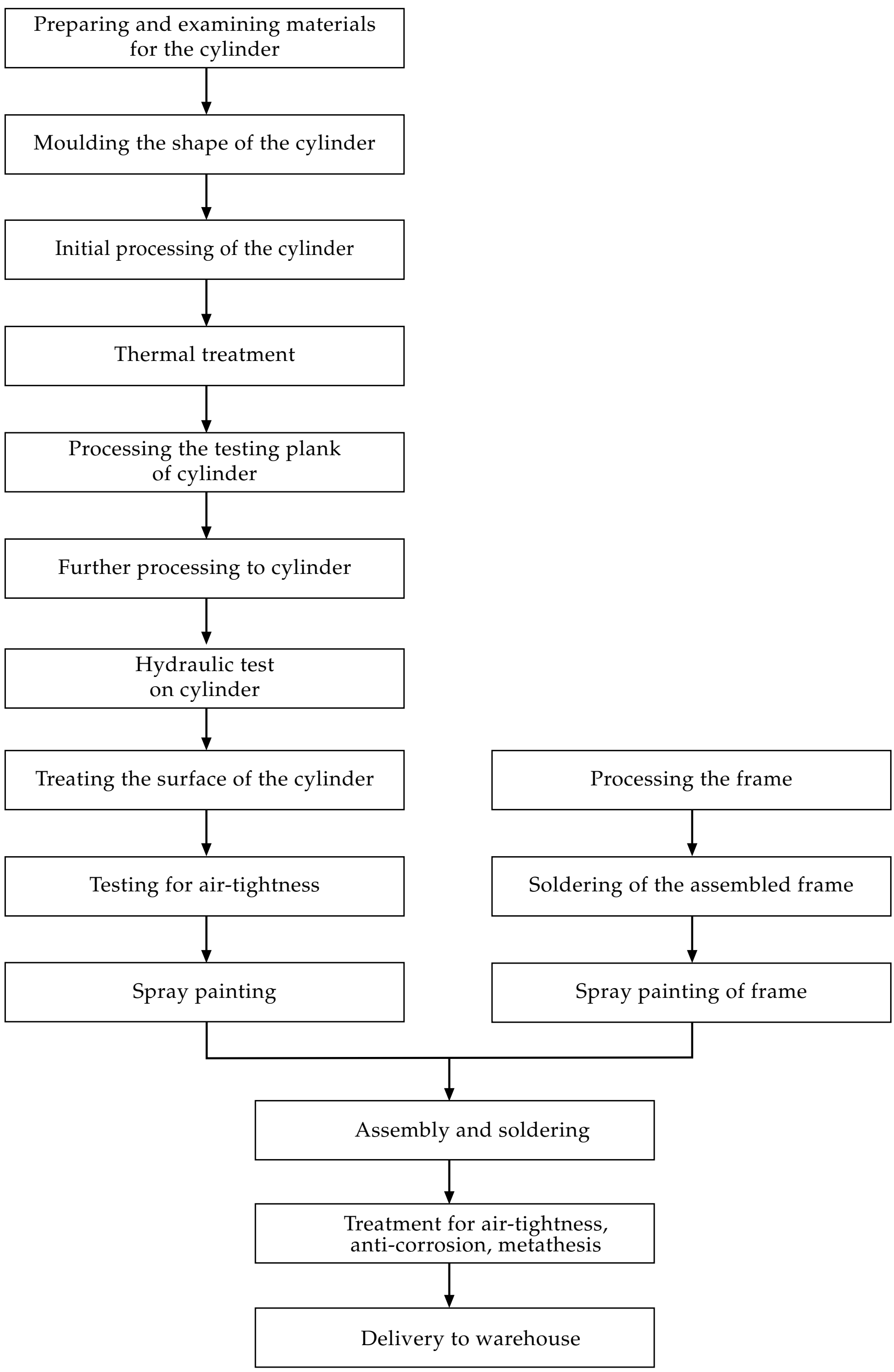
Compressors

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.

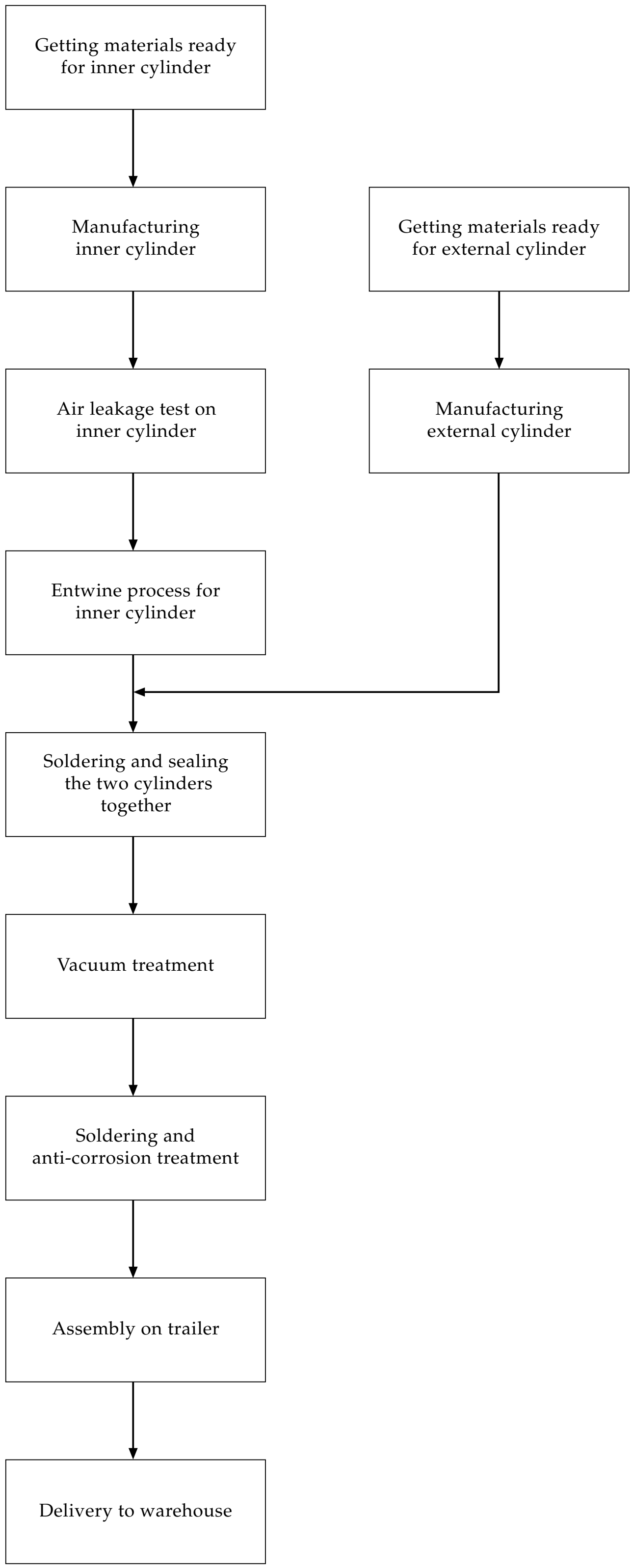
Pressure Vessels

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*

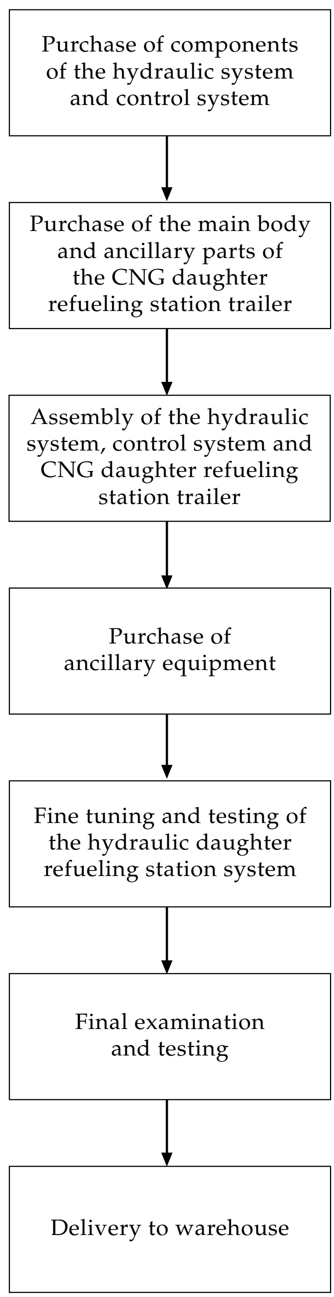


2. *LNG trailer of the cryogenic liquid storage and transportation equipment series*



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. As set out in the following chart, 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 personnel 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 received the ISO9001:2000 certification in December 2005.

Pressure Vessels

The Group's quality control procedures for pressure vessels comprise 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. Furthermore, 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 Vessels 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檢驗證書) before it can deliver the products to its customers.

Compressors

As at 31 December 2005, 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

As at 31 December 2005, 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 operated under the Procedures of Pressure Vessel (《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 that the steps 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 associated logistics needs.

The Group has formulated a set of inventory policies which helps to 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 materials 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. Furthermore, the Group takes into account the credit history and financial background of its customers in order to minimise the risk of default payment.

The average inventory turnover days of the Group for each of the three years ended 31 December 2005 were 194, 110 and 103 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 31 December 2005, the Group had a research and development team of approximately 120 professionals comprising individuals with years of experience in the gas equipment industry.

Furthermore, 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 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 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 vessels (壓力容器審批資格證), the certificate of quality control engineer of pressure vessels 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 MT III and MT II 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 specifically established Beijing Enric in December 2005 to focus on research and development of new technologies at the Group level. The Group completed the required capital contribution totalling HK$40 million into Beijing Enric on 10 March 2006.

The Group's research and development expenses were approximately RMB1.9 million, RMB4.2 million and RMB6.2 million for each of the three years ended 31 December 2005 respectively. The Directors intend to increase such expenditures in research and development and expect the Group to be more actively engaged in the research and development activities in the future. 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 at the Latest Practicable Date, the Directors were not aware of, apart from the Group, there was 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 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. However, the Directors believe that the Group's integrated business solutions business supported by its established sales and services network creates accessibility and establishes a regular channel of communications with its customers and the gas energy industry in the PRC, which allows the Group to be able to gain better understanding and knowledge of the latest specific or special or changing needs of its customers as well as the development of the gas energy industry in the PRC and be more effective in responding or adapting to such needs in comparison with such competitors.

In addition, 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.

XGII, Mr. Wang and Ms. Zhao have entered into certain deeds of non-competition undertaking in favour of the Company (for itself and as trustee for its subsidiaries), particulars of which are set out in the section headed "Relationship with the controlling Shareholders – Non-competition undertakings" in this document.

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 VI to this document.

Trademarks

As at the Latest Practicable Date, the Group had registered the trademark of "" (registration no. 149460) for classes 7 and 9 (air compressors only) for the period from 7 December 2002 to 28 February 2013 in the PRC and had registered the trademark of "Enric" in classes 6 and 7 in Hong Kong.

As at the Latest Practicable Date, Enric Compressor had 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 rights" in Appendix VI to this document.

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 was completed in the PRC on 10 June 2005.

Furthermore, 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 patents in the United States and 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 refueling 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. The Directors further consider that the technologies of Neogas are essential to the operation of the Group.

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 18 October 2005, the date on which the Shares were listed on GEM, 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 document.

Enric Gas Equipment was owned as to 30% and 70% by Shijiazhuang BVI and Xinao Shijiazhuang respectively, which contributed cash and assets into Enric Gas Equipment respectively. The assets contributed by Xinao Shijiazhuang included the licence fee of US$680,000 as mentioned above. Subsequently, in July 2004, Shijiazhuang BVI acquired

70% additional interest of Enric Gas Equipment from Xinao Shijiazhuang at a consideration of approximately US$1.7 million, pursuant to the Reorganisation. As a result, Enric Gas Equipment became a wholly-owned subsidiary of Shijiazhuang BVI. Since (a) the licence fee in the form of intangible assets was injected into Enric Gas Equipment when it was established and (b) subsequently, Enric Gas Equipment became a wholly-owned subsidiary of the Group, the current consolidated financial results of the Group has taken into account the effect of such licence fee. Hence, both the licence fee and royalty payment have already been reflected in the Group's consolidated accounts. As such licence fee became part of the asset of Enric Gas Equipment, Xinao Shijiazhuang licenced its rights under the Neogas Agreement to Enric Gas Equipment at nil consideration. Since the royalties are charged based on the deemed sales amount of Neogas System under the Neogas Agreement and Enric Gas Equipment had yet to sell any Neogas System until the middle of 2004, Enric Gas Equipment has since then started to bear such royalties based on the deemed sales amount of Neogas System but not its establishment.

As at the Latest Practicable Date, the Group has applied for patent registration for a number of technologies in the PRC, particulars of which are set out in the section headed "Intellectual property rights" in Appendix VI to this document.

As at the Latest Practicable Date, the Group had not (a) licenced any of its intellectual property rights to any third parties and (b) 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 rights" in Appendix VI to this document.

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:

Time of grant	Awards and honours	Awarding body
October 2005	High and new technology enterprise* (高新技術企業)	Department of Science and Technology of Hebei Province (河北省科學技術廳)
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 (中國質量學會), China Quality Service Science Association (中國優質服務科學學會), China Product Safety Evaluating and Monitoring Centre (中國產品安全評價監測中心)

Date of grant	Awards and honours	Awarding body
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
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 (安徽省工商業聯合會), Association of Science and Technology of Anhui Province (安徽省科學技術協會) and Association of Entrepreneurs of Private Technological Enterprise of Anhui Province (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 (安徽省工商業聯合會), Commission of Economic and Trade of Anhui Province (安徽省經濟貿易委員會), Administration for Industry and Commerce of Anhui Province (安徽省工商行政管理局), Department of Foreign Trade and Cooperation of Anhui Province (安徽省對外貿易經濟合作廳), Local Taxation Bureau of Anhui Province (安徽省地方稅務局), Bureau of Statistics of Anhui Province (安徽省統計局) and Township Enterprises Bureau of Anhui Province (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）》 and 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 Company's PRC legal advisers, all the operating subsidiaries of the Company have complied with the PRC regulations on social insurance, pension contribution plan, housing schemes and medical insurance plan.

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 important to the future success of the Group.

Mr. Wang has 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 and bottled gas 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.

As at the Latest Practicable Date, Xinao Gas, the holding company of Xinao Gas Group, was indirectly owned as to approximately 36.2% by XGII. Mr. Wang and Ms. Zhao ultimately owned approximately 73.0% 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. Furthermore, 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 Introduction. For particulars of the contemplated continuing connected transactions of the Group after the Introduction, please refer to the section headed "Connected transactions" in this document.

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 year ended 31 December 2005, the total products sales to Xinao Gas Group and Hebei Finance Leasing Company Limited pursuant to the product sale agreements amounted to approximately RMB101.5 million which represented approximately 19.8% of total turnover for the year ended 31 December 2005; (ii) the 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 Main Board 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 document and guarantees provided by XGCL in respect of loans of the Group that were subsequently released in March 2006; and (vi) there has been no advance 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 Main Board Listing are set out below:

The Xinao Gas Group and its related companies

1. The Xinao Gas Group

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 as at the Latest Practicable Date, it was owned as to approximately 36.2 by XGII. 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 and bottled gas 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 and provided repair and maintenance services to Xinao Gas Group, while Xinao Gas Group had purchased specialised gas-related equipment from the Group and provided gas connection services to the Group during the Track Record Period. The Group had also leased certain properties from Xinao Gas Group both during and subsequent to the Track Record Period. Particulars of the Group's transactions with the Xinao Gas Group are set out in the section headed "Connected transactions – continuing connected transactions" in this document.

Xinao Gas Group has commenced introducing a new line of gas distribution business using CNG refueling stations in 2002. 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.

As at the Latest Practicable Date, other than Mr. Wang, Mr. Jin Yongsheng, Mr. Yu Jianchao and Ms. Zhao, none of the directors or members of the senior management of Xinao Gas is also a director or a member of the senior management of any member of the 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 (China) Gas Investment Company Limited (新奧（中國）燃氣投資有限公司) as to 62% and 38% respectively. The effective interests of Mr. Wang and Ms. Zhao in Beihai Xinao Gas Company Limited was approximately 25.0% as at the Latest Practicable Date. Its principal business is (i) the production and sales of LNG and CNG and the design and installation of piped gas facilities; and (ii) the production, sales and repair of gas equipment and appliances including cooking stoves, water boilers and heaters. 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 in the amount of approximately RMB8.7 million during the year ended 31 December 2004 and approximately RMB1.8 million during the year ended 31 December 2005. The Directors are of the view that such transactions were entered into on normal commercial terms.

As at the Latest Practicable Date, none of the directors or members of the senior management of Beihai Xinao Gas Company Limited is also a director or a member of the senior management of any member of the Group.

3. 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 51% and 49% respectively. The effective interests of Mr. Wang and Ms. Zhao in Dongguan Xinao Gas Company Limited was approximately 17.9% 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 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 in the amount of approximately RMB0.2 million during the year ended 31 December 2004. The Directors are of the view that such transactions were entered into on normal commercial terms.

As at the Latest Practicable Date, none of the directors or members of the senior management of Dongguan Xinao Gas Company Limited is also a director or a member of the senior management of any member of the Group.

4. 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 49% and 51% respectively. The effective interests of Mr. Wang and Ms. Zhao in Luquan Fuxin Gas Company Limited was approximately 17.9% 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) pursuant to which it only carries on such business solely in the city where it operates as gas supplier (being Luquan) and for the purpose of facilitating its business of sales of piped gas to its customers. 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 in the amount of approximately RMB9.8 million during the year ended 31 December 2004 and approximately RMB1,000 during the year ended 31 December 2005. The Directors are of the view that such transactions were entered into on normal commercial terms.

As at the Latest Practicable Date, none of the directors or members of the senior management of Luquan Fuxin Gas Company Limited is also a director or a member of the senior management of any member of the Group.

The XGCL Group and its related companies

1. The XGCL Group

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 29.7%, 17.7%, 23.2%, 2.3%, 2.3% and 24.8% respectively. It was therefore directly and/or indirectly owned as to approximately 73.0% 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 the XGCL Group and that of the Group. During the Track Record Period, the Group had cash advances to and from members of the XGCL Group, sold and purchased raw materials to and from members of the XGCL Group, and sold specialised gas-related products to the XGCL Group. In addition, the XGCL Group also provided property management services, leased certain properties and granted licence to use certain technologies of Neogas to the Group during the Track Record Period. Particulars of the Group's transactions with members of the XGCL Group are set out in the section headed "Connected transactions – continuing connected transactions" in this document.

As at the Latest Practicable Date, other than Mr. Wang and Mr. Yu Jianchao, none of the directors or members of the senior management of XGCL is also a director or a member of the senior management of any member of the Group.

Prior to the Reorganisation, Enric Gas Equipment was part of the 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 12.3% 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 (a subsidiary of XGCL), 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 87.7% 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.

As at the Latest Practicable Date, other than Mr. Wang, none of the directors or members of the senior management of Bengbu Xinao Property Company Limited is also a director or a member of the senior management of any member of the Group.

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 27.5% 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 in the amount of approximately RMB4.4 million during the year ended 31 December 2005. The Directors are of the view that such transactions were entered into on normal commercial terms. Particulars of the Group's transactions with Hebei Finance Leasing Company Limited are set out in the section headed "Connected transactions – Continuing connected transactions" in this document.

As at the Latest Practicable Date, other than Mr. Wang, Mr. Yu Jianchao and Mr. Jin Yongshang, none of the directors or members of the senior management of Hebei Finance Leasing Company Limited is also a director or a member of the senior management of any member of the Group.

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, a subsidiary of XGCL, and other Independent Third Parties as to approximately 44.1% and 55.9% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 34.1% 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.

As at the Latest Practicable Date, except Mr. Yang Yu and Ms. Li Xiufen, who are directors of Enric Gas Equipment, none of the directors or members of the senior management of Hebei Veyong Biochemical Joint Stock Company Limited is also a director or a member of the senior management of any member of the Group.

5. 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 25.6% 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.

As at the Latest Practicable Date, except Ms. Li Xiufen, who is a director of Enric Gas Equipment, none of the directors or members of the senior management of Inner Mongolia New Veyong Biochemical Company Limited is also a director or a member of the senior management of any member of the Group.

6. 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, a subsidiary of XGCL, 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 79.3% 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 which had been fully settled before 31 December 2005.

None of the directors or members of the senior management of Shijiazhuang Radiation Appliances Company Limited was also a director or a member of the senior management of any member of the Group.

7. 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 42.8%, 31.8% and 25.4% respectively. It was therefore indirectly owned by Mr. Wang and Ms. Zhao as to approximately 88.4% 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. The said cash advances had been fully settled before 31 December 2005. 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 document.

As at the Latest Practicable Date, other than Mr. Wang, none of the directors or members of the senior management of Xinao Group Solar Energy Company Limited is also a director or a member of the senior management of any member of the Group.

Others

1. XGII

XGII is a company incorporated in BVI with limited liability on 18 July 2000, which was owned as to 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 which had been fully settled before 31 December 2005.

As at the Latest Practicable Date, other than Mr. Wang and Ms. Zhao, none of the directors or members of the senior management of XGII is also a director or a member of the senior management of any member of the Group.

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 36.2% and 63.8% 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.

As at the Latest Practicable Date, other than Mr. Wang, none of the directors or members of the senior management of Langfang City Natural Gas Company Limited is also a director or a member of the senior management of any member of the Group.

3. Langfang Guofu

Langfang Guofu is a company incorporated in the PRC with limited liability on 13 January 2000 and was beneficially and 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.

As at the Latest Practicable Date, other than Mr. Wang, none of the directors or members of the senior management of Langfang Guofu is also a director or a member of the senior management of any member of the Group.

Non-competition undertakings

For the purpose of the GEM Listing and pursuant to a deed of non-competition undertakings entered into on 26 September 2005 by each of XGII, Mr. Wang and Ms. Zhao in favour of the Company (for itself and as trustees for its subsidiaries) (the "GEM Non-competition Undertaking"), each of XGII, Mr. Wang and Ms. Zhao has irrevocably undertaken and covenanted with the Company that for so long as it/he/she shall remain as a controlling 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 the subsidiaries of XGII 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 its/his/her 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 document (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 its/his/her 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 its/his/her 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 deed of non-competition undertaking dated 26 September 2005 entered into between XGII, Mr. Wang and Ms. Zhao and the Company (the "GEM Non-competition Undertaking") will terminate on the date on which the Shares cease to be listed on GEM. For the purpose of the Introduction, the Company has entered into a new deed of non-competition undertaking with each of XGII, Mr. Wang and Ms. Zhao on 23 June 2006, which is conditional upon, the listing of and commencement of dealing in the entire issued share capital of the Company on the Main Board pursuant to the Introduction on or before 31 December 2006 whereby each of XGII, Mr. Wang and Ms. Zhao has given similar undertakings as those set out in paragraphs (a) and (b) above, except that references to the GEM Listing Rules were made to the Main Board Listing Rules (the "Main Board Non-competition Undertaking").

In addition, each of XGII, Mr. Wang and Ms. Zhao has also undertaken in the Main Board Non-competition Undertaking to:–

(i) make an annual declaration on the compliance of the Main Board Non-competition Undertaking in the annual report of the Company; and

(ii) provide any information necessary for the independent non-executive Directors for their annual review on the compliance with the Main Board Non-competition Undertaking by the controlling Shareholders.

The Company has adopted the following measures to monitor the compliance with the Main Board Non-competition Undertaking by the controlling Shareholders:–

(i) based on the information provided by the controlling Shareholders, the independent non-executive Directors would review, on an annual basis, the compliance with the Main Board Non-competition Undertaking by the controlling Shareholders on its/his/her competing business(es), if any; and

(ii) the Company would disclose decision on matters reviewed by the independent non-executive Directors relating to the compliance with the Main Board Non-competition Undertaking by the controlling Shareholders on its/his/her competing business(es) in the annual report.

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, on either normal commercial terms or terms no less favourable to the Company than those available from Independent Third Parties, 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 Main Board Listing under Rule 14A.33(1) of the Main Board 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) and Shijiazhuang Xinao Gas Company Limited* (石家莊新奧燃氣有限公司), both being subsidiaries of Xinao Gas (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), 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 and are the exclusive piped gas suppliers in their respective regions 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 owned as to approximately 36.2% by XGII (which is owned as to 50% by each of Mr. Wang and Ms. Zhao) as at the Latest Practicable Date, each of these companies is a connected person of the Company under the Main Board Listing Rules upon the Main Board 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 14A.31(7) of the Main Board Listing Rules has been complied with. The Company will continue to monitor and ensure compliance with the requirements under Rule 14A.31(7) of the Main Board Listing Rules.

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 three years ended 31 December 2005 respectively:

		Year ended	
	31 December 2003 *RMB*	**31 December 2004** *RMB*	**31 December 2005** *RMB*
Gas usage charges paid and/or payable to Bengbu Xinao Gas Development Company Limited	74,900	73,410	92,830

Shijiazhuang Xinao Gas Company Limited did not supply piped gas to the Group for the three years ended 31 December 2005.

The total consideration paid and/or payable by the Group for each of the three years ended 31 December 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 and bottled 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 owned as to approximately 36.2% by XGII (which is owned as to 50% by each of Mr. Wang and Mr. Zhao) as at the Latest Practicable Date, each of Xinao Gas and its subsidiaries is an associate of Mr. Wang and Mr. Zhao and therefore a connected person of the Company under the Main Board Listing Rules upon the Main Board 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 three years ended 31 December 2005 respectively:

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

Each of the conditions set out under Rule 14A.31(7) of the Main Board Listing Rules has been complied with except that the connection fee paid to Xinao Gas Group in 2004 exceeds 1% of the total revenue of the Group for the year ended 31 December 2004. The significant increase in gas connection fee in 2004 resulted from the entering into an agreement with a member of Xinao Gas Group in June 2004 pursuant to which Xinao Gas Group provided gas connection services for a factory of the Group in Shijiazhuang, Hebei Province, the PRC at a consideration of RMB3.6 million. The consideration was arrived at after arm's length negotiations and based on rates offered by the Xinao Gas Group to Independent Third Parties. The Directors consider that such transaction was entered into on normal commercial terms and that the terms thereof were fair and reasonable as far as the interests of the Group as a whole was concerned. Notwithstanding the above, based on the Group's estimated 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 two years ending 31 December 2007. If any of the conditions set out under Rule 14A.31(7) of the Main Board Listing Rules are not complied with since the date of Introduction, the Company will no longer be entitled to the exemption under Rule 14A.31 and will comply with all relevant requirements under Chapter 14A of the Main Board Listing Rules.

(B) The following continuing connected transactions will be exempt from reporting, announcement and independent Shareholders' approval requirements upon the Main Board Listing under Rule 14A.33(3) of the Main Board 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, a subsidiary of XGCL (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), as landlord, the Group has rented from the landlord certain property located in Shijiazhuang in the PRC at an annual rental of RMB3,600 for a term of twenty years commencing from 1 September 2003 and expiring on 1 September 2023 for office purpose. The principal business of Hebei Veyong Group Company Limited is investment holding and property leasing. It conducts the businesses of production and sale of fertilisers and medicine for animals and the production and sale of switch gear. As Hebei Veyong Group Company Limited is a company controlled by Mr. Wang, it is a connected person of the Company under the Main Board Listing Rules upon the Main Board Listing.

Sallmanns (Far East) Limited, an independent valuer appointed by the Company for the purpose of the Introduction, 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* (新奧集團太陽能有限公司)*

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 document), as landlord, the Group has rented 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 an annual rental of RMB520,000 for a term of three years commencing from 30 September 2004 and expiring on 29 September 2007 for office purpose. The principal business of Xinao Group Solar Energy Company Limited is property leasing. As Xinao Group Solar Energy Company Limited is a company controlled by Mr. Wang, it is a connected person of the Company under the Main Board Listing Rules upon the Main Board Listing.

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

5. *Tenancy agreement dated 28 February 2006 between Enric Integration and Langfang Xinao Gas Equipment Company Limited* (廊坊新奧燃氣設備有限公司)*

Pursuant to the tenancy agreement dated 28 February 2006 entered into between Enric Integration as tenant and Langfang Xinao Gas Equipment Company Limited, a subsidiary of Xinao Gas (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), as landlord, the Group has rented from the landlord two floors in an office building and a workshop in a premises located in the Langfang Economic and Technical Development Zone at an annual rental (including property management fees) of approximately RMB466,209 for a term of two years commencing on 1 March 2006 and expiring on 29 February 2008, with an option to renew at the prevailing market rent, for production and office purpose. The principal business of Langfang Xinao Gas Equipment Company Limited is manufacture of stored value card gas meters. As Langfang Xinao Gas Equipment Company Limited is an associate of Mr. Wang, it is a connected person of the Company under the Main Board Listing Rules upon the Main Board Listing.

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

6. *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, a subsidiary of XGCL (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), 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 from 1 October 2004 at the annual rental of RMB180,000. 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. The principal business of Langfang Xinao Property Management Company Limited is property development. As Langfang Xinao Property Management Company Limited is a company controlled by of Mr. Wang, it is a connected person of the Company under the Main Board Listing Rules upon the Main Board Listing.

7. *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, a subsidiary of Xinao Gas (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this document), as landlord, EIGL has rented from Xinao Gas Investment Group Limited certain properties in a building located in Lippo Centre, Hong Kong together with certain furniture at an annual rental of HK$455,544 per annum for a term of three years commencing from 1 February 2005 for office purpose. The principal business of Xinao Gas Investment Group Limited 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 the Xinao Gas Group. As Xinao Gas Investment Group Limited is a wholly owned subsidiary of Xinao Gas which is owned as to approximately 36.2% by XGII (which is owned as to 50% by each of Mr. Wang and Ms. Zhao) as at the Latest Practicable Date, Xinao Gas Investment Group Limited is a connected person of the Company under the Main Board Listing Rules upon the Main Board Listing.

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

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 from 1 January 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 two years ended 31 December 2005.

As Xinao Gas is owned as to approximately 36.2% by XGII (which is owned as to 50% by each of Mr. Wang and Ms. Zhao) as at the Latest Practicable Date, each of Xinao Gas and its subsidiaries is an associate of Mr. Wang and Ms. Zhao and therefore a connected person of the Company under the Main Board Listing Rules upon the Main Board 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 date of GEM Listing, 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 date of GEM Listing. Xinao Shijiazhuang is a subsidiary of XGCL and its principal business is NGV conversion.

The Directors are of the view that the Licence Agreement was entered into on terms no less favourable to the Company than those available from Independent Third Parties.

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

Non-exempt continuing connected transactions

The following continuing connected transactions will be subject to reporting, announcement and independent Shareholders' approval requirements upon the Main Board Listing under Rule 14A.35 of the Main Board 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 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 three years ended 31 December 2005, the sales of the aforesaid products by the Group to Xinao Gas Group, in aggregate, amounted to approximately RMB1 million, RMB28.7 million and RMB97.0 million respectively, representing approximately 1.5%, and 11.4% and 18.9% of the total turnover of the Group for the corresponding periods respectively.

After evaluating the historical figures, the estimated 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 RMB185 million and RMB271 million for each of the two years ending 31 December 2007 respectively. The substantial increase in the proposed cap amounts for 2006 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, the Directors expected that a large number of CNG refueling stations will be purchased by Xinao Gas Group to accommodate such gas usage for the two 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 owned as to approximately 36.2% by XGII (which is owned as to 50% by each of Mr. Wang and Ms. Zhao) as at the Latest Practicable Date, each of Xinao Gas and its subsidiaries is an associate of Mr. Wang and Ms. Zhao and therefore a connected person of the Company under the Main Board Listing Rules upon the Main Board 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 agreed to purchase gas-related machinery and equipment, including gas refueling stations, gas daughter refueling station trailers, storage tanks, CNG 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 period 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 year ended 31 December 2005, the sales of the aforesaid products by the Group to Hebei Finance Leasing Company Limited amounted to approximately RMB4.4 million, representing approximately 0.9% 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 RMB23 million and RMB31 million for each of the two years ending 31 December 2007 respectively, based 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 Main Board Listing Rules upon the Main Board Listing.

WAIVER APPLICATION

The Group will continue to enter into or carry out the transactions set out above following the Introduction and these transactions will constitute continuing connected transactions (collectively, the “Continuing Connected Transactions”) of the Company under the Main Board Listing Rules upon the Main Board Listing. According to the Main Board 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 two years ending 31 December 2007 or 2.5% of the total market capitalisation of the Group as at the Main Board Listing Date, these transactions will be subject to the reporting, announcement and independent Shareholders' approval requirements under Rule 14A.35 of the Main Board Listing Rules upon the Main Board 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, and the Company has already obtained a waiver from the Stock Exchange in respect of these transactions under the requirements of the GEM Listing Rules upon the GEM Listing, the Directors (including the independent non-executive 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 and the Stock Exchange has granted an one-off waiver from strict compliance with the announcement and independent Shareholders' approval requirements for the Non-Exempt Continuing Connected Transactions under Rule 14A.42 of the Main Board Listing Rules. The Company will comply with Rules 14A.36 to 14A.41 of the Main Board 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 two financial years ending 31 December 2007 shall not exceed the respective caps below:

	Annual cap	
Type of transactions	**2006**	**2007**
	RMB million	*RMB million*
Product sales agreement with Xinao Gas as purchaser (representing itself and as trustee of its subsidiaries)	185	271
Product sales and finance lease agreement with Hebei Finance Leasing Company Limited as purchaser	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 ordinary and usual course of the Group's business and that they are fair and reasonable and in the interests of the Shareholders as a whole; and (ii) the annual caps set out above are fair and reasonable so 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 has set up its internal control system for scrutinising connected transactions after the GEM Listing. The control system for limiting the relevant amounts within the caps includes 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 is a summary of the comparison of the Group's actual business progress with the business objectives as set out in the Prospectus for the period from 6 October 2005 to 31 December 2005 and from 1 January 2006 to the Latest Practicable Date or, if applicable, the changes in such business objectives for the corresponding period:

For the period from 6 October 2005 to 31 December 2005		For the period from 1 January 2006 to the Latest Practicable Date	
Business objectives as stated in the Prospectus	**Actual business progress**	**Business objectives as stated in the Prospectus**	**Actual business progress**
Productivity enhancement			
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	The Group constructed additional factory and invested in facilities for production and inspection in Bengbu. The Group also completed the refitting of Bengbu's warehouse	1. Bengbu Facilities – improve and rationalise the electricity distribution system and logistics system in the factory	The improvement and rationalisation of the electricity distribution and the logistics systems were still in progress
2. Shijiazhuang Facilities – construct additional workshop space for production and improved processing of high pressure and cryogenic products	The Group constructed additional workshop and procured production equipment for improving the processing of high pressure and cryogenic products in Shijiazhuang	2. Shijiazhuang Facilities – improve on LNG vacuum flow detection system and construct additional warehouse storage facilities	The Group improved the LNG vacuum flow detection system. The construction work of additional storage facilities was in progress
3. Langfang Facilities – purchase production equipment to raise production capability and productivity	The Group purchased production equipment for raising the productivity of Enric Integration in Langfang	3. Langfang Facilities – construct assembly workshop, research and development centre and administration	The construction of assembly workshop, research and development centre and administration facilities had begun

For the period from 6 October 2005 to 31 December 2005		For the period from 1 January 2006 to the Latest Practicable Date	
Business objectives as stated in the Prospectus	**Actual business progress**	**Business objectives as stated in the Prospectus**	**Actual business progress**
Research and development			
1. Enhance the production facilities of high pressure valves and cryogenic valves to raise the efficiency of performance	The production facilities of high pressure valves and cryogenic valves were enhanced	1. Enhance the design and techniques applied in LCNG refueling stations	The Group commenced the enhancement of the design and techniques applied in LCNG refueling stations
2. Improve the design of gas pressure – regulating facilities	The Group improved the design of gas pressure-regulating products	2. Continue to develop compressor mother refueling station and compressor daughter refueling station	The Group commenced the development of compressor mother refueling station and compressor daughter refueling station
3. Enhance the standard of CNG products, broaden the scope of usage and breadth of CNG series products	The Group enhanced and broadened the scope of usage of CNG products		
4. Develop cryogenic liquid storage and transportation equipment production lines on own or co-operate with international enterprises	The Group completed the development of production lines of cryogenic liquid storage and transportation equipment		
5. Research on the application of hydraulic gas daughter refueling station	The Group completed research on the application of CNG hydraulic daughter refueling stations		
6. Continue to develop natural gas compressor with a large discharge capacity	The development of natural gas compressors with large discharge capacity was completed		
7. System design of LNG and LCNG refueling station	The Group completed the system design of LNG and LCNG stations		

For the period from 6 October 2005 to 31 December 2005		For the period from 1 January 2006 to the Latest Practicable Date	
Business objectives as stated in the Prospectus	**Actual business progress**	**Business objectives as stated in the Prospectus**	**Actual business progress**
Marketing of business			
1. Promotional activities through advertising in magazines in the PRC gas or related industry	The Group placed advertisements in magazines within gas and related industry in the PRC	1. Expand the functions of the Group's website for e-commerce	The Group commenced expanding the functions of the Group's website for e-commerce
2. Participate in exhibitions in relation to gas equipment industry in the PRC and Europe	The Group participated in exhibitions in relation to the gas equipment industry in the PRC	2. Promotional activities through advertising in magazines	The Group placed advertisements in magazines
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	The Group produced video compact disc and marketing and promotional materials for the promotion of the Group and brand name and products such as seamless pressure cylinders, CNG hydraulic daughter refueling station system and gas compressors In order to enhance the brand name awareness of the Group, a series of promotional activities were held, such as launching of big scale out-door advertisements and corporate anniversary celebration reception and banquet	3. Create promotional gift	The Group procured gifts for promotional purposes

For the period from 6 October 2005 to 31 December 2005		For the period from 1 January 2006 to the Latest Practicable Date	
Business objectives as stated in the Prospectus	**Actual business progress**	**Business objectives as stated in the Prospectus**	**Actual business progress**
Business qualifications			
1. Obtain DOT certification	The DOT certification has been obtained in November 2005 for manufacture of seamless pressure cylinder	1. Obtain qualifications for project design and construction	The Group was preparing for the application
2. Obtain new licence for conversion of vehicles for carrying high pressure vessels	The Group obtained licences for conversion of vehicles for carrying high pressure vessels		
3. Obtain European Union's CE certification	The Group submitted the application for the CE certificate to the relevant authority and the application was being processed		
4. Enric Integration to obtain ISO9000 certification	Enric Integration obtained the ISO9001: 2000 certification		
5. Obtain manufacturing certificate for LNG container	The Group obtained the manufacturing certificate for LNG containers		

The Company raised approximately HK$175 million of net proceeds through the Placing in October 2005. Set out below is the intended use of proceeds as stated in the Prospectus and as revised by the announcement of the Company regarding the exercise of the over-allotment option dated 31 October 2005:

- as to approximately HK$99.0 million for enhancing the productivity of the Group through expanding and upgrading the Group's production and related facilities;
- as to approximately HK$36.9 million for strengthening research and development capability of the Group to further develop key products and technologies;
- as to approximately HK$17.4 million for expanding the Group's sales and marketing efforts by increasing sales offices and promotion;
- as to approximately HK$4.2 million for upgrading the Group's business qualifications so as to establish a foundation for its expansion into the U.S. and European market with an aim to further consolidate its position; and
- as to approximately HK$17.5 million for general working capital of the Group.

The Group's actual use of proceeds for the period since the GEM Listing and up to the Latest Practicable Date was approximately HK$43.0 million in the following manner:

- as to approximately HK$31.6 million for productivity enhancement;
- as to approximately HK$7.2 million for research and development;
- as to approximately HK$3.5 million for marketing; and
- as to approximately HK$0.7 million for business qualifications;

During the period from 6 October 2005 to the Latest Practicable Date, the Group conducted its business in accordance with the business plan and business objectives as stated in the Prospectus. In respect of the business objectives for the period from 6 October 2005 to 31 December 2005, the Group (a) completed all the productivity enhancement business objectives for approximately HK$16.4 million which is approximately HK$0.9 million lower than the proposed amount; (b) completed all the research and development business objectives for approximately HK$4.0 million which is HK$0.2 million short of the proposed amount; (c) completed all the marketing business objectives for approximately HK$2.1 million which is the same as the proposed amount; and (d) obtained all the relevant business qualifications except for the CE certificate, which is still being processed by the relevant authority, and the actual amount incurred was approximately HK$0.6 million and is approximately HK$0.2 million short of the proposed amount. In relation to the business objectives for the six months ending 30 June 2006, the Group is still in the process of completing these business objectives as at the Latest Practicable Date.

The Group will use the remaining unutilised net proceeds of approximately HK$132.0 million in accordance with its plans as set out in the Prospectus and as revised by the announcement of the Company regarding the exercise of the over-allotment option dated 31 October 2005. The Group will from time to time review its business plans in the best interests of the Shareholders.

THE GROUP'S MISSION

The Group's goal is to become an integrated business solutions and a top tier specialised gas equipment 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 equipment and integrated business solutions for use in the gas energy industry.

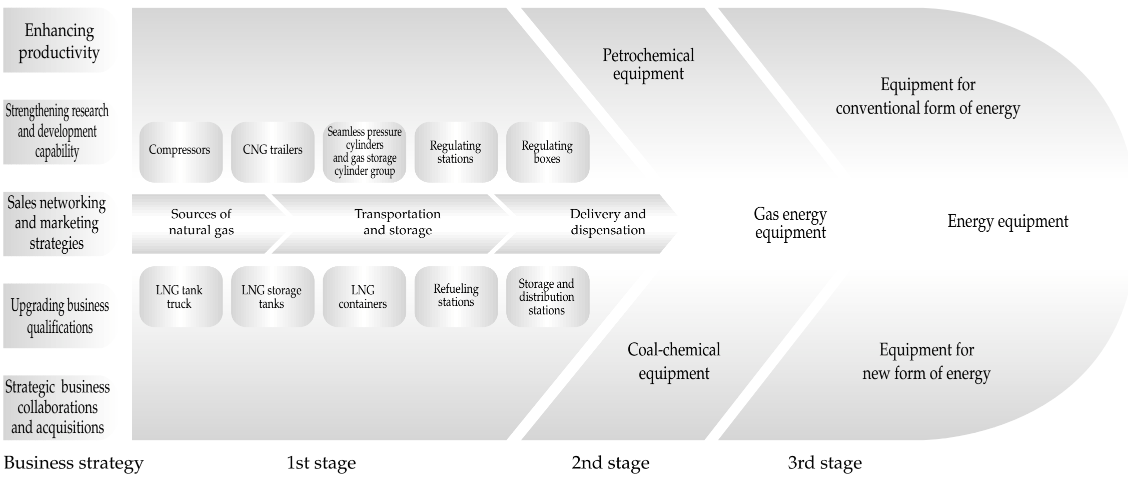
The Group's business strategy model involves manufacturing of high quality gas equipment employing imported technologies, applying advanced technologies and customer-oriented services. The Group provides its customers with customised integrated business solutions and comprehensive services and products, including without limitation, system design, the manufacture of specialised gas and related equipment, on-site installation, commissioning and testing, training and technical support service. In reliance of the above business strategy, the Group strives to remain as 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 undersea gas fields 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, equipment 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. The Directors anticipate strong growth in the demand for integrated business solutions in the gas energy industry and energy equipment in the PRC in the foreseeable future. The Directors believe that the Group is well positioned to capture this opportunity as the Group can leverage on its experience in the gas energy market, established market position and solid track record.

OVERALL BUSINESS OBJECTIVES



The Group plans to:

1. Enhance 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 equipment and facilities for production and enhancement of its quality control capability.

2. Strengthen 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, 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 for use 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 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.

3. Expand and strengthen sales and marketing network and efforts

The Group plans to expand its sales and marketing network and market coverage by increasing the coverage of sales network utilising existing sales network and strenghtening its sales capabilities by focusing on products sales, selling its products through dealers and distributors, 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;
- advertising in well-known magazines in the PRC gas industry to enhance the Group's profile and promote its products and services; and
- enchancing overseas sales network by way of setting up the Group's overseas sales offices and/or appointment of distributors and dealers to move into international market gradually.

4. Upgrade 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. In November 2005, the Group has obtained the approval for manufacturing seamless pressure cylinder from DOT.

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

5. Establish strategic business collaborations and pursue 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 will 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.

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Yusuo (王玉鎖先生), aged 41, is the co-founder, chairman and an executive Director. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 20 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 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 Xinao Gas. Mr. Wang is the spouse of Ms. Zhao and is responsible for formulating the business strategy of these two groups of companies. Currently, Mr. Wang divides his working time equally and devotes approximately one third of his working time in the Group. It is currently expected that Mr. Wang will continue to devote approximately one third of his working time in the Group after the Introduction.

Mr. Jin Yongsheng (金永生先生), aged 42, is an executive Director and the chief executive officer of the Company. He is responsible for strategic planning jointly with the chairman of the Company, investor relationship and executing the decisions made by the Board. Mr. Jin graduated from the Tianjin University of Finance and Economics in the PRC in 1986, specialising in finance and obtained an executive master's degree in Business Administration from the Guanghua School of Management of the Peking University in 2005. Prior to his current appointments as the executive Director and the chief executive officer of the Company, Mr. Jin had been an executive director of Xinao Gas and in order to devote more time in the Group, he has been re-designated as a non-executive director of Xinao Gas with effect from 5 June 2006. Prior to joining Xinao Gas Group in 1996, Mr. Jin was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture in the PRC. Mr. Jin is a qualified lawyer in the PRC and has over 16 years of experience in legal practice. Mr. Jin has been a director of Beijing Enric, a wholly-owned subsidiary of the Company, since December 2005. He has also been appointed as a member and the chairman of the remuneration committee of the Company with effect from 5 June 2006. Mr. Jin had also been the investor relations manager of the Company since September 2005. Currently, Mr. Jin devotes substantial part of his working time and attention to the Group. It is currently expected that Mr. Jin will continue to devote substantial part of his working time in the Group after the Introduction.

Mr. Cai Hongqiu (蔡洪秋先生), aged 42, is an executive Director and the general manager of the Company and the general manager of Enric Integration. He is responsible for the overall operations of the Group. Prior to joining the Group in March 2002 as a director of Enric Compressor, Mr. Cai had worked as the general manager of Xinao Group Solar Energy Company Limited and Xinao Shijiazhuang respectively. Mr. Cai graduated from the China University of Political Science and Law (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 obtained his bachelor's degree in Law in 1985 and master's degree in Science in 1992. Mr. Cai was appointed as a Director in October 2004. Mr. Cai is a senior economist and obtained qualification as a lawyer in the PRC in 1989. Mr. Cai has over eight years of experience in the management of industrial enterprises.

Mr. Yu Jianchao (于建潮先生), aged 37, is an executive Director and is responsible for the Group's investment and financial management. He graduated from the Hebei College of Economics and Finance College (河北財經學院) in 1993 and has obtained a master's degree in Business Administration from the China Europe International Business School in 2005. Prior to joining the Group in March 2002 as a director of Enric Compressor, 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. He is also an executive director and the chief accountant of Xinao Gas. Mr. Yu was appointed as a Director in October 2004. Mr. Yu has over 17 years of experience in accounting and finance and over eight years of experience in the management of industrial enterprises. Currently, Mr. Yu devotes approximately half of his working time in the Group. It is currently expected that Mr. Yu will continue to devote approximately half of his working time in the Group after the Introduction.

Mr. Zhao Xiaowen (趙小文先生), aged 42, is an executive Director and the chief marketing officer of the Company. Prior to joining the Group in October 2003 as a chief marketing officer of Enric Gas Equipment, Mr. Zhao worked as the deputy general manager and sales manager at Xinao Group Solar Energy Company Limited. He is responsible for the sales and marketing strategy of the Group. Mr. Zhao was appointed as a Director in October 2004. Mr. Zhao is experienced in sales and marketing and has over 20 years of experience in corporate management, of which eight years were in the manufacturing industry.

Mr. Zhou Kexing (周克興先生), aged 43, is an executive Director and the chief accountant of the Company 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 obtained a bachelor's degree in Economics in 1982 and a master's degree in Business Administration in 2001. Prior to joining the Group in December 2002 as a deputy chief accountant of Enric Compressor, Mr. Zhou lectured at the same college as a deputy research officer. Mr. Zhou was appointed as a Director in October 2004. 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 40, is the co-founder and a non-executive Director. She has over 13 years of experience in investing in gas fuel projects in the PRC. 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 was appointed as a non-executive Director in October 2004 and is the spouse of Mr. Wang. She is also a non-executive director of Xinao Gas.

Independent non-executive Directors

Mr. Gao Zhengping (高正平先生), aged 51, joined the Group as an independent non-executive Director in February 2005. Mr. Gao received a doctorate degree in Management Science from Tianjin University of Finance and Economics (天津財經大學) in 2002 and is the deputy vice chancellor 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 49, joined the Group as an independent non-executive Director in February 2005. 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 (王俊豪先生), aged 34, joined the Group as an independent non-executive Director in February 2005. 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, a Certified Practising Accountant of the Australian Society Certified Practising Accountants and a Chartered Financial Analyst. Mr. Wong is 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 34, is the general manager of Enric Compressor, responsible for its day-to-day operations. Mr. Yang received his bachelor's degree in Engineering from Beijing University of Chemical Technology (北京化工大學) in 1993 and a bachelor's degree in Law and a 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 adviser), funds and futures in the PRC. Prior to joining the Group in July 2002, Mr. Yang 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) where he was responsible for project design, project management, financial consultancy, securities analysis, legal affairs and business administration.

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 and the manager of the CNG workshop at Xinao Shijiazhuang and the assistant to the general manager of Enric Gas Equipment. Prior to joining the Group in June 2002, Mr. Tu worked for Langfang Hengyu Tools Company Limited (廊坊恒宇工具有限公司) and was responsible for production management.

Mr. Ren Yingjian (任英建先生), aged 50, is the general manager of Enric Gas Equipment, responsible for its day-to-day operations. 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 September 2003, 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). He is experienced in management of industrial enterprises.

Mr. Cheong Siu Fai (張紹輝先生), aged 34, 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. Liu Zhi'ang (劉志昂先生), aged 60, is the chairman of the board of directors of Enric Gas Equipment, responsible for the supervision of its overall operations. Mr. Liu graduated from Tianjin Industrial and Commercial School and obtained a bachelor's degree in 1969. Prior to joining the Group in September 2003, 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) as well as the chief secretary and the head of the planning development committee of People's Government of Xingtai City, Hebei province (河北省邢台市政府).

AUDIT COMMITTEE

The Company has established an audit committee on 26 September 2005 with written terms of reference which are in compliance with the GEM Listing Rules and the Main Board 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.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 26 September 2005. The remuneration committee consists of three members, namely Mr. Jin Yongsheng, Mr. Gao Zhengping and Mr. Shou Binan, the majority of whom are independent non-executive Directors. The chairman of the remuneration committee is Mr. Jin Yongsheng.

The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of the Directors and senior management and evaluate the retirement scheme and the Company's performance assessment system and bonus and commission policies.

NOMINATION COMMITTEE

The Company established a nomination committee on 23 June 2006. The nomination committee consists of three members, namely Mr. Jin Yongsheng, Mr. Wong Chun Ho and Mr. Gao Zhengping, the majority of whom are independent non-executive Directors. The chairman of the nomination committee is Mr. Jin Yongsheng.

The primary duties of the nomination committee include, among other duties, making recommendations to the Board regarding candidates to fill vacancies on the Board.

COMPLIANCE ADVISER

Pursuant to the Main Board Listing Rules, the Company will appoint China Everbright Capital as its compliance adviser to assist and advise the Company in connection with the Main Board Listing Rules and applicable laws, rules, codes and guidelines. The appointment of China Everbright Capital as the Company's compliance adviser will commence on the Main Board Listing Date and end on the date on which the Company complies with Rules 13.46 of the Main Board Listing Rules in respect of the Company's financial results for the financial year ending 31 December 2007 or the date on which such agreement is terminated pursuant to the terms thereof, whichever is the earlier.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of salaries, allowances and benefits in kind, retirement scheme contributions and share-based payments of the five highest paid individuals paid by the Group to the five highest paid individuals for the three years ended 31 December 2005 were approximately RMB113,605, RMB314,689 and RMB2,446,065 respectively.

The aggregate amounts of fees, salaries, allowances and benefits in kind, retirement scheme contributions, discretionary bonuses and share-based payment of the Directors paid by the Group to the Directors for the three years ended 31 December 2005 were nil, approximately RMB142,111 and RMB2,239,388 respectively.

The five highest paid individuals of the Group included nil, two and four Directors for the three years ended 31 December 2005, respectively, whose aggregate remuneration has been included above.

During the Track Record Period, no remuneration was paid by the Group to, or receivable by, the Directors or the five highest paid individuals as an inducement to join or upon joining the Group. No compensation was paid by the Group to or receivable by the Directors, past Directors or the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of the Group. None of the Directors waived any emoluments during the Track Record Period.

The Directors' remuneration payable as at 31 December 2005 was fully in settled May 2006.

Save as disclosed above, no other payments have been paid or are payable, during the Track Record Period, by the Company or any of its subsidiaries to the Directors and the five highest paid individuals.

STAFF

A breakdown of the number of staff of the Group by function as at 31 December 2003, 31 December 2004 and 31 December 2005 and the Latest Practicable Date is as follows:

Function	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005	As at Latest Practicable Date
Management	20	42	46	50
Research and development	61	126	126	136
Production	408	762	923	1,043
Quality control	27	62	62	61
Sales and marketing	61	110	110	117
Administration	60	135	158	161
Total	637	1,237	1,425	1,568

As at the Latest Practicable Date, among the 1,568 staff members of the Group, 1,565 were located in Mainland China and the remainder were located in Hong Kong.

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 document. The Group complies with the applicable PRC regulations on social insurance.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

The Directors confirm that the Company has complied with all the relevant regulations to staff benefit schemes.

SHARE OPTION SCHEMES

The Company has adopted the Pre-GEM Listing Share Option Plan (which was terminated on the day immediately prior to the GEM Listing Date) and the GEM Share Option Scheme. The principal terms of the Pre-GEM Listing Share Option Plan and the GEM Share Option Scheme are summarised in the sections headed "Share Option Schemes – Summary of the principal terms of the Pre-GEM Listing Share Option Plan" and "Share Option Schemes – Summary of the principal terms of the GEM Share Option Scheme" in Appendix VI to this document.

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-GEM Listing Share Option Plan to subscribe for an aggregate of 13,800,000 Shares, representing approximately 3.1% of the issued share capital of the Company as at the Latest Practicable Date. The exercise price of these options is HK$1.50 being the placing price of the Shares under the Placing. Although the Pre-GEM Listing Share Option Plan was terminated on the day immediately prior to the GEM Listing Date, the options granted under the Pre-GEM Listing Share Option Plan will continue to be exercisable in accordance with the rules of the Pre-GEM Listing Share Option Plan and the terms of their grants. As at the Latest Practicable Date, no option has been granted under the GEM Share Option Scheme which will be terminated upon the Proposed Share Option Scheme proposed to be adopted by the Company becoming effective.

In connection with the Introduction and in order to comply with the provisions of the Main Board Listing Rules, the Group will, subject to the approval of the Shareholders, adopt the Proposed Share Option Scheme to replace the GEM Share Option Scheme. A summary of the Proposed Share Option Scheme is set out in the paragraph headed "Share Option Schemes – Summary of the principal terms of Proposed Share Option Scheme" in Appendix VI to this document.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at the Latest Practicable Date, the following persons were directly or indirectly interested in 10% or more of the voting power at any general meetings of the Company:

Name of Shareholder	Number of Shares	Approximate percentage of voting power *(%)*
XGII *(Note)*	234,144,000	52.6%
Mr. Wang *(Note)*	234,144,000	52.6%
Ms. Zhao *(Note)*	234,144,000	52.6%

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.

CONTROLLING SHAREHOLDERS

Mr. Wang, Ms. Zhao and XGII were the controlling Shareholders as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Wang and Ms. Zhao were beneficially interested in 234,144,000 Shares through XGII, representing approximately 52.6% of the issued share capital of the Company.

Undertakings

XGII has undertaken with the Company and the Stock Exchange that, save as permitted under the Main Board Listing Rules:

(i) for a period commencing on the date of this document and ending on the date which is six months from the date on which dealings in the Shares on the Main Board first commence (the "First Six-Month Period"), it will not dispose of (or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of) any of the Shares which it is shown by this document to be the beneficial owner; and

(ii) for a period of six months commencing on the date on which the First Six-Month Period expires (the "Second Six-Month Period"), it will not dispose of (or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of) any of the Shares which it is shown by this document to be the beneficial owner if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, XGII would cease to be a controlling Shareholder.

Each of Mr. Wang and Ms. Zhao has undertaken with the Company and the Stock Exchange that, save as permitted under the Main Board Listing Rules:

(i) for the First Six-Month Period, he/she will procure XGII not to dispose of (or to enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of) any of the Shares which XGII is shown by this document to be the beneficial owner;

(ii) for the Second Six-Month Period, he/she will procure XGII not to dispose of (or to enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of) any of the Shares which XGII is shown by this document to be the beneficial owner if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, Mr. Wang and Ms. Zhao would (through shareholdings in XGII) cease to be a controlling Shareholder;

(iii) for the First Six-Month Period, he/she will not dispose of (or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of), nor permit the registered holder to dispose of (or to enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of) his/her direct or indirect interests in XGII; and

(iv) for the Second Six-Month Period, he/she will not dispose of (or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of), nor permit the registered holder to dispose of (or to enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of) his/her direct or indirect interests in XGII if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, Mr. Wang or Ms. Zhao would (through shareholdings in XGII) cease to be a controlling Shareholder.

Each of Mr. Wang, Ms. Zhao and XGII has further undertaken with the Stock Exchange and the Company that for the First Six-Month Period and the Second Six-Month Period, he/she/it will:

(i) when XGII pledges/charges any Shares which XGII is shown by this document to be the beneficial owner in favour of an authorised institution as permitted under the Main Board Listing Rules, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and

(ii) when XGII receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of matters referred to in the immediate preceding paragraph by Mr. Wang, Ms. Zhao and XGII and disclose such matters by way of an announcement published in the newspapers as soon as possible.

SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital and the issued share capital of the Company are as follows:

		HK$
Authorised share capital:		
10,000,000,000	Shares	100,000,000
Issued share capital:		
445,200,000	Shares	4,452,000

As at the Latest Practicable Date, all the existing Shares 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 document.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Main Board Listing Rules, at the time of listing of the Shares on the Main Board 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 Main Board Listing Rules).

SHARE OPTION SCHEME

The Company has adopted the Pre-GEM Listing Share Option Plan (which was terminated on the day immediately prior to the GEM Listing Date) and the GEM Share Option Scheme. The principal terms of the Pre-GEM Listing Share Option Plan and the Share Option Scheme are summarised in the sections headed "Share Option Schemes – Summary of the principal terms of the Pre-GEM Listing Share Option Plan" and "Share Option Schemes – Summary of the principal terms of the GEM Share Option Scheme" respectively in Appendix VI to this document.

The Company has granted options to five executive Directors, five members of the senior management and two employees of the Group under the Pre-GEM Listing Share Option Plan to subscribe for an aggregate of approximately 13,800,000 Shares, representing approximately 3.1% of the issued share capital of the Company as at the Latest Practicable Date. The exercise price of these options is HK$1.50, being the placing price of the Shares under the Placing. Although the Pre-GEM Listing Share Option Plan was terminated on the day immediately prior to the GEM Listing Date, the options granted under the Pre-GEM Listing Share Option Plan will continue to be exercisable in accordance with the rules of the Pre-GEM Listing Share Option Plan and the terms of grant. As at the Latest Practicable Date, no option was granted under the GEM Share Option Scheme which will be terminated upon the Proposed Share Option Scheme proposed to be adopted by the Company becoming effective.

In connection with the Introduction and in order to comply with the provisions of the Main Board Listing Rules, the Group will, subject to the approval of the Shareholders, adopt the Proposed Share Option Scheme to replace the GEM Share Option Scheme. A summary of the Proposed Share Option Scheme is set out in the paragraph headed "Share Option Schemes – Summary of the principal terms of Proposed Share Option Scheme" in Appendix VI to this document.

GENERAL MANDATES TO ISSUE NEW SHARES AND REPURCHASE SHARES

At the Company's annual general meeting held on 23 May 2006, the Directors were granted general unconditional mandates to:

(i) allot, issue and deal with Shares with an aggregate nominal value not exceeding 20% of the total nominal amount of the share capital of the Company in issue as at the date of passing of the relevant resolution on 23 May 2006 pursuant to the GEM Listing Rules or the Main Board Listing Rules;

(ii) repurchase on GEM or on the Main Board such number of Shares with an aggregate nominal amount not exceeding 10% of the nominal amount of the share capital of the Company in issue as at the date of passing of the relevant resolution on 23 May 2006 subject to and in accordance with all applicable laws and/or the requirement of the GEM Listing Rules or the Main Board Listing Rules; and

(iii) extend the general mandate granted to the Directors to allot, issue and deal with additional Shares as mentioned in paragraph (i) above by the amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the general mandate granted to the Directors as mentioned in paragraph (ii) above provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of the Company in issue as at the date of passing of the relevant resolution on 23 May 2006.

The above general mandates do not apply to situations where the Directors allot, issue or deal with Shares under (i) a rights issue; (ii) the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time; (iii) the exercise of any option under any share option scheme of the Company or similar arrangement for the time being adopted for the grant or issue to officers, employees and/or directors of the Company and/or its subsidiaries of Shares or rights to acquire Shares; (iv) any scrip dividend scheme or similar arrangement; or (v) a specific authority granted by the Shareholders of the Company in general meeting.

These general mandates will expire:

(i) at the conclusion of the Company's next annual general meeting;

(ii) at the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held; or

(iii) when revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

INDEBTEDNESS

Borrowings, securities and banking facilities

The Group's bank loans are denominated in Renminbi and are principally applied by the Group for working capital purposes. As at the close of business on 31 May 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining information contained in this indebtedness statement, the Group had total outstanding banking facilities amounting to approximately RMB140 million which was term loan repayable within one year and of which approximately RMB50 million was used up. The interest rate of the banking facilities ranged from 5.58% to 5.86% per annum.

Contingent liabilities

As at the close of business on 31 May 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining information contained in this indebtedness statement, the Group had no contingent liabilities.

Disclaimer

Save as disclosed in the sections headed "Borrowings securities and banking facilities" and "Contingent liabilities" above, and apart from intra-group liabilities, at the close of business on 31 May 2006, 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 May 2006.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE MAIN BOARD 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 13.13 to 13.19 of the Main Board 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 31 December 2005, the Group had cash and cash equivalents of approximately RMB10.3 million, RMB31.5 million and RMB313.1 million respectively.

Cash flow information

The table below sets out the cash inflow and outflow for each of the three years ended 31 December 2005:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Net cash from/(used in) operating activities	3,732	(2,416)	90,977
Net cash (used in)/from investing activities	(42,307)	50,803	(19,346)
Net cash from/(used in) financing activities	45,091	(27,162)	210,117
Net increase in cash and cash equivalents	6,516	21,225	281,748
Cash and cash equivalents at beginning of the year	3,786	10,302	31,527
Effect of foreign exchange rate changes	–	–	(209)
Cash and cash equivalents at end of the year	10,302	31,527	313,066

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, restricted bank deposits for letters of credit and bills payable 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 and restricted bank deposits for letters of credit and bills payable 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 had net cash from operating activities of approximately RMB91.0 million for the year ended 31 December 2005, while operating profit before changes in working capital was approximately RMB90.7 million for the year ended 31 December 2005. The slight difference of approximately RMB0.3 million was mainly attributable to an increase in trade and bills payable of approximately RMB53.4 million as a result of procuring raw materials from suppliers for the production of various compressors and pressure vessels and increase in other payables and accrued expenses of approximately RMB61.4 million due to the rise in advances from customers as down payments for future sales. These were mostly offset by increase in inventories of approximately RMB45.3 million, increase in trade and bills receivable of approximately RMB23.6 million, increase in deposits, other receivables and prepayments of approximately RMB4.9 million and increase in restricted bank deposits for letters of credit and bills payable of approximately RMB26.2 million, which was as a result of increase in sales in various pressure vessels and the integrated business solutions for CNG refueling stations. The increase in inventories was mainly due to strong demand for pressure vessels and integrated business solutions for CNG refueling stations. The cash inflow was further offset by increase in amounts due from related parties for a rise in sales to related parties and decrease in amounts due to related parties for the complete settlement of cash advances from related parties.

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 approximately 12.3% 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 approximately 12.3% 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 document) 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.

Net cash used in investing activities for the year ended 31 December 2005 was approximately RMB19.3 million. The cash outflow from investing activities was mainly due to payment for acquisition of property, plant and equipment and construction in progress of approximately RMB21.8 million for the purpose of enhancing the Group's production capacity and facilities. The cash outflow from investing activities was partially offset by interest received of approximately RMB2.4 million as a result of interest income from bank deposits for 2005 and interest receivable on cash advances to a related party in 2004, of which the principal was fully repaid by the related party on or before 31 December 2004.

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 was subsequently capitalised pursuant to the capitalisation agreement dated 26 September 2005 entered into between the Company and XGII in connection with the GEM Listing.

Net cash from financing activities for the year ended 31 December 2005 was approximately RMB210.1 million, which were mainly due to the proceeds of conversion of Redeemable Convertible Bonds by Investec in August 2005 of approximately RMB40.3 million, the gross proceeds from the Placing of approximately RMB207.8 million, the proceeds from the subscription of shares of EIGL by Symbiospartners in January 2005 of approximately RMB15.7 million and the proceeds of new short term bank loans of approximately RMB140.0 million for working capital purpose. The cash inflow was partially offset by the repayment of short term bank loans of approximately RMB147.9 million, interest paid of approximately RMB8.3 million in relation to short term bank loans for working capital and interest accrued of the Redeemable Convertible Bonds, repayment of advances received from related parties of approximately RMB9.7 million for the purpose of settling related parties borrowing and share issue expenses of approximately RMB27.9 million in relation to the Placing.

Net current assets/liabilities

As at 31 December 2005, the Group had net current assets of approximately RMB266.1 million as compared with net current liabilities of approximately RMB10.7 million and RMB75.1 million for the year ended 31 December 2003 and 2004 respectively. The main reasons of net current liabilities for year 2003 and 2004 were (i) the Group's short-term financing was used in non-current assets which are in nature more than one year and (ii) as at 31 December 2003 and 2004, other than bank loans, the Group had amounts due to related parties of approximately RMB51.6 million and RMB65.2 million respectively and out of which approximately RMB45 million had been capitalised pursuant to the capitalisation issue for the purpose of the GEM Listing. As at 31 May 2006, the Group had unaudited net current assets of approximately RMB292.0 million.

Commitments

(a) Capital commitments

As at 31 December 2005, the Group had contracted but not provided for capital commitments of approximately RMB920,000 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 RMB40.0 million which were related to the construction of a new production line for seamless pressure cylinders.

(b) Operating lease commitments

As at 31 December 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 RMB2.3 million of which RMB1.3 million was payable within one year, while the remaining of approximately RMB1.0 million 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 net proceeds from 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 from 1 January 2006 to 31 December 2007 prepared by the Company, the Sponsor concur with the Directors' view that the Group had sufficient working capital for at least the next 12 months from the publication of the listing document.

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 Main Board 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 consolidated income statements for each of the three years ended 31 December 2005. The summary should be read in conjunction with the accountants' report set out in Appendix I to this document:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Turnover	68,943,423	252,375,698	513,013,890
Cost of sales	(40,771,008)	(177,790,799)	(362,953,734)
Gross profit	28,172,415	74,584,899	150,060,156
Other revenue	5,846,076	5,109,203	3,537,864
Selling expenses	(7,633,349)	(12,803,532)	(23,150,938)
Administrative expenses	(11,636,603)	(23,110,803)	(51,441,412)
Other net income/(expenses)	302,158	2,681,210	(603,924)
Profit from operations	15,050,697	46,460,977	78,401,746
Finance costs	(4,443,570)	(6,082,089)	(7,813,959)
Profit before taxation	10,607,127	40,378,888	70,587,787
Income tax	–	(1,814,458)	(1,882,093)
Profit for the year	10,607,127	38,564,430	68,705,694
Attributable to:			
Equity shareholders of the Company	10,607,127	36,191,118	68,705,694
Minority interests	–	2,373,312	–
Profit for the year	10,607,127	38,564,430	68,705,694
Earnings per Share			
– Basic[(1)]	0.041	0.139	0.225
– Diluted[(2)]	N/A	N/A	0.224

Note:

(1) The calculation of basic earnings per Share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 305,283,288 Shares, after taking into account the 260,160,000 Shares in issue and issuable as at the date of the Prospectus, as if the Shares were outstanding throughout the year ended 31 December 2005, and the issue of Shares by conversion of Convertible Redeemable Bonds and the Placing during the year ended 31 December 2005.

The calculation of basic earnings per Share for the years ended 31 December 2003 and 2004 was based on the profit attributable to ordinary equity shareholders of the Company of RMB10,607,127 and RMB36,191,118 respectively and on the 260,160,000 Shares of the Company in issue and issuable as at the date of the Prospectus, as if these Shares were outstanding throughout the years ended 31 December 2003 and 2004.

(2) The calculation of diluted earnings per Share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 306,681,163 Shares, after taking into account the potential dilutive effect of the Shares upon exercise of the options granted under the Pre-GEM Listing Share Option Plan.

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 document.

Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation and the financial information set out in this section has been prepared on the basis that the Company was the holding company of the Group throughout the three years ended 31 December 2005, rather than from 26 September 2005. Accordingly, the financial information of the Group set out in this section for the said period include the financial statements of the Company and its subsidiaries with effect from 1 January 2003 or where their respective dates of incorporation/establishment, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2003, from the respective dates of incorporation/establishment and acquisition of the additional interests in Enric Gas Equipment, as if the current group structure had been in existence throughout the said period. The basis of presentation of the financial information set out in this section also complies with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, where applicable. In applying the principles of merger accounting for group reorganisation under common control, the financial statement items of Enric Compressor on the date in which the common control combination occurs are included in the financial information as if the combination had occurred from the date when Enric Compressor first came under the control of Mr. Wang, who is the Chairman and an Executive Director of the Company. Neither accounting adjustment to the net assets nor net results of Enric Compressor was required to achieve consistency with the Group's accounting policies.

All material inter-company transactions and balances have been eliminated on consolidation.

Overview

General

The Group is principally engaged in the provision of integrated business solutions in the gas energy industry and the design, manufacture and sale of specialised gas equipment including compressors, pressure vessels, natural gas refueling stations and compressed natural gas trailers which are essential to the transportation, storage and distribution of natural gas 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 year ended 31 December 2005, the Group experienced significant growth in the operating results as compared with the corresponding period in 2004. It was primarily due to the strong demand for the Group's integrated business solutions for the gas energy industry and specialised gas equipment products.

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					
	2003		2004		2005	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
Sales of compressors	68,615,843	99.5	115,224,362	45.7	117,513,314	22.9
Sales of pressure vessel	327,580	0.5	120,120,442	47.6	262,606,385	51.2
Provision of integrated business solutions for gas equipment	–	–	17,030,894	6.7	132,894,191	25.9
	68,943,423	100.0	252,375,698	100.0	513,013,890	100.0

The substantial growth in turnover for the year ended 31 December 2005 was attributable to the rapid growth of sales in CNG hydraulic daughter refueling station system and pressure vessels resulting from the huge demand for specialised gas equipment for gas refueling stations and for the storage, transportation, and distribution of natural gas.

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 year ended 31 December 2005			
	Compressors	Pressure vessel	Total	Compressors	Pressure vessel	Integrated business solutions	Total	Compressors	Pressure vessel	Integrated business solutions	Total
	%	%	%	%	%	%	%	%	%	%	%
Cost of materials	81.5	52.8	81.3	87.6	88.9	89.0	88.4	87.2	89.1	94.7	89.9
Salaries and wages	8.3	22.4	8.4	6.3	5.4	5.2	5.7	4.7	1.9	1.0	2.4
Welfare	1.2	3.2	1.2	0.7	0.7	0.9	0.8	0.7	0.3	0.1	0.3
Depreciation of property, plant and equipment	4.4	4.2	4.4	1.7	0.8	0.8	1.1	2.0	2.0	1.1	1.8
Manufacturing overhead	4.6	17.4	4.7	3.7	4.2	4.1	4.0	5.4	6.7	3.1	5.6
Total	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			Year ended 31 December 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 %*
Turnover									
Sale of compressors	68,615,843	99.5%		115,224,362	45.7%		117,513,314	22.9%	
Sale of pressure vessel	327,580	0.5%		120,120,442	47.6%		262,606,385	51.2%	
Provision of integrated business solutions for gas equipment	–	–		17,030,894	6.7%		132,894,191	25.9%	
	68,943,423	100.0%		252,375,698	100.0%		513,013,890	100.0%	
Cost of sales									
Sale of compressors	40,503,465	99.3%		72,994,914	41.1%		82,713,860	22.8%	
Sale of pressure vessel	267,543	0.7%		95,596,039	53.7%		199,643,543	55.0%	
Provision of integrated business solutions for gas equipment	–	–		9,199,846	5.2%		80,596,331	22.2%	
	40,771,008	100.0%		177,790,799	100.0%		362,953,734	100.0%	
Gross profit									
Sale of compressors	28,112,378	99.8%	41.0%	42,229,449	56.6%	36.6%	34,799,454	23.2%	29.6%
Sale of pressure vessel	60,037	0.2%	18.3%	24,524,402	32.9%	20.4%	62,962,842	42.0%	24.0%
Provision of integrated business solutions for gas equipment	–	–	–	7,831,048	10.5%	46.0%	52,297,860	34.8%	39.4%
	28,172,415	100.0%	40.9%	74,584,899	100.0%	29.6%	150,060,156	100.0%	29.3%

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 impairment losses 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 property, plant and equipment, 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, pursuant to Profit Tax Law of Foreign-Invested Enterprise and Foreign Enterprises (《外商投資企業和外國企業所得稅法》), 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. In addition, Enric Gas Equipment has received an award recognising it as a high and new technology enterprise (高新技術企業) from the Hebei Science and Technology Office (河北省科學技術廳) on 1 July 2005 and was confirmed by National Tax Bureau of Development Zone of New High Technology Enterprises of Shijinzhuang (石家庄高新技術產業開發區國家稅務局) that it is entitled to a preferential tax rate of 15% on its taxable profits with effect from the year ended 31 December 2005.

The statutory local income tax rate applicable to Enric Compressor, Enric Gas Equipment and Enric Integration is 3%. Pursuant to Clause 32 of Regulations of Economics Technology Development Zone of Hebei Province (《河北省經濟技術開發區條例》第32條), 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. Pursuant to Clause 6 of Relevant Rules of Encouragement of Investment by Foreign Enterprises of the People's Government of Anhui Province (《安徽省人民政府關於鼓勵外商投資的若干規定》第6條) and Preferential Policies of Economics Technology Development Zone (《關於經濟技術開發區優惠政策》) issued by the People's Government of Langfang City, Enric Compressor and Enric Integration are permanently 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 and was subject to PRC income tax at 15% for the two years ended 31 December 2005. 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 state income tax reduction amounting to approximately RMB2 million for the year ended 31 December 2004 as an incentive for purchase of domestically manufactured equipment.

Enric Gas Equipment was in the tax holiday of a tax-free period in respect of PRC income tax for the two years ended 31 December 2005. As a results, no provision for PRC income tax has been provided by Enric Gas Equipment for the period from the date of establishment to 31 December 2005.

Enric Integration was in the tax holiday of a tax-free period in respect of PRC income tax for the year ended 31 December 2005. As a result, no provision for PRC income tax has been made by Enric Integration for the period from the date of establishment to 31 December 2005.

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, the demand for natural gas is forecasted to increase to approximately 200 bcm by 2020, representing an increase of approximately 785% when comparing with a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand for natural gas in the PRC in 2020 will be applied to the power generation sector and approximately 35% of the total demand in 2020 is forecasted to be applied to the city gas sector including NGVs. In view of the projected 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 a direct effect on the demand for 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 document.

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 increase in costs of motors and steel consumed during the Track Record Period was mainly due to the increase in production volume of compressors and commencement of production of pressure vessels and integrated business solutions.

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 document.

Critical accounting policies

The consolidated 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 consolidated financial statements:

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

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 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 consolidated 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 and pressure vessels were approximately 41.0% and 18.3% respectively for the year ended 31 December 2003. Since approximately 99.5% sales of the Group for the year ended 31 December 2003 was generated from the sales of compressors, the overall gross margin was approximately 40.9%.

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 RMB0.8 million, and impairment losses 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.

Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company amounted to approximately RMB10.6 million and the net profit margin attributable to equity shareholders of the Company was approximately 15.4%.

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.

Compressors

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.

Pressure vessels

The Group's turnover of pressure vessels increased significantly from approximately RMB327,580 for the year ended 31 December 2003 to approximately RMB120.1 million for the year ended 31 December 2004. The increase was mainly due to the increase in the average selling price of pressure vessels and sales quantities during the year ended 31 December 2004.

The average unit selling price increased from approximately RMB4,199.74 per unit in 2003 to approximately RMB256,120.34 per unit in 2004 while the sales quantities increased by approximately 501.3% from 78 units in 2003 to 469 units in 2004. The reason for the increase in average unit selling price and sales quantities was due to the change in product mix of pressure vessels that the Group started to sell seamless pressure cylinder storage and transportation equipment series and cryogenic liquid storage and transportation series through Enric Gas Equipment in 2004 instead of only chemical materials storage and transportation equipment series in 2003. These two series have much higher selling prices per unit than chemical materials storage and transportation equipment series. As a result, despite the sales quantities of these series only accounted for approximately 20.9% of sales quantities of pressure vessels in 2004, the effect of higher unit price outweighed that of sales quantities and therefore the average unit selling price of pressure vessels was increased significantly in 2004.

Integrated business solutions

The Group recorded turnover from the provision of integrated business solutions of approximately RMB17.0 million for the year ended 31 December 2004. Since the Group has commenced this business segment in 2004, there was no such turnover in 2003.

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 with the general-purpose compressor series, thus overall gross profit margin of compressors decreased accordingly.

In addition, the relatively lower gross profit margin of pressure vessels 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 vessels 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 RMB1.9 million, and impairment losses 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 excess of interest in the fair value of net assets acquired over cost of acquisition directly into other net income, which arose from the acquisition of additional interest in Enric Gas Equipment, of approximately RMB2.4 million. The acquisition cost of such additional interest in Enric Gas Equipment was based on the net asset value of Enric Gas Equipment as at 31 March 2004 although the acquisition took place on 16 July 2004. This excess of RMB2.4 million arose because the net asset value of Enric Gas Equipment as at 16 July 2004 was higher than the net asset value as at 31 March 2004 due to profits generated by Enric Gas Equipment from 31 March 2004 to 16 July 2004. 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 RMB1.8 million which was charged at applicable tax rates on the assessable profits of Enric Compressor and Enric Gas Equipment during the year of approximately RMB11.9 million, plus the tax effect of non-deductible expenses of approximately RMB0.6 million, offset against tax holiday of 50% reduction in income tax rate granted by the local government of approximately RMB8.0 million, the tax effect of non-taxable income of approximately

RMB0.6 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.

Profit attributable to equity shareholders of the Company

The Group's profit attributable to equity shareholders of the Company increased by 241.2% from approximately RMB10.6 million for the year ended 31 December 2003 to approximately RMB36.2 million for the year ended 31 December 2004. The increase was in line with the increase of the Group's turnover and gross profit except with the commencement of tax payment by Enric Compressor and as a result, the net profit margin attributable to equity shareholders of the Company decreased from 15.4% for the year ended 31 December 2003 to approximately 14.3% for the year ended 31 December 2004.

Year ended 31 December 2005

Turnover

The Group's turnover increased by approximately 103.3% from approximately RMB252.4 million for the year ended 31 December 2004 to approximately RMB513.0 million for the year ended 31 December 2005. The increase was mainly attributable to the increase in the volume of sales of pressure vessels and integrated business solutions for gas equipment during the year.

Compressors

The Group's turnover of compressors increased slightly by approximately 2.0% from approximately RMB115.2 million for the year ended 31 December 2004 to approximately RMB117.5 million for the year ended 31 December 2005. The increase was mainly due to the increase in the average selling prices of compressors despite a decrease in sales quantities during the year ended 31 December 2005. Average unit selling price increased by approximately 38.7% from approximately RMB145,653.95 per unit in 2004 to approximately RMB202,027.62 per unit in 2005 while the sales quantities of compressors decreased to 530 units in 2005 from 742 units in 2004. The increase in average selling prices of compressor was mainly driven by the increase in unit selling prices of gas compressor series, in particular, the average unit selling price of natural gas cylinder-refilling compressors increased from approximately RMB357,400 per unit in 2004 to approximately RMB418,600 per unit in 2005. The average selling price of general-purpose compressor series decreased from RMB100,041.20 per unit in 2004 to RMB69,202.65 per unit in 2005 due to the higher portion of sales of compressors with lower unit selling price. Despite that, the overall average selling price of gas compressor series increased significantly by approximately 213.6% from approximately RMB133,476.75 per unit in 2004 to approximately RMB418,618.95 per unit in 2005. The effect of the increase in average selling price of compressors was partially offset by decrease in the sales quantities. The decrease in sales quantities was driven by decrease in the demand for LPG compressors from 195 units sold in 2004 to 18 units sold in 2005. Therefore the Group's turnover was only increased slightly by approximately 2.0%.

Pressure vessels

The Group's turnover of pressure vessels increased significantly by approximately 118.6% from approximately RMB120.1 million for the year ended 31 December 2004 to approximately RMB262.6 million for the year ended 31 December 2005. The increase was mainly due to the increase in the average selling price of pressure vessels and the sales quantities during the year ended 31 December 2005.

The average unit selling price increased by approximately 45.6% from RMB256,120.34 per unit in 2004 to RMB373,020.43 per unit in 2005 while the sales quantities increased by approximately 50.1% from 469 units in 2004 to 704 units in 2005. To a minor extent, the increase in unit selling price of pressure vessels in 2005 was slightly offset by the decrease in average selling price of cryogenic liquid storage and transportation equipment series. Such decrease was due to higher portion of sales of lower capacity LNG storage tank which had lower unit selling price. Overall, the increase in sales quantities and unit selling price of pressure vessels in 2005 was mainly due to the full operation of Enric Gas Equipment and strong market demand for seamless pressure cylinder storage and transportation equipment series.

Integrated business solutions for gas equipment

The Group's turnover of integrated business solutions for gas equipment surged by approximately 680.3% from approximately RMB17.0 million for the year ended 31 December 2004 to approximately RMB132.9 million for the year ended 31 December 2005. The increase was mainly due to the increase in the sales quantities by approximately 85.1% from 67 units in 2004 to 124 units in 2005. It was mainly due to the increase in sales quantities of integrated business solutions for CNG refueling stations and CNG refueling trailers from 13 units in 2004 to 104 units in 2005, which was a result of the rising popularity of NGVs in the PRC generating strong demand for gas equipment for the operation of gas refueling stations.

The increase in average selling price of integrated business solutions for gas equipment was mainly due to the increase in average selling price of integrated business solutions for city gas projects from RMB40,616.43 per unit in 2004 to RMB579,367.69 per unit in 2005. Such increase was mainly driven by an increase in unit price of pressure-regulating station as a result of strong demand for the operation of gas refueling station. The average unit price of pressure-regulating station increased from approximately RMB167,000 per unit in 2004 to approximately RMB535,600 per unit.

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 2005:

	For the year ended 31 December 2005		
	Average selling price *RMB/unit*	**Quantity** *Unit (Note)*	**Amount** *RMB*
Sales of compressors			
– Gas compressor series	418,618.95	114	47,722,560
– Special-purpose compressor series	315,684.72	124	39,144,905
– General-purpose compressor series	69,202.65	292	20,207,173
	202,027.62	530	107,074,638
– Accessories			10,438,676
			117,513,314
Sales of pressure vessels			
– Seamless pressure cylinders and transportation equipment series	687,473.74	202	138,869,696
– Cryogenic liquid storage and transportation equipment series	713,298.71	79	56,350,598
– Chemical materials storage and transportation equipment series	159,305.18	423	67,386,091
	373,020.43	704	262,606,385
Provision of integrated business solutions for gas equipment			
– Integrated business solutions for city gas projects	579,367.69	20	11,587,354
– Integrated business solutions for CNG refueling stations and CNG refueling trailers	1,166,411.90	104	121,306,837
	1,071,727.35	124	132,894,191
Total			513,013,890

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 104.1% from approximately RMB177.8 million for the year ended 31 December 2004 to approximately RMB363.0 million for the year ended 31 December 2005. Cost of sales for the year ended 31 December 2005 comprised (i) cost of inventories sold of approximately RMB326.3 million, representing approximately 89.9% of total cost of sales; (ii) salaries and wages of approximately RMB8.5 million, representing approximately 2.4% of total cost of sales; (iii) welfare of approximately RMB1.2 million, representing approximately 0.3% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB6.6 million, representing approximately 1.8% of total cost of sales; and (v) manufacturing overheads of approximately RMB20.3 million, representing approximately 5.6% of total cost of sales.

Gross profit margin

	Gross profit margin (%) For the year ended 31 December	
	2004	**2005**
Sales of compressors	36.6	29.6
Sales of pressure vessels	20.4	24.0
Provision of integrated business solutions for gas equipment	46.0	39.4
Overall	29.6	29.3

The overall gross profit margin decreased slightly to approximately 29.3% for the year ended 31 December 2005 as compared with approximately 29.6% 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 24.0% of pressure vessels for the year ended 31 December 2005 as compared with approximately 20.4% for the corresponding period in 2004 which contributed approximately 51.2% to the turnover of the Group for the year ended 31 December 2005.

The decrease in the gross profit margin of compressors to approximately 29.6% for the year ended 31 December 2005 as compared with approximately 36.6% of the corresponding period in 2004 was mainly because the increase in unit cost of materials has outweighed the increase in unit selling price.

The increase in the gross profit margin of pressure vessels to approximately 24.0% for the year ended 31 December 2005 as compared with approximately 20.4% for the corresponding period in 2004 was mainly due to the increase in unit price and change in product mix within the pressure vessel products. During the year ended 31 December 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 44.5% to the total sales of pressure vessels products for the year ended 31 December 2004. However, during the year ended 31 December 2005, the product sales mix shifted 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 52.9% of the total sales of pressure vessels products during the period.

The decrease in the gross profit margin of integrated business solutions to approximately 39.4% for the year ended 31 December 2005 as compared with approximately 46.0% for the year ended 31 December 2004 was mainly due to the change in product mix. For the year ended 31 December 2005, a larger contribution of the sales of the integrated business solutions services was derived from relatively lower margin CNG daughter refueling station trailer, which contributed approximately 60.0% of the total sales of the integrated business solutions services during the period as compared with approximately 45.0% for the year ended 31 December 2004.

Other revenue

Other revenue decreased by approximately 30.8% from approximately RMB5.1 million for the year ended 31 December 2004 to approximately RMB3.5 million for the year ended 31 December 2005. Other revenue for the year ended 31 December 2005 mainly consisted of sale of steel materials left-over from production of approximately RMB0.7 million which decreased by approximately 33.7% as compared with approximately RMB1.01 million for the year ended 31 December 2004, and interest income from bank deposits of approximately RMB1.6 million which increased significantly as compared with approximately RMB70,000 for the year ended 31 December 2004 as a result of the significant increase in bank balances during the year ended 31 December 2005. Government grants received during the year ended 31 December 2005 amounted to approximately RMB1.2 million while government grants received during the year ended 31 December 2004 amounted to approximately RMB0.7 million. The significant decrease in other revenue was mainly due to no interest income on loans to related parties for the year ended 31 December 2005 as all outstanding related parties loans were settled prior to 31 December 2004 while interest income on loans to related parties amounted to approximately RMB3.2 million for the year ended 31 December 2004.

Selling expenses

Selling expenses increased by approximately 80.8% from approximately RMB12.8 million for the year ended 31 December 2004 to approximately RMB23.2 million for the year ended 31 December 2005. The increase in selling expenses was mainly due to (1) increase in salaries and welfare from approximately RMB1.6 million for the year ended 31 December 2004 to approximately RMB1.9 million for the year ended 31 December 2005 as a result of expansion of business scale during the period; (2) increase in transportation expenses from approximately RMB1.8 million for the year ended 31 December 2004 to approximately RMB4.6 million for the year ended 31 December 2005 which is in line with the increase in sales volume during the period; (3) increase in provision for product warranties from approximately RMB1.8 million for the year ended 31 December 2004 to approximately RMB2.9 million for the year ended 31 December 2005 as a result of increase in the turnover and (4) royalty fee for certain model of products of approximately RMB1.9 million payable to Neogas incurred for the year ended 31 December 2005 whereas no such royalty fee incurred for the corresponding period in 2004. As a percentage of turnover, selling expenses decreased from approximately 5.1% to approximately 4.5% 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 122.6% from approximately RMB23.1 million for the year ended 31 December 2004 to approximately RMB51.4 million for the year ended 31 December 2005. The increase in administrative expenses was mainly due to (1) increase in salaries and welfare by approximately 62.6% from approximately RMB9.5 million for the year ended 31 December 2004 to approximately RMB15.4 million for the year ended 31 December 2005 as a result of expansion of business scale; (2) increase in utilities and office expenses from approximately RMB1.9 million for the year ended 31 December 2004 to approximately RMB3.2 million for the year ended 31 December 2005 after the commencement of operation of Enric Integration on 28 December 2004; and (3) equity-settled share-based transactions (share options) of RMB1.8 million and write-down of inventories of RMB2.1 million were incurred for the first time during the year ended 31 December 2005. As a percentage of turnover, administrative expenses slightly increased from approximately 9.2% to approximately 10.0% over the same period which was mainly due to expansion of the Group's business scale during the period.

Finance costs

Finance costs increased by approximately 28.5% from approximately RMB6.1 million for the year ended 31 December 2004 to approximately RMB7.8 million for the year ended 31 December 2005. The increase in finance costs was mainly due to increase in the Group's average loan interest rate from approximately 5.6% to 6.2% during the year ended 31 December 2005.

Other net expense

For the year ended 31 December 2005, the Group's other net expense amounted to approximately RMB0.6 million. It mainly composed of charity donation of approximately RMB0.5 million.

Taxation

The effective tax rate of the Group was approximately 2.7% for the year ended 31 December 2005 as compared with approximately 4.5% for the year ended 31 December 2004. The income tax represented current PRC income tax of approximately RMB1.9 million which was charged at applicable tax rates on the assessable profits of Enric Compressor, Enric Gas Equipment and Enric Intergration during the year ended 31 December 2005 of approximately RMB17.6 million, plus the tax effect of non-deductible expenses of approximately RMB0.2 million and offset against tax holiday in income tax rate granted by the local government of approximately RMB15.9 million.

The decrease in effective tax rate for the year ended 31 December 2005 was due to the increase in assessable profits of Enric Gas Equipment and Enric Integration which were in the tax holiday of a tax-free period and accordingly, no provision for PRC income tax have been made by these companies during the year 2005.

Minority interests

No minority interests were recorded for the year ended 31 December 2005 after the acquisition of 70% additional interest in Enric Gas Equipment by Shijiazhuang BVI from Xinao Shijiazhuang on 16 July 2004.

Profit attributable to equity shareholders of the Company

The Group's profit attributable to equity shareholders of the Company increased by 89.8% from approximately RMB36.2 million for the year ended 31 December 2004 to approximately RMB 68.7 million for the year ended 31 December 2005. The increase was in line with the increase of the Group's turnover and gross profit except with the commencement of tax payment by Enric Compressor and as a result, the net profit margin attributable to equity shareholders of the Company decreased from 14.3% for the year ended 31 December 2004 to approximately 13.4% for the year ended 31 December 2005. In addition, the decrease was also due to the occurrence of equity-settled share-based payment expenses and the write-down of inventories, which in aggregate amounted to approximately RMB4.0 million and was not incurred in 2004.

UNAUDITED CONSOLIDATED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2006

On 11 May 2006, the Group announced the unaudited consolidated results for the three months ended 31 March 2006, which together with the comparative unaudited consolidated figures for the corresponding period in 2005 are as follows:

	For the three months ended 31 March	
	2006	**2005**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Turnover	128,313	83,127
Cost of sales	(89,019)	(57,631)
Gross profit	39,294	25,496
Other revenue	1,167	436
Selling expenses	(5,579)	(4,050)
Administrative expenses	(15,995)	(8,328)
Other net expenses	(260)	–
Profit from operations	18,627	13,554
Finance costs	(2,032)	(2,102)
Profit before taxation	16,595	11,452
Income tax	(1,179)	(664)
Profit for the period and attributable to equity shareholders of the Company	15,416	10,788
Earnings per Share		
– Basic	RMB 0.035	RMB 0.042
– Diluted	RMB 0.034	N/A

Three months ended 31 March 2006

Turnover

The Group's turnover has risen by approximately RMB45.2 million or 54.4% to approximately RMB128.3 million for the three months ended 31 March 2006 from approximately RMB83.1 million for the three months ended 31 March 2005. The upsurge was mainly driven by the rise in sales of pressure vessels and integrated business solutions which increased by approximately 74.8% to approximately RMB83.4 million and approximately 141.2% to approximately RMB21.4 million respectively over the corresponding period in 2005.

Cost of sales

The Group's cost of sales increased by approximately 54.5% from approximately RMB57.6 million for the three months ended 31 March 2005 to approximately RMB89.0 million for the three months ended 31 March 2006.

The overall gross profit margin for the three months ended 31 March 2006 was approximately 30.6%, which was stable as compared with the corresponding period in 2005.

Other revenue

The Group's other revenue has risen by approximately RMB0.7 million to approximately RMB1.2 million for the three months ended 31 March 2006. This was mainly caused by the surge in bank interest income for the period under review. Through prudent cash management, the Group places its surplus working capital in short-term deposits which generated a higher bank interest income than the corresponding period in 2005. Other revenue as a percentage of turnover has increased to approximately 0.9% for the three months ended 31 March 2006 from approximately 0.5% for the corresponding period in 2005.

Selling expenses

Selling expenses have climbed approximately 37.7% to approximately RMB5.6 million for the three months ended 31 March 2006 from approximately RMB4.1 million for the three months ended 31 March 2005. The rise in selling expenses was principally caused by the rising warranty expenses resulted from higher turnover during the three months ended 31 March 2006. Selling expenses as a proportion of turnover has fallen from approximately 4.9% for the three months ended 31 March 2005 to approximately 4.4% in the period under review.

Administrative expenses

Administrative expenses increased by approximately 92.1% to approximately RMB16.0 million for the three months ended 31 March 2006 from approximately RMB8.3 million for the three months ended 31 March 2005. However, administrative expenses as a proportion of turnover have only increased from approximately 10.0% for the three months ended 31 March 2005 to approximately 12.5% for the three months ended 31 March 2006. The rise was primarily due to equity-settled share-based payments and professional fees incurred in relation to listing of the Company's shares on the Main Board.

Finance costs

The Group's finance costs have dropped by approximately RMB0.1 million to approximately RMB2.0 million for the three months ended 31 March 2006 from approximately RMB2.1 million for the three months ended 31 March 2005. The fall was mainly caused by a decrease in the amount of interest expense on bank loans which, in turn, is attributable to a reduced bank loan balance.

Other net expenses

The Group's other net expenses were approximately RMB0.3 million as compared with nil for the corresponding period in 2005 and it mainly consisted of loss on disposal of property, plant and equipment.

Taxation

The effective tax rate of the Group was approximately 7.1% for the three months ended 31 March 2006 as compared with approximately 5.8% for the three months ended 31 March 2005. The rise was mainly attributed to the fact that Enric Gas Equipment has passed its tax-free period and started to pay state income tax at a rate of 7.5%.

Profit attributable to equity shareholders of the Company

For the three months ended 31 March 2006, the Group's profit attributable to equity shareholders of the Company has increased to approximately RMB15.4 million from approximately RMB10.8 million for the corresponding period in 2005, representing an increase of approximately 42.9%. This rise in net profit for the three months ended 31 March 2006 was mainly attributable to (i) the growth in the Group's turnover driven by the higher demand for pressure vessels products and integrated business solutions, (ii) the rise in other revenue as a proportion of turnover to 0.9% from 0.5% for the corresponding period in 2005, (iii) the drop in selling expenses as a proportion of turnover to 4.4% from 4.9% for the corresponding period in 2005 and (iv) the fall in finance costs as a proportion of turnover to 1.6% from 2.5% for the corresponding period in 2005. However, the net profit ratio has fallen from 13.0% for the three months ended 31 March 2005 to 12.0% for the three months ended 31 March 2006. The fall in the net profit ratio for the three months ended 31 March 2006 was mainly caused by (i) the rise in administrative expenses as a proportion of turnover to approximately 12.5% from approximately 10.0% for the three months ended 31 March 2005, and (ii) the increase in income tax as a proportion of turnover to approximately 0.9% from approximately 0.8% for the corresponding period in 2005.

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 12.3% 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 approximately 12.3%, and did not have 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.

Inventories

The inventories of the Group amounted to approximately RMB27.6 million and RMB79.7 million and RMB125.0 million as at 31 December 2003, 31 December 2004 and 31 December 2005 respectively.

Except for the write-down of inventories of approximately RMB2.1 million already charged to the profit and loss account, the Directors consider that no other provision for obsolete inventories was necessary as at 31 December 2005 as finished goods had been covered by current sales orders as of 31 December 2005.

The significant increase in inventories as at 31 December 2005 was mainly attributable to the increase in work in progress and finished goods necessary to meet the sales orders on hand as of 31 December 2005.

As at 31 December 2005, the Group had raw materials of approximately RMB40.9 million. Raw materials represented steel, motors, various kinds of valves and miscellaneous accessories for the manufacturing of compressors, pressure vessels and the provision of integrated business solutions. 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 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 103 for each of the three years ended 31 December 2005 respectively. The decrease in inventory turnover days for the year ended 31 December 2004 as compared with that for the year ended 31 December 2003 was mainly due to the increased demand for compressors and pressure vessels products in the market.

The normal production cycle for the Group's products ranged from 60 to 90 days, the difference of inventory turnover period of 13 days as compared with 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.

Except for the write-down of inventories of approximately RMB2.1 million as at 31 December 2005, no inventories were stated at fair value less costs to sell as at 31 December 2003, 31 December 2004 and 31 December 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 RMB72.4 million as at 31 December 2003, 31 December 2004 and 31 December 2005 respectively. The increase in trade and bills receivables as at 31 December 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 three years ended 31 December 2005, the average debtors' turnover days were 77, 48 and 43 respectively. The improvement in debtors' turnover days for the year ended 31 December 2004 and the year ended 31 December 2005, was mainly due to the better 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 impairment loss 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. For each of the three years ended 31 December 2005, the Group recorded impairment losses for doubtful debts of approximately RMB1.1 million, RMB1.7 million and RMB0.5 million respectively. After taking into account the above impairment losses for doubtful debts, trade receivables aged over one year to RMB2.8 million as at 31 December 2005. Upon evaluation of each of these customers' financial position and on-going transactions, the Directors consider that the recoverability of these trade receivables was not in doubt. The management of the Group considered the provisions for recorded impairment losses were adequate during the Track Record Period. As at 31 December 2005, the Group had trade and bills receivables of approximately RMB72.4 million, of which about RMB31.0 million was subsequently settled as at 31 May 2006.

Deposits, other receivables and prepayments

As at 31 December 2003, 31 December 2004 and 31 December 2005, deposits, other receivables and prepayments amounted to approximately RMB2.9 million, RMB21.9 million and RMB26.7 million respectively. As at 31 December 2005, advances to suppliers were approximately RMB20.4 million, representing approximately 76.4% of the balance of approximately RMB26.7 million of deposits, other receivables and prepayments.

The increase in the balance of deposits, other receivables and prepayments as at 31 December 2005 was mainly due to the increase in advances to suppliers from approximately RMB16.1 million as at 31 December 2004 to approximately RMB20.4 million as at 31 December 2005 and increase in deposits for bidding construction work and equipment purchase. Such increase was mainly due to the procurement of raw materials, including steel pipes, from suppliers.

Trade and bills payable

As at 31 December 2003, 31 December 2004 and 31 December 2005, the Group's trade and bills payable amounted to RMB16.8 million, RMB41.7 million and RMB95.2 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 three years ended 31 December 2005, the average creditors' turnover days were 94, 60 and 69 respectively. The increase in average creditors' turnover days during the year ended 31 December 2005 was mainly due to an increase in settlement to suppliers in the form of bills, 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 three years ended 31 December 2005 were approximately RMB1.0 million, RMB1.8 million and RMB2.9 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, the loans had been repaid during 2004, the Group had no loans receivable outstanding as at 31 December 2004 and 31 December 2005.

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 document), were unsecured and carried interest ranging from 5.1% to 6.1% 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 (《關於對企業借貸合同借款方逾期不歸還借款應如何處理的批復》), pursuant to which 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 of the loan and interest accrued thereon are fully repaid, the penalties will be withdrawn.

As the Group has repaid the outstanding loan together with interests accrued thereon on or before 31 March 2005 and has not been 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 three years ended 31 December 2005, the Group received non-trade cash advances from related parties of approximately RMB34.5 million, RMB270.6 million and nil, respectively. During the same periods, the Group had made repayments to related parties of approximately RMB4.0 million, RMB262.2 million and RMB9.7 million, respectively. During the year ended 31 December 2005, except for the amount due to XGII of RMB45 million that was capitalised pursuant to the capitalisation issue for the purpose of the GEM Listing, the Group repaid all outstanding non-trade advances as at 31 December 2004 amounting to approximately RMB9.7 million.

Therefore, the Group received net cash advances from related parties of approximately RMB30.5 million, RMB8.5 million and nil for each of the three years ended 31 December 2005 respectively, and repaid RMB9.7 million to related parties for the outstanding balances as at 31 December 2004 during the year ended 31 December 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.

Non-trade cash advances to related parties

During each of the three years ended 31 December 2005, the Group had made approximately RMB7.5 million, RMB54.5 million and nil cash advances to related parties respectively, and during the same periods, the Group had received repayments from related parties amounting to approximately RMB16.2 million, RMB59.3 million and nil 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. No cash advances were made to related parties during the year ended 31 December 2005 and no repayment were received from related parties during the year ended 31 December 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.

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 together with certain furniture from Xinao Gas Investment Group Limited, a connected person of the Company under the Main Board Listing Rules, at an annual rental of HK$455,544.0 per annum for the three years commencing from 1 February 2005. Details of this lease are further set out in the section headed "Connected transactions" in this document. This property has a saleable area of approximately 964.5 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 68,156.0 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 32,897.7 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 118,779.6 sq.m. Enric Compressor owns the land use rights of this property. 47 buildings, including various workshops, offices and various residential units with a total gross floor area of approximately 50,886.4 sq.m. and various ancillary structures are erected thereon.

In addition, Enric Compressor also owns 38 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 1,625 sq.m.

Property interest rented and occupied by the Group in the PRC

The Group rented two 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, Xinao Group Solar Energy Company Limited, under the Main Board Listing Rules, at an annual rental of RMB520,000.0 per annum for a term of three years commencing from 30 September 2004. The property has a gross floor area of approximately 1,620.5 sq.m. Details of this lease are further set out in the section headed "Connected transactions" in this document. Enric Gas Equipment holds the lease as lessee and has granted a licence to Enric Compressor to use a portion of the leased property of total gross floor area of 50 sq.m. for nil consideration, commencing from 10 January 2005 until the termination date of the lease, being 29 September 2007. Enric Compressor currently uses the portion of the property as its office.

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 Main Board Listing Rules. Enric Gas Equipment leases this property at an annual rental of RMB3,600.0 per annum for a term of 20 years commencing from 1 September 2003. Details of this lease are further set out in the section headed "Connected transactions" in this document. This property has a gross floor area of approximately 25.0 sq.m.

Enric Integration rents the premises in Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC from Langfang Xinao Gas Equipment Company Limited, a subsidiary of Xinao Gas and a connected person of the Company, with a total gross floor area of approximately 2,815.3 sq.m., as the workshop for the processing, assembly, commissioning, painting and storing of CNG hydraulic daughter refuelling stations and as an administrative office. Enric Integration leases this property at an annual rental (including property management fees) of approximately RMB466,209 for a term of 2 years commencing on 1 March 2006 and expiring on 29 February 2008, with an option to renew for a further term of two years at the prevailing market rent. Details of this lease are further set out in the section headed "Connected transactions" in this document.

Beijing Enric rents two floors of a building located at Hongda North Road, Econ-Tech Development Zone, Beijing, the PRC from an Independent Third Party with a total gross floor area of approximately 503.6 sq.m., at an annual rent of RMB294,102.4 for a term of one year commencing from 1 March 2006.

Enric Compressor also leases sales offices in cities of Bengbu, Shenyang, Guangzhou, Wuhan, Chongqing, Shanghai, Xi'an and Urumqi. All of these properties are rented from Independent Third Parties.

Property valuation

For the purpose of the Introduction, Sallmanns (Far East) Limited, an independent valuer, has undertaken a valuation for the Group with regard to its property interests as at 31 March 2006 and the capital value in existing state of the Group's properties attributable to the Group were revalued at approximately RMB99,695,000 as at 31 March 2006 by Sallmanns (Far East) Limited. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix IV to this document.

There is a net revaluation surplus, representing the excess market value of the properties held by the Group over their book value of approximately RMB29.5 million which has not been included in the Group's financial statements for the year ended 31 December 2005. It is the Group's policy to state its property, plant and equipment at cost less accumulated depreciation and impairment losses. As such, the net revaluation surplus arising from the valuation of the properties has not been included in the net tangible assets statement under the section headed "Financial Information – Net Tangible Assets" in this document. Had the properties been stated at such valuation, additional annual depreciation charges of approximately RMB1.6 million would be incurred.

Disclosure of the reconciliation of the property interests of the Group and the valuation of such property interests as required under Rule 5.07 of the Main Board Listing Rules is set out below.

	RMB'000
Net book value as at 31 December 2005	67,795
Movements for the 3 months ended 31 March 2006	
Additions	3,660
Depreciation	(668)
Disposals	(560)
Net book value as at 31 March 2006	70,227
Valuation surplus as at 31 March 2006	29,468
Valuation as at 31 March 2006 per Appendix IV	99,695

NET TANGIBLE ASSETS

The following statement shows the Group's net tangible assets as at 31 December 2005 which has been prepared based on the audited consolidated net assets of the Group as at 31 December 2005, as shown in the Accountants' Report set out in Appendix I to this document.

	RMB'000
Audited net tangible assets of the Group as at 31 December 2005 *(Note 1)*	398,452
Audited net tangible asset value per Share *(Note 2)*	RMB0.895

Notes:

1. The audited net tangible assets of the Group as at 31 December 2005 is arrived at based on the audited consolidated net assets of the Group from the Accountants' Report set out in the section headed "Accountants' Report" in Appendix I to this document. Intangible assets include the carrying value of technical know-how used in the production of compressors and provision of integrated business solutions for gas equipment as set out in the section headed "Accountants' Report" in Appendix I to this document.

2. The net tangible asset value per Share has been arrived at based on the 445,200,000 Shares in issue as at the date of this document as if such Shares were outstanding throughout the financial year ended 31 December 2005 but not taking into account of any Shares which may be issued pursuant to the exercise of any options granted under the Pre-GEM Listing Share Option Plan or the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

3. For the purpose of the listing by way of introduction of the Company's shares on the Main Board, the properties of the Group were revalued as at 31 March 2006 by an independent firm of surveyors, Sallmanns (Far East) Limited. A surplus of approximately RMB29.5 million arising as a result of the revaluation of the Group's properties as at 31 March 2006 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 RMB1.6 million would be incurred.

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 31 December 2005, the Company had RMB378,659,475 available for distribution to the Shareholders of the Company.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December 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.

The following is the full text of a report, prepared for the purpose of incorporation in this document, received from the Company's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

27 June 2006

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") for each of the three years ended 31 December 2003, 2004 and 2005 (the "Relevant Period") for inclusion in the document of the Company dated 27 June 2006 (the "Introduction Document") in connection with the listing by way of introduction of the entire issued share capital of the Company on the main board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 28 September 2004 as an exempted company with limited liability under the Companies Law, Chapter 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, in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange, details of which are set out in Appendix VII of the prospectus dated 10 October 2005 (the "Prospectus") issued by the Company, the Company became the holding company of the Group. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 18 October 2005. The Company has proposed to withdraw its listing on the GEM of the Stock Exchange so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries which are incorporated/established outside Hong Kong and have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries, all of which adopted a financial year end date of 31 December, are set out below.

Name of company	Place and date of incorporation/ establishment	Authorised/ registered/ paid-in capital	Attributable equity interest Direct	Indirect	Principal activities
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Enric (Bengbu) Compressor Company Limited ("Enric Compressor")	The People's Republic of China ("PRC") 14 March 2002	Registered and paid-in capital of HKD21,320,000	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited ("Anhui BVI")	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited ("Shijiazhuang BVI")	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment")	PRC 30 September 2003	Registered and paid-in capital of USD7,000,000	–	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 USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration")	PRC 28 December 2004	Registered and paid-in capital of HKD50,000,000	–	100%	Provision of integrated business solutions for gas equipment
Beijing Enric Energy Technologies Limited ("Beijing Enric")	PRC 16 December 2005	Registered and paid-in capital of HKD40,000,000	–	100%	Inactive

Basis of preparation

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Period and the consolidated balance sheets of the Group as at 31 December 2003, 2004 and 2005 and the balance sheets of the Company as at 31 December 2004 and 2005, together with the notes thereto (the "Financial Information") were 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 for each of the three years ended 31 December 2005, except for Enric Compressor, Enric Gas Equipment and Enric Integration, as these companies were either newly incorporated/established, or they are not subject to statutory audit requirements in their jurisdiction of incorporation/establishment.

The statutory financial statements of Enric Compressor, Enric Gas Equipment and Enric Integration for each of the three years ended 31 December 2005, or since their respective dates of establishment, where this is a shorter period, were 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 and were audited by certified public accountants registered in the PRC referred to as follows:

Name of subsidiary	Financial period	Auditors
Enric Compressor	Year ended 31 December 2003	Anhui Jiu Tong Certified Public Accountants Co., Ltd.
	Years ended 31 December 2004 and 2005	Anhui Yong He Certified Public Accountants Co., Ltd.
Enric Gas Equipment	Year ended 31 December 2004	Hebei Hua Yi De Certified Public Accountants Co., Ltd.
	Year ended 31 December 2005	Zhong Qi Hua Jun Cheng Certified Public Accountants Co., Ltd. Hebei Branch
Enric Integration	Year ended 31 December 2005	Langfang Hua An Da Certified Public Accountants Co., Ltd.

We have acted as auditors of the Company since its date of incorporation, and we have audited the consolidated financial statements of the Group for the year ended 31 December 2005.

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 31 December 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 31 December 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 consolidated results and cash flows of the Group for the Relevant Period, and of the state of affairs of the Company as at 31 December 2004 and 2005 and of the consolidated state of affairs of the Group as at 31 December 2003, 2004 and 2005.

A. BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation and the Financial Information has been prepared on the basis that the Company was the holding company of the Group throughout the Relevant Period, rather than from 26 September 2005. Accordingly, the Financial Information of the Group for the Relevant Period include the financial statements of the Company and its subsidiaries with effect from 1 January 2003 or where their respective dates of incorporation/establishment, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2003, from the respective dates of incorporation/establishment and acquisition of the additional interests in Enric Gas Equipment, as if the current group structure had been in existence throughout the Relevant Period. The basis of presentation of the Financial Information also complies with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, where applicable. In applying the principles of merger accounting for group reorganisation under common control, the financial statement items of Enric Compressor on the date in which the common control combination occurs are included in the Financial Information as if the combination had occurred from the date when Enric Compressor first came under the control of Mr. Wang Yusuo ("Mr. Wang"), who is the Chairman and an Executive Director of the Company. No accounting adjustment to the net assets nor net results of Enric Compressor was required to achieve consistency with the Group's accounting policies.

All material inter-company transactions and balances have been eliminated on consolidation.

B. FINANCIAL STATEMENTS

1. Consolidated Income Statements

	Section C	Year ended 31 December		
		2003	2004	2005
	Note	*RMB*	*RMB*	*RMB*
Turnover	*2*	68,943,423	252,375,698	513,013,890
Cost of sales		(40,771,008)	(177,790,799)	(362,953,734)
Gross profit		28,172,415	74,584,899	150,060,156
Other revenue	*3*	5,846,076	5,109,203	3,537,864
Selling expenses		(7,633,349)	(12,803,532)	(23,150,938)
Administrative expenses		(11,636,603)	(23,110,803)	(51,441,412)
Other net income/(expenses)		302,158	2,681,210	(603,924)
Profit from operations		15,050,697	46,460,977	78,401,746
Finance costs	*4(i)*	(4,443,570)	(6,082,089)	(7,813,959)
Profit before taxation		10,607,127	40,378,888	70,587,787
Income tax	*5*	–	(1,814,458)	(1,882,093)
Profit for the year		10,607,127	38,564,430	68,705,694
Attributable to:				
Equity shareholders of the Company		10,607,127	36,191,118	68,705,694
Minority interests		–	2,373,312	–
Profit for the year		10,607,127	38,564,430	68,705,694
Earnings per share	*9*			
– Basic		0.041	0.139	0.225
– Diluted		N/A	N/A	0.224

The accompanying notes form part of the financial statements.

2. Consolidated Balance Sheets

	Section C	At 31 December		
	Note	2003 RMB	2004 RMB	2005 RMB
Non-current assets				
Property, plant and equipment	*10*	7,371,462	85,520,041	89,496,679
Construction in progress	*11*	5,895,999	4,355,382	12,333,721
Lease prepayments	*12*	8,529,193	31,260,587	30,566,484
Intangible assets	*13*	2,854,500	7,714,985	6,806,125
Long-term investment	*14*	26,190,000	–	–
		50,841,154	128,850,995	139,203,009
Current assets				
Inventories	*16*	27,615,856	79,651,766	124,998,815
Trade and bills receivable	*17*	18,072,975	48,796,630	72,407,090
Deposits, other receivables and prepayments	*18*	2,892,467	21,830,654	26,731,532
Amounts due from related parties	*30(b)(I)*	90,449,316	9,047,159	20,297,299
Cash at bank and in hand	*19*	14,339,597	31,610,556	339,319,669
		153,370,211	190,936,765	583,754,405
Current liabilities				
Bank loans	*20*	84,040,000	132,860,000	125,000,000
Trade and bills payable	*21*	16,847,389	41,748,715	95,167,162
Other payables and accrued expenses	*22*	10,952,467	24,779,850	86,174,220
Amounts due to related parties	*30(b)(II)*	51,624,443	65,198,732	9,147,663
Provisions	*24*	580,643	912,619	1,281,780
Income tax payable		–	526,409	928,539
		164,044,942	266,026,325	317,699,364
Net current (liabilities)/assets		(10,674,731)	(75,089,560)	266,055,041
Total assets less current liabilities		40,166,423	53,761,435	405,258,050
NET ASSETS		40,166,423	53,761,435	405,258,050
CAPITAL AND RESERVES				
Share capital	*25*	22,596,114	8	4,630,080
Reserves	*25*	17,570,309	53,761,427	400,627,970
		40,166,423	53,761,435	405,258,050

The accompanying notes form part of the financial statements.

3. Balance Sheets

	Section C	At 31 December	
		2004	2005
	Note	*RMB*	*RMB*
Non-current assets			
Investments in subsidiaries	*15*	–	119,825,371
		–	119,825,371
Current assets			
Amounts due from a subsidiary	*31*	–	251,073,086
Cash at bank and in hand	*19*	–	14,222,026
		–	265,295,112
Net current assets		–	265,295,112
Total assets less current liabilities		–	385,120,483
NET ASSETS		–	385,120,483
CAPITAL AND RESERVES			
Share capital	*25*	–	4,630,080
Reserves	*25*	–	380,490,403
TOTAL EQUITY		–	385,120,483

The accompanying notes form part of the financial statements.

4. Consolidated Statements of Changes in Equity

	Section C *Note*	2003 *RMB*	2004 *RMB*	2005 *RMB*
Total equity at 1 January	*25*	29,559,296	40,166,423	53,761,435
Net profit for the year				
Attributable to:				
– Equity shareholders of the Company	25	10,607,127	36,191,118	68,705,694
– Minority interests	*25*	–	2,373,312	–
		10,607,127	38,564,430	68,705,694
Movements in equity arising from capital transactions				
Capital contributions to a subsidiary	*25*	–	14,234,500	–
Change in share capital	*25*	–	(22,596,106)	–
Acquisition of additional interests in a subsidiary	*27*	–	(16,607,812)	–
Issuance of shares:				
– Pursuant to the Reorganisation	*25*	–	–	9
– Capitalisation issue	*25*	–	–	45,000,000
– Conversion of convertible redeemable bonds	*25*	–	–	40,320,800
– By placing	*25*	–	–	207,792,000
– Others	*25*	–	–	15,709,936
Elimination on consolidation	*25*	–	–	(15,709,944)
Reorganisation adjustment	*25*	–	–	15,709,935
Share issue expenses	*25*	–	–	(27,862,743)
Equity-settled share-based transactions	*23*	–	–	1,830,928
		–	(24,969,418)	282,790,921
Total equity at 31 December		40,166,423	53,761,435	405,258,050

The accompanying notes form part of the financial statements.

5. Consolidated Cash Flow Statements

	Section C	Year ended 31 December		
		2003	2004	2005
	Note	*RMB*	*RMB*	*RMB*
Operating activities				
Profit before taxation		10,607,127	40,378,888	70,587,787
Adjustments for:				
Depreciation		1,645,003	6,130,239	9,719,262
Amortisation of intangible assets		346,000	768,147	908,860
Amortisation of lease prepayments		175,040	562,750	694,103
Interest income		(4,015,336)	(3,292,870)	(1,633,775)
Interest charges		4,427,865	5,928,222	8,304,468
(Gain)/loss on disposal of property, plant and equipment		(109,522)	(13,172)	119,318
Equity-settled share-based payment expenses		–	–	1,830,928
Foreign exchange loss		–	–	208,874
Excess of interest in the fair value of net assets acquired over cost of acquisition	27	–	(2,373,312)	–
Operating profit before changes in working capital		13,076,177	48,088,892	90,739,825
Increase in inventories		(11,822,924)	(52,035,910)	(45,347,049)
Increase in trade and bills receivable		(7,044,470)	(25,422,435)	(23,610,460)
(Increase)/decrease in deposits, other receivables and prepayments		(189,553)	435,750	(4,900,878)
Decrease/(increase) in amounts due from related parties		211,209	32,301,856	(12,064,331)
(Increase)/decrease in restricted bank deposits for letters of credit and bills payable		(4,037,885)	3,954,385	(26,169,922)
Increase/(decrease) in trade and bills payable		12,589,106	(7,014,390)	53,418,447
(Decrease)/increase in other payables and accrued expenses		(4,619,268)	8,877,459	61,394,370
Increase/(decrease) in amounts due to related parties		5,093,704	(10,645,657)	(1,372,081)
Increase in provision for product warranties		475,724	331,976	369,161

The accompanying notes form part of the financial statements.

	Section C Note	Year ended 31 December 2003 RMB	2004 RMB	2005 RMB
Cash generated from/(used in) operations		3,731,820	(1,128,074)	92,457,082
Income tax paid		–	(1,288,049)	(1,479,963)
Net cash from/(used in) operating activities		3,731,820	(2,416,123)	90,977,119
Investing activities				
Payment for acquisition of property, plant and equipment and construction in progress		(7,292,920)	(31,210,926)	(21,798,556)
Payment for lease prepayments		–	(1,000,320)	–
Payment for investment in a related party	*30(a)(II)*	(26,190,000)	–	–
Proceeds from disposal of investment in a related party	*30(a)(II)*	–	26,190,000	–
Proceeds from disposal of property, plant and equipment		1,107,649	1,593,201	4,999
New loans to a related party	*30(a)(II)*	(48,600,000)	–	–
Loan repayments from a related party	*30(a)(II)*	30,000,000	78,600,000	–
Interest received		12,854	8,718,336	2,447,966
Payment for interests in subsidiaries *(note (ii))*		–	(36,830,606)	–
Advances made to related parties	*30(a)(II)*	(7,543,959)	(54,541,891)	–
Repayments of advances made to related parties	*30(a)(II)*	16,199,333	59,285,850	–
Net cash (used in)/from investing activities		(42,307,043)	50,803,644	(19,345,591)

The accompanying notes form part of the financial statements.

	Section C Note	Year ended 31 December 2003 RMB	2004 RMB	2005 RMB
Financing activities				
Capital contributions from a related party *(note (i))*		–	92,853	–
Proceeds from issuance of shares:				
– Conversion of convertible redeemable bonds		–	–	40,320,800
– By placing		–	–	207,792,000
– Others		–	–	15,709,936
Proceeds from new bank loans		84,040,000	79,260,000	140,000,000
Repayment of bank loans		(65,000,000)	(109,040,000)	(147,860,000)
Interest paid		(4,427,865)	(5,928,222)	(8,304,468)
Advances received from related parties	*30(a)(II)*	34,505,779	270,613,489	–
Repayments of advances received from related parties	*30(a)(II)*	(4,026,688)	(262,160,297)	(9,678,988)
Share issue expenses		–	–	(27,862,743)
Net cash from/(used in) financing activities		45,091,226	(27,162,177)	210,116,537
Net increase in cash and cash equivalents		6,516,003	21,225,344	281,748,065
Cash and cash equivalents at 1 January		3,785,709	10,301,712	31,527,056
Effect of foreign exchange rate changes		–	–	(208,874)
Cash and cash equivalents at 31 December	*19*	10,301,712	31,527,056	313,066,247

(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.

The accompanying notes form part of the financial statements.

Enric Gas Equipment was established by Xinao Shijiazhuang, a related party controlled by Mr. Wang, 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) These represent the acquisition of the additional interests in Enric Gas Equipment of RMB14,234,500 (see note 27) and the purchase of the entire equity interests in Enric Compressor of RMB22,596,106 (see note 30(a)).

The accompanying notes form part of the financial statements.

C. NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. These new and revised HKFRSs have been early adopted at the beginning of the year ended 31 December 2003.

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements. Information on these amendments, new standards and interpretations are provided in note 36.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

(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 consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. 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 the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

(d) Property, plant and equipment

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(ii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	30 years
Leasehold improvements	2 to 5 years
Machinery	10 years
Motor vehicles	6 years
Office equipment	5 to 10 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iii) 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(j)). 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 property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(j)).

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(g) Intangible assets (other than goodwill)

Expenditure on research activities 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 costs 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(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 1(j)).

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives of 10 years.

Both the period and method of amortisation are reviewed annually.

(h) 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 profit or loss on a straight-line basis over the respective periods of the rights.

(i) 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 held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of investment in equity securities and other receivables

Investments in equity securities and other current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– construction in progress;
– lease prepayments;
– intangible assets;
– investments in subsidiaries; and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, 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 (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)).

(m) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(q) Employee benefits

(i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries and annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for the recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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, 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 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 profits 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 profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 the Company or the 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, the Company or the 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.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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.

(t) 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 profit or loss 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) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Unconditional government grants are recognised in profit or loss as revenue when the grants become receivable.

(u) Translation of foreign currencies

Foreign currency transactions during the year 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 are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi using the foreign exchange rates ruling at the transaction dates.

(v) Borrowing costs

Borrowing costs are expensed in profit or loss 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 expenditure for the asset is 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.

(w) Related parties

For the purposes of these financial statements, 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(x) 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 purposes of these financial statements. 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, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities 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, tax balances, corporate and financing expenses.

2. Turnover

The Group is principally engaged in the provision of integrated business solutions in the gas energy industry and the design, manufacture and sale of specialised gas equipment. 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		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Government grants *(see note (i))*	1,593,600	730,029	1,183,726
Other operating revenue *(see note (ii))*	237,140	1,086,304	720,363
Interest income from loans to related parties	4,002,482	3,222,895	–
Interest income from bank deposits	12,854	69,975	1,633,775
	5,846,076	5,109,203	3,537,864

Notes:

(i) Government grants represent various forms of incentives and subsidies given to Enric Compressor by the local PRC government. Certain of the grants were generally available to other companies, and these were mainly for the purposes of promoting certain industries in the PRC and encouraging domestic enterprises to focus more on technological advancement. In addition, Enric Compressor also received a subsidy arising from the purchase of assets from a state-owned enterprise. All the above grants were unconditional in nature, and the amounts were 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 before taxation

Profit before taxation is arrived at after charging/(crediting):

(i) Finance costs

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Interest on bank loans	4,427,865	6,186,985	8,165,598
Interest on convertible redeemable bonds	–	–	138,870
Total borrowing costs	4,427,865	6,186,985	8,304,468
Less: borrowing costs capitalised*	–	(258,763)	–
	4,427,865	5,928,222	8,304,468
Foreign exchange (gain)/loss	(6,163)	80,509	(713,771)
Finance charges	21,868	73,358	223,262
	4,443,570	6,082,089	7,813,959

* *The borrowing costs have been capitalised at an annual rate of 5.3% for the year ended 31 December 2004.*

(ii) Staff costs #

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Salaries, wages and allowances	10,028,443	20,767,235	31,712,960
Contributions to retirement schemes *(note 28)*	885,233	2,814,898	2,713,140
Equity-settled share-based payment expenses	–	–	1,830,928
	10,913,676	23,582,133	36,257,028

(iii) Other items

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Cost of inventories #	40,771,008	177,790,799	362,953,734
Auditors' remuneration – audit services	25,020	30,000	1,574,000
Depreciation of property, plant and equipment #	1,645,003	6,130,239	9,719,262
Amortisation of intangible assets	346,000	768,147	908,860
Amortisation of lease prepayments	175,040	562,750	694,103
(Gain)/loss on disposal of property, plant and equipment	(109,522)	(13,172)	119,318
Impairment losses for:			
– Trade receivables	1,087,082	1,711,309	462,318
– Other receivables	–	477,782	373,357
Write-down of inventories	–	–	2,138,722
Research and development costs	1,885,313	4,241,777	6,171,711
Operating lease charges for property rental	–	238,518	1,082,701
Provision for product warranties	1,000,015	1,761,556	2,889,288

Cost of inventories includes RMB4,517,087, RMB12,804,608, and RMB16,374,819 for the years ended 31 December 2003, 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. Income tax in the consolidated income statements

(i) Taxation in the consolidated income statements represents:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Current taxation for the year	–	1,814,458	1,882,093

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the Relevant Period.

Profits of the Group's operating 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 and Enric Gas Equipment for the year ended 31 December 2003 are 30% and 24% respectively. The statutory state income tax rates applicable to Enric Compressor, Enric Gas Equipment and Enric Integration for the years ended 31 December 2004 and 2005 are 30%, 24% and 30%, and 30%, 15% 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 years ended 31 December 2004 and 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 Integration 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 31 December 2005.

(ii) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Profit before tax	10,607,127	40,378,888	70,587,787
Notional tax on profit before tax, calculated at the applicable rates	3,182,138	11,886,543	17,572,992
Tax effect of tax holiday granted	(3,182,138)	(7,969,822)	(15,895,830)
Tax incentive granted	–	(2,035,384)	–
Tax effect of non-taxable income	–	(640,794)	–
Tax effect of non-deductible expenses	–	573,915	204,931
Actual tax expense	–	1,814,458	1,882,093

(iii) No provision has been made for deferred taxation as at 31 December 2003, 2004 and 2005 as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

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:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Share-based payments	Total
	RMB	*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 year ended 31 December 2005 are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Share-based payments	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Executive directors:						
Wang Yusuo	–	234,000	–	–	530,704	764,704
Cai Hongqiu	–	264,956	–	–	185,746	450,702
Yu Jianchao	–	78,000	–	–	132,676	210,676
Zhao Xiaowen	–	171,543	7,029	–	132,676	311,248
Zhou Kexing	–	182,182	–	–	132,676	314,858
Non-executive director:						
Zhao Baoju	15,600	–	–	–	–	15,600
Independent non-executive directors:						
Gao Zhengping	57,200	–	–	–	–	57,200
Shou Binan	57,200	–	–	–	–	57,200
Wong Chun Ho	57,200	–	–	–	–	57,200
Total	187,200	930,681	7,029	–	1,114,478	2,239,388

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed in note 23.

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 and four for the years ended 31 December 2003, 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		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Salaries, allowances and benefits in kind	110,812	208,208	499,200
Retirement scheme contributions	2,793	2,203	12,480
Share-based payments	–	–	92,873
	113,605	210,411	604,553

The emoluments of the five, three and one individual(s), for the years ended 31 December 2003, 2004 and 2005 respectively, with the highest emoluments are within the following band:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
HKD Nil - HKD 1,000,000	5	3	1

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. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended 31 December 2003 and 2004 was based on the profit attributable to ordinary equity shareholders of the Company of RMB10,607,127 and RMB36,191,118 respectively and on the 260,160,000 ordinary shares of the Company in issue and issuable as at the date of the Prospectus, as if these shares were outstanding throughout the years ended 31 December 2003 and 2004.

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 305,283,288 ordinary shares, after taking into account the 260,160,000 ordinary shares of the Company in issue and issuable as at the date of the Prospectus, as if the shares were outstanding throughout the year ended 31 December 2005, and the issuance of ordinary shares by conversion of convertible redeemable bonds and placing during the year ended 31 December 2005.

Weighted average number of ordinary shares

	2003	**2004**	**2005**
Issued and issuable ordinary shares at 1 January	260,160,000	260,160,000	260,160,000
Effect of conversion of convertible redeemable bonds	–	–	17,753,425
Effect of placing	–	–	27,369,863
Weighted average number of ordinary shares at 31 December	260,160,000	260,160,000	305,283,288

(ii) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2003 and 2004.

The calculation of diluted earnings per share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 306,681,163 ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2005
Weighted average number of ordinary shares at 31 December	305,283,288
Effect of dilutive potential ordinary shares in respect of the Company's share option scheme *(note 23)*	1,397,875
Weighted average number of ordinary shares (diluted) at 31 December	306,681,163

10. Property, plant and equipment

The Group

	Buildings	Leasehold improvements	Machinery	Motor vehicles	Office equipment	Total
	RMB	*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	625,529	1,875,438	5,230,368	2,029,798	1,497,032	11,258,165
Disposals	(20,093)	–	(205,230)	–	–	(225,323)
Reclassification	3,600,000	–	(3,600,000)	–	–	–
Transfers from construction in progress	1,907,437	–	654,615	–	–	2,562,052
Balance at 31 December 2005	43,022,562	1,875,438	52,261,948	4,459,141	5,304,506	106,923,595
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)

	Buildings	Leasehold improvements	Machinery	Motor vehicles	Office equipment	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance at 1 January 2005	(2,627,481)	–	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Charge for the year	(3,064,621)	(38,777)	(5,372,710)	(605,574)	(637,580)	(9,719,262)
Written back on disposal	3,783	–	97,223	–	–	101,006
Reclassification	(105,600)	–	105,600	–	–	–
Balance at 31 December 2005	(5,793,919)	(38,777)	(9,224,131)	(894,651)	(1,475,438)	(17,426,916)
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 31 December 2005	37,228,643	1,836,661	43,037,817	3,564,490	3,829,068	89,496,679

11. Construction in progress

	The Group Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
At 1 January	1,204,545	5,895,999	4,355,382
Capital contributions	–	9,878,561	–
Additions	5,381,344	21,699,730	10,540,391
Transfers to property, plant and equipment	(689,890)	(33,118,908)	(2,562,052)
At 31 December	5,895,999	4,355,382	12,333,721

12. Lease prepayments

	The Group		
	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Cost			
At 1 January	8,834,855	8,834,855	32,128,999
Additions	–	1,000,320	–
Capital contributions	–	22,293,824	–
At 31 December	8,834,855	32,128,999	32,128,999
Accumulated amortisation			
At 1 January	(130,622)	(305,662)	(868,412)
Charge for the year	(175,040)	(562,750)	(694,103)
At 31 December	(305,662)	(868,412)	(1,562,515)
Net book value			
At end of the year	8,529,193	31,260,587	30,566,484

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights have remaining terms ranging from 43 to 48 years as at 31 December 2005.

13. Intangible assets

	The Group		
	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Cost			
At 1 January	3,460,000	3,460,000	9,088,632
Capital contributions	–	5,628,632	–
At 31 December	3,460,000	9,088,632	9,088,632
Accumulated amortisation			
At 1 January	(259,500)	(605,500)	(1,373,647)
Charge for the year	(346,000)	(768,147)	(908,860)
At 31 December	(605,500)	(1,373,647)	(2,282,507)
Net book value			
At end of the year	2,854,500	7,714,985	6,806,125

Intangible assets mainly represent technical know-how used in the production of compressors and provision of integrated business solutions for gas equipment.

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statements.

14. Long-term investment

	The Group		
	At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Unlisted shares, 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 Mr. Wang, at cost.

Xinao Group Company Limited is a related party controlled by Mr. Wang.

15. Investments in subsidiaries

	The Company	
	At 31 December	
	2004	**2005**
	RMB	*RMB*
Unlisted shares, at cost	–	119,825,371

The class of shares held is ordinary unless otherwise stated.

16. Inventories

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Raw materials	9,401,416	39,168,216	40,909,809
Work in progress	8,958,364	17,220,324	31,681,844
Finished goods	9,256,076	23,263,226	52,407,162
	27,615,856	79,651,766	124,998,815

Inventories as at 31 December 2003 and 2004 are stated at cost. As at 31 December 2005, inventories include raw materials with cost of RMB2,138,722 that are carried at net realisable value of nil.

17. Trade and bills receivable

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Trade receivables	17,057,975	47,353,130	72,357,090
Bills receivable	1,015,000	1,443,500	50,000
	18,072,975	48,796,630	72,407,090

All of the trade and bills receivable (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year.

An ageing analysis of trade and bills receivable (net of impairment losses for bad and doubtful debts) is as follows:

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Aged within 3 months	10,836,786	30,528,685	32,898,075
Aged between 3 to 6 months	4,579,432	9,526,028	24,977,183
Aged between 6 months to 1 year	1,798,321	8,741,917	11,701,865
Aged over 1 year	858,436	–	2,829,967
	18,072,975	48,796,630	72,407,090

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.

18. Deposits, other receivables and prepayments

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Advances to suppliers	1,356,592	16,145,236	20,430,932
Listing expenses	–	2,382,865	–
Deposits for bidding, construction work and equipment purchase	300,950	1,898,323	4,598,203
Staff advances	801,465	555,408	941,274
Others	433,460	848,822	761,123
	2,892,467	21,830,654	26,731,532

19. Cash at bank and in hand

	The Group At 31 December			The Company At 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Cash and cash equivalents					
– Cash in hand and demand deposits	10,301,712	28,327,056	288,502,470	–	14,222,026
– Restricted bank deposits for letters of credit and bills payable within three months of maturity	–	3,200,000	24,563,777	–	–
	10,301,712	31,527,056	313,066,247	–	14,222,026
– Restricted bank deposits for letters of credit and bills payable with maturity of more than three months	4,037,885	83,500	26,253,422	–	–
	14,339,597	31,610,556	339,319,669	–	14,222,026

As at 31 December 2004, the Company had cash balance of HKD0.01.

Included in cash at bank and in hand in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group At 31 December			The Company At 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB equivalent	*RMB equivalent*	*RMB equivalent*	*RMB equivalent*	*RMB equivalent*
Hong Kong Dollars	6,186,772	9,451,282	155,060,499	–	14,222,026
United States Dollars	–	9,680	313,116	–	–

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.

20. Bank loans

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Bank loans - guaranteed	84,040,000	132,860,000	125,000,000

The above banks loans at 31 December 2003 and 2004 were guaranteed by Xinao Group Company Limited.

At 31 December 2005, bank loans of RMB40,000,000 were guaranteed by Xinao Group Company Limited. On 14 March 2006, these bank loans were fully repaid by the Group and the corresponding guarantees were released. The remaining bank loans of RMB85,000,000 were guaranteed by subsidiaries of the Company.

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 6.8% for years ended 31 December 2003, 2004 and 2005 respectively.

21. Trade and bills payable

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Trade creditors	9,059,440	33,748,715	53,717,162
Bills payable	7,787,949	8,000,000	41,450,000
	16,847,389	41,748,715	95,167,162

An ageing analysis of trade and bills payables of the Group is as follows:

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Due within 3 months or on demand	7,584,825	18,399,781	74,713,030
Due after 3 months but within 6 months	8,419,401	17,461,894	19,250,000
Due after 6 months but within 1 year	380,069	3,879,545	1,204,132
Due over 1 year	463,094	2,007,495	–
	16,847,389	41,748,715	95,167,162

All of the trade and bills payables are expected to be settled within one year.

22. Other payables and accrued expenses

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Advances from customers	2,529,301	15,804,267	68,029,379
Other taxes payable	1,363,958	1,555,257	5,259,968
Accrued expenses	98,213	133,417	4,212,563
Employees' bonus and welfare	2,228,109	3,907,781	3,406,031
Other surcharges payable	230,877	427,150	1,973,107
Payable for construction work	249,552	2,144,820	1,135,349
Directors' remuneration	–	–	761,714
Advances from a third party	3,996,200	–	–
Others	256,257	807,158	1,396,109
	10,952,467	24,779,850	86,174,220

The payable balance in respect of directors' remuneration as at 31 December 2005 has been settled by 25 May 2006.

Included in other payables and accrued expenses are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB equivalent	*RMB equivalent*	*RMB equivalent*
Hong Kong Dollars	3,996,200	125,865	1,724,065

23. Equity-settled share-based transactions

Pursuant to the written resolution of the Company's the then sole shareholder passed on 26 September 2005, the Company has adopted the Pre-GEM Listing Share Option Plan whereby the Company invited certain directors and employees of the Group to take up options at HKD1 consideration to subscribe for 13,800,000 ordinary shares of the Company. The exercise price of such share options was determined based on the new issue price of the Company's shares on 18 October 2005 (the "Listing Date"). Half of the options vest after 6 months from the Listing Date and are then exercisable within a period of 10 years from the date of grant, and the remaining options vest after 2 years from the Listing Date and are then exercisable within a period of 10 years from the date of grant.

(a) The terms and conditions of the grants that existed during the year ended 31 December 2005 are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 26 September 2005	4,200,000	Six months after the Listing Date	10 years
– on 26 September 2005	4,200,000	Two years after the Listing Date	10 years
Options granted to employees:			
– on 26 September 2005	2,700,000	Six months after the Listing Date	10 years
– on 26 September 2005	2,700,000	Two years after the Listing Date	10 years
Total share options	13,800,000		

No options were exercised during the year ended 31 December 2005.

The options outstanding at 31 December 2005 had an exercise price of HKD1.50 and a weighted average remaining contractual life of 9.7 years.

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

Fair value of share options and assumptions	**2005**
Fair value at measurement date	HKD0.49
Share price	HKD1.50
Exercise price	HKD1.50
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	13.07%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	10 years
Expected dividends	0%
Risk-free interest rate (based on US Treasury Bills)	3.59%

The expected volatility is based on the volatility of share prices of the Company, adjusted for any expected changes to future volatility due to publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

24. Provision for product warranties

	The Group At 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
At 1 January	104,919	580,643	912,619
Provisions made	1,000,015	1,761,556	2,889,288
Provisions utilised	(524,291)	(1,429,580)	(2,520,127)
At 31 December	580,643	912,619	1,281,780

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.

25. Capital and reserves

(a) The Group

	Share capital	Share premium	Contributed surplus	Capital reserve	General reserve fund	Enterprise expansion fund	Retained profits	Total	Minority interests	Total equity
	Attributable to equity shareholders of the Company									
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
		note (viii)	*note (ix)*	*note (x)*	*note (xi)*	*note (xii)*				
At 1 January 2003	22,596,114 *(note (i))*	–	–	–	–	–	6,963,182	29,559,296	–	29,559,296
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
At 1 January 2004	22,596,114 *(note (i))*	–	–	–	–	–	17,570,309	40,166,423	–	40,166,423
Capital contributions to a subsidiary *(note 30 (a))*	–	–	–	–	–	–	–	–	14,234,500	14,234,500
Change in share capital *(note (i))*	(22,596,106)	–	–	–	–	–	–	(22,596,106)	–	(22,596,106)
Disposal of interests in a subsidiary to the Group *(note 27)*	–	–	–	–	–	–	–	–	(16,607,812)	(16,607,812)
Profit for the year	–	–	–	–	–	–	36,191,118	36,191,118	2,373,312	38,564,430
Transfer between reserves	–	–	–	–	2,477,817	–	(2,477,817)	–	–	–
At 31 December 2004	8	–	–	–	2,477,817	–	51,283,610	53,761,435	–	53,761,435
At 1 January 2005	8	–	–	–	2,477,817	–	51,283,610	53,761,435	–	53,761,435
Issuance of shares:										
– Pursuant to the Reorganisation *(note (iv))*	9	–	–	–	–	–	–	9	–	9
– Capitalisation issue *(note (v))*	2,705,655	42,294,345	–	–	–	–	–	45,000,000	–	45,000,000
– Conversion of convertible redeemable bonds *(notes (vi) and 26)*	539,136	39,781,664	–	–	–	–	–	40,320,800	–	40,320,800
– By placing *(note (vii))*	1,385,280	206,406,720	–	–	–	–	–	207,792,000	–	207,792,000
– Others *(note (iii))*	819	15,709,117	–	–	–	–	–	15,709,936	–	15,709,936
Elimination on consolidation *(note (iv))*	(827)	(15,709,117)	–	–	–	–	–	(15,709,944)	–	(15,709,944)
Reorganisation adjustment *(note (iv))*	–	–	15,709,935	–	–	–	–	15,709,935	–	15,709,935
Share issue expenses *(note (vii))*	–	(27,862,743)	–	–	–	–	–	(27,862,743)	–	(27,862,743)
Equity-settled share-based transactions *(note 23)*	–	–	–	1,830,928	–	–	–	1,830,928	–	1,830,928
Profit for the year	–	–	–	–	–	–	68,705,694	68,705,694	–	68,705,694
Transfer between reserves	–	–	–	–	7,365,915	–	(7,365,915)	–	–	–
At 31 December 2005	4,630,080	260,619,986	15,709,935	1,830,928	9,843,732	–	112,623,389	405,258,050	–	405,258,050

(b) The Company

	Attributable to equity shareholders of the Company					
	Share capital *RMB*	Share premium *RMB* *note (viii)*	Contributed surplus *RMB* *note (ix)*	Capital reserve *RMB* *note (x)*	Accumulated losses *RMB*	Total *RMB*
At 28 September 2004 (date of incorporation)	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	–
At 31 December 2004	–	–	–	–	–	–
At 1 January 2005	–	–	–	–	–	–
Issuance of shares:						
– Pursuant to the Reorganisation *(note (iv))*	9	–	–	–	–	9
– Capitalisation issue *(note (v))*	2,705,655	42,294,345	–	–	–	45,000,000
– Conversion of convertible redeemable bonds *(notes (vi) and 26)*	539,136	39,781,664	–	–	–	40,320,800
– By placing *(note (vii))*	1,385,280	206,406,720	–	–	–	207,792,000
Reorganisation adjustment *(note (iv))*	–	–	119,825,362	–	–	119,825,362
Share issue expenses *(note (vii))*	–	(27,862,743)	–	–	–	(27,862,743)
Equity-settled share-based transactions *(note 23)*	–	–	–	1,830,928	–	1,830,928
Loss for the year	–	–	–	–	(1,785,873)	(1,785,873)
At 31 December 2005	4,630,080	260,619,986	119,825,362	1,830,928	(1,785,873)	385,120,483

At 31 December 2004, the share capital of the Company represented 1 ordinary share of HKD0.01 which was allotted and issued upon the incorporation of the Company on 28 September 2004.

(c) Share capital

	2004		2005	
	Number of shares	*RMB equivalent*	*Number of shares*	*RMB equivalent*
Authorised:				
Ordinary shares of the Company of HKD0.01 each *(note (ii))*	39,000,000	413,400	10,000,000,000	104,000,000

Ordinary shares of the Company, issued and fully paid:

	2004		2005	
	Number of shares	*RMB equivalent*	*Number of shares*	*RMB equivalent*
At 1 January	–	–	1	–
Issuance of subscriber share *(note (ii))*	1	–	–	–
Issuance of shares:				
– Pursuant to the Reorganisation *(note (iv))*	–	–	879	9
– Capitalisation issue *(note (v))*	–	–	260,159,120	2,705,655
– Conversion of convertible redeemable bonds *(notes (vi) and 26)*	–	–	51,840,000	539,136
– By placing *(note (vii))*	–	–	133,200,000	1,385,280
At 31 December	1	–	445,200,000	4,630,080

(i) Share capital in the Group's consolidated balance sheet as at 1 January 2003 and 2004 represented the aggregate issued capital of EIGL and Enric Compressor. The change in share capital for the year ended 31 December 2004 reflects the Group's purchase of the equity interests in Enric Compressor from Mr. Wang on 8 July 2004.

Share capital in the Group's consolidated balance sheet as at 31 December 2004 represented the aggregate issued share capital of the Company and EIGL, comprising 1 ordinary share of HKD0.01 and 1 ordinary share of USD1 respectively.

(ii) The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 28 September 2004 with an authorised share capital of HKD390,000 divided into 39,000,000 shares of HKD0.01 each, of which one subscriber share then issued was subsequently transferred on 12 October 2004 to Xinao Group International Investment Limited ("XGII").

Pursuant to the written resolution of the shareholders of the Company passed on 26 September 2005, the authorised share capital of the Company was increased from HKD390,000 to HKD100,000,000 by the creation of additional 9,961,000,000 shares of HKD0.01 each.

(iii) On 21 January 2005, a share subscription agreement was entered into between Symbiospartners Private Equity Limited ("Symbiospartners") as subscriber, EIGL, and XGII as warrantor, pursuant to which 10 shares of USD1 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 USD1,900,000. In addition, 89 shares of EIGL were issued to XGII at par value. Accordingly, the share premium arising from the share subscription was USD1,899,990 (equivalent to RMB15,709,117).

(iv) On 26 September 2005, pursuant to the deed for sale and purchase of the entire share capital of EIGL, 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. The issuance of shares resulted in the Company becoming the holding company of the Group.

(v) Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, 260,159,120 ordinary shares of HKD0.01 each were allotted and issued, as to 234,143,208 shares to XGII and 26,015,912 shares to Symbiospartners (as nominated by XGII), all credited and fully paid, on capitalisation of a sum of RMB45,000,000 owed by the Group to XGII.

(vi) Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, an aggregate of 51,840,000 shares of HKD0.01 each were allotted and issued, credited as fully paid, upon conversion of the convertible redeemable bonds on 18 October 2005 (see note 26), which was issued by EIGL in the aggregate principal amount of USD5,000,000. The proceeds of RMB539,136, representing the par value, were credited to the Company's share capital and the remaining proceeds of RMB39,781,664 were credited to the share premium amount.

(vii) On 18 October 2005, 133,200,000 ordinary shares of HKD0.01 each were issued and offered for subscription at a price of HKD1.50 per share upon the listing of the Company's shares on the GEM of the Stock Exchange. The proceeds of HKD1,332,000 (equivalent to RMB1,385,280), representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD198,468,000 (equivalent to RMB206,406,720) before the share issue expenses of HKD26,691,724 (equivalent to RMB27,862,743), comprising listing expenses of HKD24,775,683 (equivalent to RMB25,870,060) and expenses for issuance and conversion of the convertible redeemable bonds of HKD1,916,041 (equivalent to RMB1,992,683), were credited to the share premium account.

(viii) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

(ix) Contributed surplus

The contributed surplus of the Group represents the difference between (a) the nominal value of the share capital and the existing balance on the share premium account of a subsidiary acquired; and (b) the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year ended 31 December 2005.

The contributed surplus of the Company represents the difference between (a) the consolidated net assets of the subsidiaries acquired; and (b) the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year ended 31 December 2005.

(x) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(q)(ii).

(xi) 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.

(xii) 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.

(xiii) Distributability of reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The Company was incorporated on 28 September 2004 and has not carried out any business for the year ended 31 December 2004. Accordingly, there was no reserve available for distribution to equity shareholders of the Company as at 31 December 2004.

At 31 December 2005, the Company had RMB378,659,475 available for distribution to equity shareholders of the Company.

26. Convertible redeemable bonds

On 6 September 2005, EIGL issued convertible redeemable bonds in the aggregate principal amount of USD5,000,000.

The convertible redeemable bonds bore interest at a rate of 2.5% per annum and the entire principal amount was converted to 51,840,000 ordinary shares of the Company on 18 October 2005.

27. 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 on 16 July 2004 for a cash consideration of RMB14,234,500.

The financial information of Enric Gas Equipment from the date of commencement of business on 1 April 2004 to the date of the acquisition of the 70% additional equity interests are summarised as follows:

	RMB
Turnover	33,040,544
Profit before taxation	3,390,445
Total assets	210,116,103
Total liabilities	186,390,657
Net assets	23,725,446

The fair value of the net assets acquired was 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
Excess of interest in the fair value of net assets acquired over cost of acquisition	(2,373,312)
Total purchase price paid, satisfied in cash	14,234,500

28. Retirement benefits

The operating subsidiaries 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 24%, 20% and 20% respectively, of the basic salaries of their PRC 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 also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD20,000. Contributions to the plan vest immediately.

The Group does not operate any other retirement benefits schemes for its employees.

29. Commitments

(a) Capital commitments outstanding at 31 December 2003, 2004 and 2005 not provided for in the financial statements were as follows:

	The Group			**The Company**	
	At 31 December			**At 31 December**	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Contracted for	220,600	486,000	920,154	–	–
Authorised but not contracted for	–	–	40,000,000	–	–
	220,600	486,000	40,920,154	–	–

In December 2005, the directors authorised to construct a new production line for seamless pressure cylinders. The estimated capital expenditures for the project is approximately RMB40,000,000. At 31 December 2005, no contract was entered into in respect of the project.

(b) The total future minimum lease payments under non-cancellable operating leases payable at 31 December 2003, 2004 and 2005 were as follows:

	The Group At 31 December			The Company At 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Within 1 year	–	1,495,082	1,301,215	–	–
After 1 year but within 5 years	–	910,000	1,035,967	–	–
	–	2,405,082	2,337,182	–	–

The Group leases a number of properties 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.

30. Material related party transactions

(a) Transactions

		The Group Year ended 31 December		
		2003	**2004**	**2005**
		RMB	*RMB*	*RMB*
(I) Trade				
Sales	*(i)*	1,831,438	84,582,559	101,865,440
Purchases	*(ii)*	5,184,995	64,851,744	145,242
(II) Non-trade				
Rental of property and office equipment and property management fee	*(iii)*	–	130,000	1,087,695
Loans to a related party	*(iv)*	48,600,000	–	–
Interest income on loans to a related party	*(iv)*	4,002,482	3,222,895	–
Repayments received in respect of loans to a related party and related interest	*(iv)*	30,000,000	87,248,361	814,191
Payment for investment in a related party	*(v)*	26,190,000	–	–
Disposal of investment in a related party	*(vi)*	–	26,190,000	–
Capital contributions to a subsidiary	*(vii)*	–	14,234,500	–
Payment for interests in subsidiaries	*(viii)*	–	36,830,606	–
Directors' remuneration and expenses	*(ix)*	–	142,111	–
Prepayments for purchase of properties	*(x)*	–	–	478,581
Donation	*(xi)*	–	–	500,000
Cash advances to related parties	*(xii)*	7,543,959	54,541,891	–
Repayments of cash advances to related parties	*(xii)*	16,199,333	59,285,850	–
Cash advances from related parties	*(xiii)*	34,505,779	270,613,489	–
Repayments of cash advances from related parties	*(xiii)*	4,026,688	262,160,297	9,678,988
Settlement of cash advances from a related party pursuant to a capitalisation issue	*(xiv)*	–	–	45,000,000

Notes:

(i) Sales to related parties mainly represent the sale of compressors, pressure vessels and integrated business solutions for gas equipment.

(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 Mr. Wang, 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 Mr. Wang, 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 in which Mr. Wang and Ms. Zhao Baoju (a Non-Executive Director of the Company) have substantive interests through XGII, for a term of 3 years from 1 February 2005 to 31 January 2008, at an annual rental of HKD455,544.

(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 the principal amounts of these loans were 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 Mr. Wang, during the year ended 31 December 2004.

(vii) This represents the transfer of certain assets and liabilities by Xinao Shijiazhuang, to Enric Gas Equipment as capital contribution on 31 March 2004.

(viii) This represents purchase of equity interests in Enric Compressor amounting to RMB22,596,106 from Mr. Wang during the year ended 31 December 2004, and the Group's acquisition of the additional interests in Enric Gas Equipment amounting to RMB14,234,500.

(ix) 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, a related party controlled by Mr. Wang, during the year ended 31 December 2004.

(x) This represents full prepayments made by Enric Compressor on 30 December 2005 for the purchase of properties from Bengbu Xinao Property Company Limited, a related party controlled by Mr. Wang. The purchase prices were based on prevailing market prices, and the titles to these properties were subsequently obtained by February 2006.

(xi) This represents a donation made to the Xinao Charity Fund, a non-profit making organisation of which Mr. Wang is the legal representative.

(xii) Cash advances to related parties for each of the years ended 31 December 2003, 2004 and 2005 are as follows:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Xinao Group Company Limited	2,500,000	13,074,400	–
Xinao Group Solar Energy Company Limited	–	4,496,327	–
Bengbu Xinao Property Company Limited	1,048,858	–	–
Shijiazhuang Radiation Equipment Company Limited	–	2,992,053	–
Xinao Shijiazhuang	–	33,423,600	–
XGII	3,995,101	–	–
Mr. Wang	–	555,511	–
Total	7,543,959	54,541,891	–

The above entities are companies controlled by Mr. Wang and the amounts were fully settled as at 31 December 2004.

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

(xiii) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment, and the amounts were fully settled as at 31 December 2005.

(xiv) Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, 260,159,120 ordinary shares of HKD0.01 each were allotted and issued, as to 234,143,208 shares to XGII and 26,015,912 shares to Symbiospartners, all credited and fully paid, on capitalisation of a sum of RMB45,000,000 owed by the Company to XGII.

(xv) The Group had bank loans of RMB84,040,000, RMB132,860,000 and RMB40,000,000 guaranteed by Xinao Group Company Limited as at 31 December 2003, 2004 and 2005 respectively (see note 20).

(xvi) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 6 and the highest paid employees as disclosed in note 7, is as follows:

	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Short-term employee benefits	26,434	352,522	1,606,037
Equity compensation benefits	–	–	1,631,914
	26,434	352,522	3,237,951

Total remuneration is included in "staff costs" (see note 4(ii)).

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 on the Main Board.

(b) Balances with related parties

(I) Amounts due from related parties are as follows:

			The Group		
			At 31 December		
			2003	**2004**	**2005**
		Notes	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	865,700	8,232,968	19,818,718
(B)	Non-trade balances				
	• Loans	*(ii)*	78,600,000	–	–
	• Interest receivables from loans	*(ii)*	6,239,657	814,191	–
	• Prepayments for purchase of properties	*(iii)*	–	–	478,581
	• Cash advances	*(iv)*	4,743,959	–	–
	Total		90,449,316	9,047,159	20,297,299

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 the years ended 31 December 2003 and 2004. The maximum balance of the loans to this related party, which is controlled by Mr. Wang, and the related interest receivables were in aggregate RMB84,839,657, RMB88,062,552 and RMB814,191 for the years ended 31 December 2003, 2004 and 2005 respectively. The principal amounts of these loans were settled on 9 December 2004.

(iii) This represents full prepayments made by Enric Compressor on 30 December 2005 for the purchase of properties from Bengbu Xinao Property Company Limited, a related party controlled by Mr. Wang. The purchase prices were based on prevailing market prices, and the titles to these properties were subsequently obtained by February 2006.

(iv) Cash advances to related parties are as follows:

	The Group At 31 December		
	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 Mr. Wang. The maximum balances of these cash advances during the years ended 31 December 2003, 2004 and 2005 are as follows:

	The Group Year ended 31 December		
	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 Shijiazhuang	–	33,423,600	–
XGII	3,995,101	3,995,101	–
Mr. Wang	–	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:

			The Group At 31 December		
			2003	**2004**	**2005**
		Notes	*RMB*	*RMB*	*RMB*
(A)	*Trade balances*	*(i)*	5,398,647	10,247,633	8,967,663
(B)	*Non-trade balances*				
	• Rental and property management fee payable	*(ii)*	–	130,000	180,000
	• Directors' remuneration and expenses	*(iii)*	–	142,111	–
	• Cash advances	*(iv)*	46,225,796	54,678,988	–
	Total		51,624,443	65,198,732	9,147,663

Notes:

(i) This represents purchases of raw materials and accessories for production and receipts in advance for sale of goods.

(ii) This represents rental and property management fee payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited. The balance has been settled on 30 April 2006.

(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 31 December 2004, taking into account settlements of RMB9,678,988, has been capitalised upon the capitalisation issue pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005.

31. Amounts due from a subsidiary

At 31 December 2005, these represent cash advances to EIGL. These amounts are unsecured, interest-free and repayable on demand.

32. 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, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(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. Normally, the Group does not obtain collateral for customers.

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 balance sheets.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The rates of interest and terms of repayment/conversion of the bank loans and convertible redeemable bonds of the Group are disclosed in notes 20 and 26 respectively.

(d) 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 the PBOC that would be subject to a managed float against an unspecified basket of currencies.

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 the PBOC with government approval.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than Renminbi. Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(e) Fair value

The carrying amounts of the significant financial assets and liabilities are not materially different from their fair values as at 31 December 2003, 2004 and 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 are not materially different from their fair values because of the short maturities of these items.

(ii) Bank loans

The carrying amounts of bank loans are not materially different from their fair values based on the borrowing rates currently available for bank loans with similar terms and maturities.

33. 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. 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 provision of integrated business solutions, from the design and manufacture of gas equipment system to on-site installation.

33. Segment reporting *(continued)*

	Year ended 31 December 2003					Year ended 31 December 2004				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated
	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 for the year					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		

33. Segment reporting *(continued)*

	Year ended 31 December 2005				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Revenue from external customers	119,301,227	262,933,736	132,894,189	(2,115,262)	513,013,890
Segment result	14,821,172	37,242,183	32,035,373	(551,118)	83,547,610
Unallocated operating income and expenses					(5,145,864)
Profit from operations					78,401,746
Finance costs					(7,813,959)
Taxation					(1,882,093)
Profit for the year					68,705,694
Depreciation and amortisation for the year	3,489,803	5,674,755	2,157,667		
Segment assets	215,233,160	197,995,962	102,718,061	(70,935,728)	445,011,455
Unallocated assets					277,945,959
Total assets					722,957,414
Segment liabilities	146,832,681	132,119,347	47,266,086	(70,384,610)	255,833,504
Unallocated liabilities					61,865,860
Total liabilities					317,699,364
Capital expenditure incurred during the year	7,521,470	10,686,582	3,590,504		

34. Parent and ultimate holding company

At 31 December 2005, the directors consider the parent of the Company to be XGII, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

At 31 December 2005, the directors consider the ultimate controlling party of the Company to be Mr. Wang and Ms. Zhao Baoju, the spouse of Mr. Wang.

35. Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 23 and 32 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments respectively.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	1 January 2006
– HKAS 27, Consolidated and separate financial statements	1 January 2006
– HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group believes that the adoption of HKFRS 6, HK(IFRIC) 4, HK(IFRIC) 5, HK(IFRIC) 6 and the amendments to HKAS 19 are not applicable to any of the Group's operations and that the adoption of the rest of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

D. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31 December 2005:

1. Proposed share option scheme

On 23 June 2006, the directors of the Company passed a resolution to put forth to the Company's shareholders for approving the adoption of the Proposed Share Option Scheme, upon adoption of which the Pre-GEM Listing share option scheme adopted by the then shareholder of the Company on 26 September 2005 will be terminated. The principal terms of the Proposed Share Option Scheme are set out in Appendix VI to the Introduction Document.

2. Valuation of properties

For the purpose of the listing by way of introduction of the Company's shares on the Main Board of the Stock Exchange, the properties of the Group were revalued as at 31 March 2006 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 RMB29.5 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 RMB1.6 million per annum. Details of the valuation are set out in the professional valuers' certificate in Appendix IV to the Introduction Document.

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 31 December 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 the Prospectus, received from Xinao Shijiazhuang's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, which is reproduced, for incorporation in this listing document.

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

	Section B	Year ended 31 December 2003	Three months ended 31 March 2003 (Unaudited)	Three months ended 31 March 2004
	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

	Section B Note	The Xinao Shijiazhuang Group At 31 December 2003 RMB	The Xinao Shijiazhuang Group At 31 March 2004 RMB	Xinao Shijiazhuang At 31 December 2003 RMB	Xinao Shijiazhuang At 31 March 2004 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 2003	Three months ended 31 March 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**	**2004**
		(Unaudited)	
	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*	Three months ended 31 March 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	**Three months ended 31 March 2004**
	RMB	*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	**At 31 March 2004**
	RMB	*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	**Net unrealised gain on investment in Enric Gas Equipment carried at fair value**	**Total**
	RMB	*RMB*	*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	Retained profits/ (accumulated losses)	Total
	RMB	*RMB*	*RMB*
	Note (i)		
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	Retained profits/ (accumulated losses)	Total
	RMB	*RMB*	*RMB*
	Note (i)		
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 2003 RMB	Three months ended 31 March 2003 RMB (Unaudited)	2004 RMB
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:

		Notes	The Xinao Shijiazhuang Group At 31 December 2003 RMB	At 31 March 2004 RMB	Xinao Shijiazhuang At 31 December 2003 RMB	At 31 March 2004 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

Extracted from First Quarterly Report 2006 published by the Company

Unaudited Condensed Consolidated Income Statement
For the three months ended 31 March 2006

		For the three months ended 31 March	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
		(unaudited)	(unaudited)
Turnover	2	128,313	83,127
Cost of sales		(89,019)	(57,631)
Gross profit		39,294	25,496
Other revenue		1,167	436
Selling expenses		(5,579)	(4,050)
Administrative expenses		(15,995)	(8,328)
Other net expenses		(260)	–
Profit from operations		18,627	13,554
Finance costs		(2,032)	(2,102)
Profit before taxation		16,595	11,452
Income tax	3	(1,179)	(664)
Profit for the period and attributable to equity shareholders of the Company		15,416	10,788
Earnings per share	4		
– Basic		RMB 0.035	RMB 0.042
– Diluted		RMB 0.034	N/A

Notes:

1. Reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 28 September 2004 as an exempted company with limited liability under the Companies Law (Revised), Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries completed on 26 September 2005 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on GEM on 18 October 2005 (the "Listing Date").

The unaudited consolidated results of the Group for the three months ended 31 March 2006 comprise the results of the Company and its subsidiaries for the three months then ended.

The Group is regarded as a continuing entity resulting from the Reorganisation and therefore the unaudited consolidated results for the three months ended 31 March 2005 have been prepared on the basis that the Company was the holding company of the Group for the corresponding period presented rather than from 26 September 2005. Accordingly, the unaudited consolidated results of the Group for the three months ended 31 March 2005 include the results of the Company and its subsidiaries with effect from 1 January 2005 or where their respective dates of incorporation/establishment are at a date later than 1 January 2005, from the respective dates of incorporation/establishment, as if the current group structure had been in existence throughout the three months ended 31 March 2005. In the opinion of the Directors, the unaudited consolidated results prepared on this basis present fairly the results of operations of the Group as a whole.

The Group's unaudited consolidated results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"). The measurement basis used in the preparation of the unaudited consolidated results is the historical cost basis.

2. Turnover and segment information

The Group is principally engaged in the provision of integrated business solutions in the gas energy industry and the design, manufacture and sale of specialised gas equipment. 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.

	For the three months ended 31 March	
	2006	**2005**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of pressure vessels	83,396	47,696
Sales of compressors	23,567	26,579
Provision of integrated business solutions	21,350	8,852
	128,313	83,127

3. Taxation

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the three months ended on 31 March 2006 (2005: Nil).

Profits of the Company's subsidiaries in the People's Republic of China (the "PRC") are subject to PRC income taxes.

The statutory state income tax rates applicable to the Company's subsidiaries in the PRC range from 15% to 30%. Pursuant to the relevant laws and regulations in the PRC, the Company's certain subsidiaries in the PRC, being foreign-invested enterprises of manufacturing nature, are entitled to exemption from PRC state income tax for the first two years commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, and thereafter will be entitled to a 50% reduction in state income tax rate for the following three years. During the three months ended 31 March 2006, these subsidiaries in the PRC were enjoying the tax relief period and were subject to state income tax ranging from 0% to 15% (2005: 0% to 15%).

The statutory local income tax rate applicable to the Company's subsidiaries in the PRC is 3%. Pursuant to the relevant laws and regulations in the PRC, the Company's certain subsidiaries in the PRC, being foreign-invested enterprises, are fully exempted from local income taxes while a subsidiary in the PRC is entitled to full exemption from the PRC local income tax for the first five years commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, and thereafter will be entitled to a 50% reduction in local income tax rate for the following five years. During the three months ended 31 March 2006, the Company's subsidiaries in the PRC were subject to local income tax rate of 0% (2005: 0%).

4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the profit attributable to ordinary equity shareholders of the Company of RMB15,416,000 and the weighted average number of ordinary shares of 445,200,000 of the Company outstanding during the three months ended 31 March 2006.

The calculation of basic earnings per share for the three months ended 31 March 2005 was based on the profit attributable to ordinary equity shareholders of the Company of RMB10,788,000 and on the ordinary shares of 260,160,000 of the Company in issue and issuable as at the date of the prospectus (10 October 2005), as if these shares were outstanding throughout the three months ended 31 March 2005.

The calculation of diluted earnings per share for the three months ended 31 March 2006 is based on the profit attributable to ordinary equity shareholders of the Company of RMB15,416,000 and the weighted average number of ordinary shares of 453,174,921, calculated as follows:

	For the three months ended 31 March	
	2006	**2005**
Weighted average number of ordinary shares used in calculating basic earnings per share	445,200,000	260,160,000
Effect of dilutive potential ordinary shares: Share options	7,974,921	
Weighted average number of ordinary shares used in calculating diluted earnings per share	453,174,921	

There were no dilutive potential ordinary shares in issue during the three months ended 31 March 2005.

5. Reserves

	Share premium *RMB'000*	Contributed surplus *RMB'000*	Capital reserve *RMB'000*	General reserve fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 January 2005 (audited)	–	–	–	2,478	51,284	53,762
Share premium	15,709	–	–	–	–	15,709
Profit for the period	–	–	–	–	10,788	10,788
As at 31 March 2005 (unaudited)	15,709	–	–	2,478	62,072	80,259
As at 1 January 2006 (audited)	260,620	15,710	1,831	9,844	112,623	400,628
Equity-settled share-based transactions	–	–	2,197	–	–	2,197
Profit for the period	–	–	–	–	15,416	15,416
As at 31 March 2006 (unaudited)	260,620	15,710	4,028	9,844	128,039	418,241

6. Dividend

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

The Directors do not recommend the payment of any dividend for the three months ended 31 March 2006 (2005: Nil).

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 March 2006 of the property interests of the Group.

Sallmanns 西門

Corporate valuation and consultancy
www.sallmanns.com

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188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

27 June 2006

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 March 2006 (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 to 6 in 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 in 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 deduction 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.

We have attributed no commercial value to the property interests in Group II and Group 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 5 and Practice Note 12 to the Rules Governing the Listing of Securities 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 given 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, Real Estate Title 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 Company'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 summarized 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 23 years' experience in the valuation of properties in the PRC and 26 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 March 2006 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2006 *RMB*
1.	Land, various buildings and ancillary structures located at Gaoji Da Street Zhaolingpu Village Xinhua District Shijiazhuang City Hebei Province The PRC	54,229,000	100%	54,229,000
2.	Land, various buildings and ancillary structures No. 187 Yanshan Road Bengbu City Anhui Province The PRC	44,736,000	100%	44,736,000
3.	Unit 1 of Block 1 Hongyang Xiao Qu Tushan Road Bengbu City Anhui Province The PRC	No commercial value	100%	No commercial value
4.	Unit 302, Entrance 1 Block 29 and Units 601 and 602, Entrance 1, Block 22 No. 420 Tushan Road Bengbu City Anhui Province The PRC	730,000	100%	730,000

No.	Property	Capital value in existing state as at 31 March 2006 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2006 *RMB*
5.	Unit 1-2-6 of Block 802; units 2-1-11, 1-5-13 and 1-5-15 of Block 416 and unit 3-5-14 of Block 415 located at Zhanggongshan Xin Village Yuhui District Bengbu City Anhui Province The PRC	No commercial value	100%	No commercial value
6.	Units 1-5-17 of Block 1 and 1-1-2 of Block 3 located at Tushan Road Bengbu City Anhui Province The PRC	No commercial value	100%	No commercial value
	Sub-total:	99,695,000		99,695,000

Group II – Property interests rented and occupied by the Group in the PRC

7.	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
8.	Room 310 of an office building No. 166 North Xinshi Road Shijiazhuang City Hebei Province The PRC	No commercial value
9.	17 units on Level 1 of a composite building No. 639 Huaihe Road Bengbu City Anhui Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 March 2006 *RMB*
10.	4 office units No. 46 Shandongpu Road Shenyang City Liaoning Province The PRC	No commercial value
11.	Unit 509 of Yuanjing Building No. 899 Sanyuanli Road Guangzhou City Guangdong Province The PRC	No commercial value
12.	Unit B on Level 3 No. 94 Xiaguniuzhou San Cun Qingnian Road Wuhan City Hubei Province The PRC	No commercial value
13.	Unit 2-2 of Entrance 5 of Block B Huayu Building Chenjiaping Road Chongqing The PRC	No commercial value
14.	Unit 1204 of Block 5 831 Nong North Zhongshan Road Shanghai The PRC	No commercial value
15.	Room 212 of a building No. 9 West Xingyuan Road Zhangjiadian District Zibo City Shandong Province The PRC	No commercial value
16.	An office unit of an office building No. 7 Hetan North Road Urumqi City Xinjiang Uygur Autonomous Region The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 March 2006 *RMB*
17.	6 office units of an office building and a portion of an industrial building located at the junction of Huaxiang Road and Baihe Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	No commercial value
18.	An office unit No.31 Daqing Road Lianhu District Xi'an City Shaanxi Province The PRC	No commercial value
19.	Units 208 to 210, Area 1 of Block B No.12 Hongda North Road Econ-Tech Development Zone Beijing The PRC	No commercial value
	Sub-total:	Nil

Group III – Property interests rented and occupied by the Group in Hong Kong

20.	A portion of office units of Nos. 1 to 3 on the 31st Floor of Tower One Lippo Centre No. 89 Queensway Hong Kong	No commercial value
	Sub-total:	Nil
	Grand-total:	99,695,000

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *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 and office buildings. The major ancillary structures and facilities include sheds, water ponds, roads and gates. 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 use.	The property is currently occupied by the Group for production and ancillary office purposes.	54,229,000 (100% interest attributable to the Group: RMB54,229,000)

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.

   Pursuant to a joint venture agreement and related supplementary agreements, Xinao Group Shijiazhuang Chemical Machinery Company Limited (新奧集團石家莊化工機械股份有限公司) transferred its assets (including the land mentioned in note.1) and liabilities to Enric Gas Equipment as capital contribution on 31 March 2004. According to a valuation report - Shi Guo Xin (2003 gu) Zi Di No.014 (石國信(2003估)字第014號) issued by 石家莊國信土地評估事務所有限公司, the market value of the land use rights was revalued at approximately RMB22,491,500 as at 15 November 2003.

2. Enric Gas Equipment is a wholly foreign-owned subsidiary of the Company.

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 Certificates 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 Company's PRC legal advisers, which contains, amongst others, the following:

   (i) the land use rights of the property are legally obtained 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 March 2006 *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 47 buildings and various ancillary structures completed in various stages between 1962 and 2005. The buildings have a total gross floor area of approximately 50,866.36 sq.m. The buildings mainly include workshops, mess hall, bathroom, office buildings and a garage. The ancillary structures mainly comprise boundary fences, chimney and roads. 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 use. The property also includes 29 rooms with a total gross floor area of approximately 1,105.3 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.	The completed buildings are currently occupied by the Group for production and ancillary office purposes.	44,736,000 (100% interest attributable to the Group: RMB44,736,000)

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 and 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") for terms of 50 years expiring on 30 March 2052 and 18 January 2054 respectively for industrial use.

   Pursuant to 2 State-owned Land Use Rights Grant Contacts entered into between Enric Compressor and State-owned Land and Resources Bureau of Bengbu City, the land use rights of 2 parcels of land with a total site area of approximately 118,779.691 sq.m. are contracted to be granted to Enric Compressor for terms of 50 years for industrial use. The total land premium is RMB28,135,880.

2. Enric Compressor is a wholly foreign-owned subsidiary of the Company.

3. Pursuant to 44 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, 014429, 014431 to 014437 issued by Real Estate Administration Bureau of Bengbu City, the building ownership rights of 44 buildings with a total gross floor area of approximately 49,134.17 sq.m. are owned by Enric Compressor.

   Pursuant to Building Ownership Certificates – Fang Di Quan Beng Zi Di No. 014430 issued by Real Estate Administration Bureau of Bengbu City, a building with a gross floor area of approximately 329.45 sq.m. is owned by Enric Compressor. As advised by the Group, this building has been demolished and is excluded from our valuation.

4. Pursuant to 6 Building Ownership Certificates – Fang Di Quan Beng Zi Di No. 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 Group, 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 RMB906,000 assuming all relevant title ownership certificates had been obtained.

5. 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 1,732.19 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 RMB2,305,000 assuming all relevant title ownership certificates had been obtained.

   These three buildings include a portion of an industrial building extension with a gross floor area of approximately 1,617 sq.m., a sewage processing room with a gross floor area of approximately 55.19 sq.m. and a heat treatment office with a gross floor area of approximately 60 sq.m. As advised by the Group, the relevant title certificates of these buildings are under application.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, amongst others, 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 49,134.17 sq.m. are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group;

   (iii) Enric Compressor can legally own and occupy the units mentioned in note.4 and can only transfer the units to its staff; and

   (iv) 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 March 2006 *RMB*
3. Unit 1 of Block 1 Hongyang Xiao Qu Tushan Road Bengbu City Anhui Province The PRC	The property comprises a commercial unit on Level 1 of a 6-storey composite building completed in 1990. The property has a gross floor area of approximately 97.39 sq.m.	The property is currently occupied by the Group as office.	No commercial value

Notes:

1. Pursuant to a Real Estate Title Certificate – Fang Di Quan Beng Zi Zi Di Nos. 015226 (房地權蚌自字第015226號) issued by the Real Estate Administration Bureau of Bengbu City, the building ownership rights of a commercial unit with a 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 Company.

   As advised by the Company, the reason that there is no land title certificate for this unit is that this unit will be sold to the staff of the Group, which shall apply for the relevant land title certificate.

   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 RMB263,000 assuming all relevant title ownership certificates had been obtained.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) the Group legally owns the building ownership rights of the unit with a gross floor area of approximately 97.39 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 March 2006 *RMB*
4. Unit 302, Entrance 1, Block 29 and Units 601 and 602, Entrance 1, Block 22 No. 420 Tushan Road Bengbu City Anhui Province The PRC	The property comprises 3 residential units on Levels 3 and 6 of a 7-storey residential building completed in about 2004. The property has a total gross floor area of approximately 370.68 sq.m.	The property is currently occupied by the Group as staff quarters.	730,000 (100% interest attributable to the Group: RMB730,000)

Notes:

1. Pursuant to 3 Real Estate Title Certificates – Fang Di Quan Beng Zi Zi Di No. 020730, Nos. 021459 and 021609 (房地權蚌自字第020730號、021459號和021609號) dated 31 August 2005 issued by the Real Estate Administration Bureau of Bengbu City, the building ownership rights of the property with a total gross floor area of approximately 370.68 sq.m. is owned by Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly foreign-owned subsidiary of the Company.

2. Pursuant to 3 Purchase Agreements dated 6 January 2004 and 24 December 2005, Enric Compressor acquired the property at a consideration of RMB641,746.

3. As advised by the Group, the individual apportioned land use rights certificates are under application. According to an opinion from the PRC legal adviser, there is no material legal impediment to obtain individual apportioned land use rights certificates.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, amongst others, 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

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
5. Unit 1-2-6 of Block 802; units 2-1-11 1-5-13 and 1-5-15 of Block 416 and unit 3-5-14 of Block 415 located at Zhanggongshan Xin Village Yuhui District Bengbu City Anhui Province The PRC	The property comprises 5 residential units of three 5-storey residential buildings completed in about 1984. The property has 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 property with a total gross floor area of approximately 243 sq.m. is owned by Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly foreign-owned subsidiary of the Company.

   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 RMB267,000 assuming all relevant title ownership certificates had been obtained.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, amongst others, 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 March 2006 *RMB*
6. Units 1-5-17 of Block 1 and 1-1-2 of Block 3 located at Tushan Road Bengbu City Anhui Province The PRC	The property comprises 2 residential units of two 5-storey buildings completed in about 1982. The property has a total gross floor area of approximately 92.9 sq.m.	The property is currently occupied by the Group as staff quarters.	No commercial value

Notes:

1. Pursuant to 2 Real Estate Title Certificates - Fang Di Quan Beng Zi Zi Di Nos. 015229 and 015233 (房地權蚌自字第015229號及015233號) issued by the Real Estate Administration Bureau of Bengbu City, the property with a total gross floor area of approximately 92.9 sq.m. is owned by Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly foreign-owned subsidiary of the Company.

   As advised by the Company, the reason that there is no land title certificate for these units is that these 2 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 RMB123,000 assuming all relevant title ownership certificates had been obtained.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) the Group legally owns the building ownership rights of the 2 units with a total gross floor area of approximately 92.9 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

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 March 2006** *RMB*
7. 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 Xin'ao 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

Note:

1. Enric Gas Equipment is a wholly foreign-owned subsidiary of the Company.

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 on the legality of the lease agreements to the property by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) The Lessor has obtained the Building Ownership Certificate-Lang Fang Shi Fang Quan Zheng Lang Kai Zi Di No. G4177 (廊坊市房權證廊開字第G4177號) of the property and has the legal rights to lease the property. The Tenancy Agreement has been registered in the relevant government organization;

   (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 March 2006 *RMB*
8. 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 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
9. 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 has a total gross floor area of approximately 318 sq.m. Pursuant to a tenancy agreement dated 18 December 2004 and a renewal tenancy agreement dated 14 January 2006, the property is leased by Enric (Bengbu) Compressor Company Limited ("Enric Compressor") from an independent party (the "Lessor") for a term commencing from 15 January 2000 and expiring on 15 June 2006. The monthly rental is RMB28,333 exclusive of water, heat and electricity charges. The tenancy has been expired and Enric Compressor has already moved out from the property.	The property is occupied by the Group for office purposes as at the date of valuation.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
10. 4 office units No. 46 Shandongpu Road Shenyang City Liaoning Province The PRC	The property comprises 4 office units 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, a wholly foreign-owned subsidiary of the Company, 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
11. Unit 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 16 September 2005, the property is leased by Enric (Bengbu) Compressor Company Limited, a wholly foreign-owned subsidiary of the Company, from an independent party ("the Lessor") for a term of a year commencing from 29 September 2005 and expiring on 28 September 2006 at a monthly rental of RMB1,930 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
12. Unit 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, a wholly foreign-owned subsidiary of the Company, from an independent party ("the Lessor") for a term of a year commencing from 31 May 2005 and expiring on 31 May 2006 at an annual rental of RMB6,000 exclusive of water, heat and electricity charges and thereafter continue on monthly basis.	The property is currently occupied by the Group for office purposes.	No commercial value
13. Unit 2-2 of Entrance 5 of 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 23 February 2006, the property is leased by Enric (Bengbu) Compressor Company Limited, a wholly foreign-owned subsidiary of the Company, from an independent party ("the Lessor") for a term of 6 months commencing from 19 March 2006 and expiring on 18 September 2006 at a monthly rental of RMB1,600 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
14. Unit 1204 of Block 5 831 Nong North Zhongshan Road Shanghai The PRC	The property comprises an office unit on Level 12 of a 23-storey office building completed in about 1997. The property has a gross floor area of approximately 103.38 sq.m. According to a tenancy agreement dated 20 November 2005, the property is leased by Enric (Bengbu) Compressor Company Limited, a wholly foreign-owned subsidiary of the Company, from an independent party ("the Lessor") for a term of a year commencing from 1 December 2005 and expiring on 30 November 2006 at an annual rental of RMB36,000 exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office purposes.	No commercial value
15. 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, a wholly foreign owned subsidiary of the Company, 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

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
16. 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 3 December 2005, the property is leased by Enric (Bengbu) Compressor Company Limited, a wholly foreign-owned subsidiary of the Company, from an independent party (the "Lessor") for a term of a year commencing from 1 January 2006 and expiring on 31 December 2006 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

Note:

1. Among the property nos. 8 to 16, property no. 8 is leased from a connected party, the remaining properties are leased from various independent third parties.

2. For the property no. 8, no title certificates have been obtained and the relevant tenancy agreement has not been registered, the PRC legal advisers cannot confirm whether the Lessor has the rights to lease the property. However, the directors believe that this property is not material to the Group's operations because it would be easy to be replaced with comparable alternative property.

3. We have been provided with a legal opinion on the legality of the lease agreements to the property interests by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) For the property nos. 10, 13 to 16, the Lessors have obtained the relevant title certificates and have the legal rights to lease the properties; For the property nos. 9, 11 and 12, though they have not been obtained proper title certificates, the Lessors have the rights to lease their respective properties to the Group because the relevant tenancy agreement has been registered in the local government organization; and

   (ii) For the property nos. 9 to 16, the relevant tenancy agreements are valid, binding and enforceable; The Group has legal rights to use those properties in accordance with the relevant tenancy agreements and the existing uses of the properties are consistent with their prescribed uses.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
17. 6 office units of an office building and a portion of an industrial building located at the junction of Huaxiang Road and Baihe Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	The property comprises 6 office units on Levels 2 and 3 of a 4-storey office building and a portion of an industrial building both completed in about 2005. The property has a total gross floor area of approximately 2,815.27 sq.m. Pursuant to a tenancy agreement dated 28 February 2006, the property is leased by Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration") from Langfang Xin'ao Gas Equipment Company Limited (the "Lessor"), a connected party of the Company, for a term of 2 years commencing from 1 March 2006 and expiring on 29 February 2008 at a monthly rental of RMB38,850.73, inclusive of management fee and exclusive of water, heat and electricity charges.	The property is currently occupied by the Group for office and production purposes.	No commercial value

Note:

1. Enric Integration is a wholly foreign-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the legality of the lease agreement to the property by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) According to a confirmation letter issued by the Land and Building Administration Bureau of Lang Fang City Econ-Tech Development Zone, the Lessor has the legal rights to lease the property;

   (ii) According to the relevant PRC laws and regulations, no registration will not cause the invalidity of tenancy agreement. Thus, the tenancy agreement is valid, binding and enforceable; and

   (iii) The Group has legal rights to use the property in accordance with the relevant tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
18. An office unit No.31 Daqing Road Lianhu District 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 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 7 December 2005 and expiring on 6 December 2006 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

Note:

1. Enric Compressor is a wholly foreign-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the legality of the lease agreement to the property by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) The Lessor has obtained the relevant title certificate of the property and has the legal rights to lease the property;

   (ii) The Tenancy Agreement has been registered in the relevant government organization and the Tenancy Agreement is valid, binding and enforceable under the PRC laws; and

   (iii) The Group has legal rights to use property in accordance with the relevant tenancy agreement and the existing uses of the property is consistent with its prescribed use.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 *RMB*
19. Units 208 to 210, Area 1 of Block B No.12 Hongda North Road Econ-Tech Development Zone Beijing The PRC	The property comprises 3 office units on Level 2 of a 4-storey office building completed in about 2001. The property has a total gross floor area of approximately 503.6 sq.m. According to a tenancy agreement dated 1 March 2006, the property is leased by Beijing Enric Energy Technologies Limited ("Beijing Enric") from an independent party ("the Lessor") for a term of a year commencing from 1 March 2006 and expiring on 28 February 2007 at an annual rental of RMB294,102.40 inclusive management fee and air-conditioning charges.	The property is currently occupied by the Group for office purposes.	No commercial value

Note:

1. Beijing Enric is a wholly foreign-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the legality of the lease agreement to the property by the Company's PRC legal advisers, which contains, amongst others, the following:

   (i) According to a confirmation letter issued by the State-owned Resource and Building Administration Bureau of Beijing Econ-Tech Development Zone, the Lessor has obtained the building ownership of the property and has the legal rights to lease the property;

   (ii) According to the relevant PRC laws and regulations, no registration will not cause the invalidity of tenancy agreement. Thus, the tenancy agreement is valid, binding and enforceable; and

   (iii) The Group has legal rights to use property in accordance with the relevant tenancy agreement.

VALUATION CERTIFICATE

Group III – Property interests rented and occupied by the Group in Hong Kong

Property	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 31 March 2006** *RMB*
20. A portion of office units of Nos. 1 to 3 on the 31st Floor of 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 Xin'ao 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 Company.

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 which were last amended at the annual general meeting of the Company held on 23 May 2006 is available for inspection at the address and in the manner as specified in the section headed “Documents available for inspection” in Appendix VII to this document and includes provisions to the following effect:

(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 or as an addition to the existing board. Any Director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the existing Board) and shall then be eligible for re-election at the general meeting. 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 ordinary 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 VII to this document. 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.

I. FURTHER INFORMATION ABOUT THE COMPANY

1. 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 sole 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 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 V to this document.

2. Changes in share capital of the Company

As at the date of incorporation, the authorised share capital of the Company was HK$390,000 divided into 39,000,000 Shares of HK$0.01 each and the following changes in the issued share capital of the Company have taken place since the date of incorporation of the Company:

(i) On 12 October 2004, one subscriber's share of HK$0.01 in the Company which was allotted and issued for cash at par to the initial subscriber was transferred to XGII;

(ii) 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;

(iii) On 26 September 2005, pursuant to the deed for sale and purchase of the entire issued share capital of EIGL referred to in the section headed "Summary of material contracts" in this Appendix, XGII and Symbiospartners transferred 90 shares and 10 shares respectively in EIGL to the Company in consideration for which the Company allotted and issued 791 Shares and 88 Shares, credited as fully paid, to XGII and Symbiospartners respectively. Immediately following the transfer, allotment and issue above, the Company became owned as to 90% by XGII and 10% by Symbiospartners;

(iv) On 18 October 2005, the Company allotted and issued:–

(a) a total of 120,000,000 Shares at HK$1.50 per Share under the Placing;

(b) a total of 51,840,000 Shares to Investec pursuant to the conversion of the Redeemable Convertible Bonds into Shares in full by Investec pursuant to the Convertible Bond Subscription Agreement; and

(c) 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, pursuant to the capitalisation of 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;

(v) On 31 October 2005, the Company allotted and issued a total of 13,200,000 Shares at HK$1.50 per Share upon exercise of an over-allotment option by the underwriters under the Placing.

As at the Latest Practicable Date, the authorised share capital of the Company was HK$100,000,000 divided to 10,000,000,000 Shares of HK$0.01 each and the issued share capital of the Company was HK$4,452,000 divided into 445,200,000 Shares fully paid or credited as fully paid, with 9,554,800,000 Shares remaining unissued.

Other than the Shares to be issued pursuant to the exercise of any options which have been granted under the Pre-GEM Listing Share Option Plan or which may be granted under the Proposed Share Option Scheme, or pursuant to the exercise of power under the general mandate to issue Shares, the Company has 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 herein, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Changes in the share capital of subsidiaries of the Company

The Company's principal subsidiaries are referred to in the accountants' report for the Company, the text of which is set out in Appendix I to this document.

The following alterations in the share capital/registered capital of the subsidiaries of the Company have taken place within the two years preceding the date of this document:

(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 was established as a wholly foreign owned enterprise with limited liability in the PRC with a registered capital of HK$10,000,000, and is 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.

(5) On 20 September 2005, the Management Committee of Langfang Economic and Technical Development Zone (廊坊經濟技術開發區管理委員會) approved the increase in registered capital of Enric Integration from HK$10,000,000 to HK$50,000,000. On 21 September 2005, the People's Government of Hebei Province (河北省人民政府) issued a certificate of approval and the Langfang Administration for Industry and Commerce (廊坊市工商行政管理局) issued a new business license.

(6) On 12 December 2005, the Management Committee of Shijiazhuang High Technology Industry Development Zone (石家庄高新區管理委員會) approved the increase in the registered capital of Enric Gas Equipment from US$2,450,000 to US$7,000,000. The Shijiazhuang Administration for Industry and Commerce (石家庄工商行政管理局) issued a new business license on 16 January 2006.

(7) On 16 December 2005, Beijing Enric was established as a wholly foreign owned enterprise with limited liability in the PRC with a registered capital of HK$40,000,000 and is wholly owned by Langfang BVI. There is no alteration in its registered capital up to the Latest Practicable Date.

Save as aforesaid, there has been no alteration in the share capital/registered capital of the subsidiaries of the Company within the two years preceding the date of this document.

4. Information on the PRC entities within the Group

(1)	Name	:	Enric Gas Equipment
	Nature	:	Wholly foreign owned enterprise
	Legal representative	:	Mr. Liu Zhi'ang
	Term	:	50 years (from 30 September 2003 to 30 September 2053)
	Registered capital	:	US$7,000,000
	Beneficial shareholder	:	Shijiazhuang BVI
	Interest attributable to the Group	:	100%
	Number of directors	:	5
(2)	Name	:	Enric Compressor
	Nature	:	Wholly foreign owned enterprise
	Legal representative	:	Mr. Wang
	Term	:	50 years (from 14 March 2002 to 14 March 2052)
	Registered capital	:	HK$21,320,000
	Beneficial shareholder	:	Anhui BVI
	Interest attributable to the Group	:	100%
	Number of directors	:	5
(3)	Name	:	Enric Integration
	Nature	:	Wholly foreign owned enterprise
	Legal representative	:	Mr. Wang
	Term	:	30 years (from 28 December 2004 to 27 December 2034)
	Registered capital	:	HK$50,000,000
	Beneficial shareholder	:	Langfang BVI
	Interest attributable to the Group	:	100%
	Number of directors	:	3
(4)	Name	:	Beijing Enric
	Nature	:	Wholly foreign owned enterprise
	Legal representative	:	Mr. Jin Yongsheng
	Term	:	30 years (from 16 December 2005 to 15 December 2035)
	Registered capital	:	HK$40,000,000
	Beneficial shareholder	:	Langfang BVI
	Interest attributable to the Group	:	100%
	Number of directors	:	3

The registered capitals of the subsidiaries above had been fully and timely paid up.

5. Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this document concerning the repurchase by the Company of its own securities.

(i) The share issue and share repurchase mandates

At the Company's annual general meeting held on 23 May 2006, the Directors were granted general unconditional mandates to:

(a) allot, issue and deal with Shares with an aggregate nominal value not exceeding 20% of the total nominal value of the share capital of the Company in issue as at the date of passing of the relevant resolution on 23 May 2006 pursuant to the GEM Listing Rules or the Main Board Listing Rules;

(b) repurchase on GEM or on the Main Board such number of Shares with an aggregate nominal value not exceeding 10% of the total nominal value of the share capital of the Company in issue as at the date of passing of the relevant resolution on 23 May 2006 subject to and in accordance with all applicable laws and/or the requirement of the GEM Listing Rules or the Main Board Listing Rules (the "Share Repurchase Mandate"); and

(c) extend the general mandate granted to the Directors to allot, issue and deal with additional Shares as mentioned in paragraph (a) above by the amount representing the total nominal value of the share capital of the Company repurchased by the Company under the general mandate granted to the Directors as mentioned in paragraph (b) above provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of the Company in issue as at the date of passing of the relevant resolution on 23 May 2006.

The above general mandates do not apply to situations where the Directors allot, issue or deal with Shares under (i) a rights issue; (ii) an issue of Shares upon the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time; (iii) an issue of Shares upon the exercise of options which may be granted under any option schemes or similar arrangement for the time being adopted for the grant or issue to officers, employees and/or directors of the Company and/or its subsidiaries of Shares or rights to acquire Shares; (iv) any scrip dividend schemes or similar arrangement 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 (v) a specific authority granted by the shareholders of the Company in general meeting.

These general mandates will expire:

(a) at the conclusion of the next annual general meeting of the Company;

(b) at the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or

(c) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

(ii) Regulations of the Main Board Listing Rules

The Main Board 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.

(b) Source of funds

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum and articles of association of the company 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 Main Board 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 Main Board Listing Rules) and (ii) the deadline for the company to publish an announcement of its results for any year or half-year under the Main Board Listing Rules, or quarterly or any other interim period (whether or not required under the Main Board Listing Rules), and ending on the date of the results announcement, 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 Main Board 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 Main Board Listing Rules) and a connected person shall not knowingly sell securities in the company to the company on the Stock Exchange.

(iii) Exercise of the Share Repurchase Mandate

On the basis of 445,200,000 Shares in issue as at 23 May 2006, being the date of the passing of the resolution, the exercise in full of the Share Repurchase Mandate could accordingly result in up to 44,520,000 Shares being repurchased by the Company during the period until (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held; or (iii) the revocation, variation or renewal of the Share Repurchase Mandate by ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(iv) Reasons for repurchases

The Directors believe that the Share Repurchase Mandate is in the best interests of the Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share and will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders.

(v) Funding of repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the 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.

(vi) 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 document) 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 an 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 in accordance with the Main Board Listing Rules, the applicable laws and regulations of the Cayman Islands, the Memorandum and the Articles.

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.

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 approved by the Shareholders and becomes effective.

No repurchases of Shares have been made by the Company in the six months preceding the Latest Practicable Date, whether on the Stock Exchange or otherwise.

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 which would arise under the Code as a result of any repurchases of Shares pursuant to the Share Repurchase Mandate.

6. Share prices

The highest and lowest prices at which the Shares have been traded on GEM during each of the previous twelve months before the Latest Practicable Date were as follows:

	Share price	
	Highest	**Lowest**
	HK$	*HK$*
October 2005 *(Note)*	2.075	1.700
November 2005	2.925	1.790
December 2005	2.900	2.500
January 2006	3.100	2.400
February 2006	3.875	3.000
March 2006	5.200	3.400
April 2006	5.500	4.550
May 2006	5.100	4.400
As at the Latest Practicable Date	4.200	4.000

Note: Trading of the Shares on GEM commenced on 18 October 2005.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. 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 document and are or may be material:

(1) 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.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) a tenancy agreement dated 30 September 2004 entered into between Enric Gas Equipment as tenant and Xinao Group Solar Energy Company Limited* (新奧集團太陽能有限公司) as landlord whereby Enric Gas Equipment has rented from Xinao Group 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.

(7) 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 (6) above to Enric Gas Equipment for a term of three years commencing on 1 October 2004 at a consideration of RMB180,000 per year.

(8) 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.

(9) 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.

(10) a share subscription agreement dated 21 January 2005 entered into between Symbiospartners as subscriber, EIGL and XGII as warrantor whereby EIGL agreed to allot and issue to Symbiospartners 10 shares in EIGL representing 10% of the enlarged issued share capital of EIGL at a total subscription price of US$1,900,000.

(11) 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 together with certain furniture at a rent of HK$455,544 per annum for a term of three years commencing on 1 February 2005 for office purpose.

(12) 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.

(13) 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.

(14) 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.

(15) 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.

(16) 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. (1), (2) and (3) 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. (12), (13) and (14) respectively in this section).

(17) 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. (4) 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. (8) in this section).

(18) 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. (5) 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. (9) in this section).

(19) 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 GEM 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.

(20) a deed of non-competition undertaking dated 26 September 2005 (the "GEM Non-competition Undertaking") given by XGII, Mr. Wang and Ms. Zhao (collectively, the "Covenantors") in favour of the Company (for itself and as trustee of its subsidiaries) whereby each of the Covenantors has irrevocably given, in favour of the Company, certain non-competition undertakings which undertaking will terminate on the date on which the Shares cease to be listed on GEM.

(21) 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.

(22) a capitalisation agreement dated 26 September 2005 entered into between the Company and XGII whereby the Company allotted and issued 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.

(23) 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), pursuant to 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.

(24) an underwriting and placing agreement dated 10 October 2005 entered into between, amongst other parties, the Company, China Everbright Securities (HK) Limited, the then executive Directors, Mr. Wang, Ms. Zhao, XGII and the underwriters named therein in relation to the Placing.

(25) a registrar and transfer agent agreement dated 17 October 2005 entered into between Butterfield Fund Services (Cayman) Limited and the Company.

(26) a branch registrar agreement dated 18 October 2005 entered into between Computershare Hong Kong Investor Services Limited and the Company.

(27) a tenancy agreement dated 28 February 2006 entered into between Enric Integration as tenant and Langfang Xinao Gas Equipment Company Limited* (廊坊新奥燃氣設備有限公司) as landlord whereby Enric Integration has rented from Langfang Xinao Gas Equipment Company Limited two floors of an office building and a workshop in a premises located in the Langfang Economic and Technical Development Zone in the PRC at a rent of approximately RMB466,209 per annum for a term of two years commencing on 1 March 2006.

(28) a deed of non-competition undertaking dated 23 June 2006 given by XGII, Mr. Wang and Ms. Zhao (collectively the "Covenantors") in favour of the Company (for itself and as trustee for its subsidiaries) whereby each of the Covenantors has irrevocably given certain non-competition undertakings in favour of the Company on terms similar to that of the GEM Non-competition Undertaking.

2. Intellectual property rights

(i) Trademarks

(a) As at the Latest Practicable Date, the Group had registered the following trademark 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 Group had registered the following trademark in the Hong Kong:

Name of registered owner	Trademark	Class	Registration no.	Valid period
The Company	Enric	6, 7	300495694	15 September 2005- 14 September 2015

(c) 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	Trademark	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

	Name of registered owner	Trademark	Class	Registration no.	Valid period
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

(d) As at the Latest Practicable Date, the Group had applied for registration of the following trademarks:

	Name of applicant	Trademark	Class	Place of application	Application date
1.	Enric Integration	Enric 安瑞科	2-5, 13-45	PRC	4 July 2005
2	Enric Integration	Enric	2-5, 13-45	PRC	4 July 2005
3	Enric Integration	安瑞科	2-5, 13-45	PRC	4 July 2005

(ii) Patents

(a) As at the Latest Practicable Date, the ownership of the following patents registered in the PRC 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	12 July 2002-11 July 2012
2.	Gas storage cylinder group for use at gas refueling stations 加氣站用儲氣瓶組	ZL.02.2.41724.9	12 July 2002-11 July 2012
3.	Containers for seamless pressure gas cylinders 高壓氣體瓶式壓力容器集裝箱	ZL.02.2.41725.7	12 July 2002-11 July 2012

As at the Latest Practicable Date, Enric Gas Equipment and Enric Integration had 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 patent of the relevant technologies in the United States and in the PRC respectively.

Patent	Place of registration	Patent no.	Valid Period
Compressed Natural Gas Dispensing System	PRC	ZL 02803740.5	15 March 2002-14 March 2022
壓縮天然氣分配系統	United States	US 6,439,278 B1	16 March 2001-15 March 2021

(b) As at the Latest Practicable Date, the Group had applied to the State Intellectual Property Office of the PRC for registration of the following patents:

	Name of Applicant	Patent	Patent no.	Application date
1	Enric Compressor	Double Disc Cooler 雙盤管式冷卻器	200520126866.3	31 December 2005
2	Enric Compressor	Oil Flow Sensor with Sliding Valve 滑閥式油量脈沖傳感器	200520126867.8	31 December 2005
3	Enric Compressor	Internal Air-Cooling Gas Compressor 內冷式風冷氣體壓縮機	200520126868.2	31 December 2005
4	Enric Compressor	Composite Seamless Pressure Air-Cooling Cooler 組合式高壓風冷冷卻器	200520126869.7	31 December 2005
5	Enric Integration	Hydraulic Natural Gas Vehicles Daughter Refueling System 液壓式天然氣汽車加氣子站系統	200520133308.X	18 November 2005

(iii) 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

Save as disclosed above, there are no other trademarks, patents, domain names or other intellectual property rights which are material in relation to the Group's business.

III. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

1. Directors' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would 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 under such provisions), or which would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which would be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Main Board Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Directors' interests in the Shares

	Number of Shares						
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Interest in underlying Shares pursuant to share options	Total	Approximate percentage of shareholding
Mr. Wang	–	–	234,144,000 *(Note 1)*	–	4,000,000	238,144,000	53.5%
Ms. Zhao	–	4,000,000 *(Note 2)*	234,144,000 *(Note 1)*	–	–	238,144,000	53.5%
Mr. Jin Yongsheng	–	–	–	–	2,000,000	2,000,000	0.5%
Mr. Cai Hongqiu	–	–	–	–	1,400,000	1,400,000	0.3%
Mr. Yu Jianchao	–	–	–	–	1,000,000	1,000,000	0.2%
Mr. Zhao Xiaowen	–	–	–	–	1,000,000	1,000,000	0.2%
Mr. Zhou Kexing	–	–	–	–	1,000,000	1,000,000	0.2%

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) Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted to Mr. Wang under the Pre-GEM Listing Share Option Plan.

(ii) Directors' interests in share options granted by the Company

Pursuant to the Pre-GEM Listing Share Option Plan, certain Directors were granted options to subscribe for Shares. Details of the options granted to the Directors pursuant to the Pre-GEM Listing Share Option Plan which were outstanding as at the Latest Practicable Date were as follows:–

Name of Director	Date of grant	Exercise Period	Number of Shares subject to outstanding options as at the Latest Practicable Date	Subscription price per Share
				HK$
Mr. Wang	26/09/2005	18/04/2006-25/09/2015	4,000,000 *(Note)*	1.50
Ms. Zhao	26/09/2005	18/04/2006-25/09/2015	4,000,000 *(Note)*	1.50
Mr. Jin Yongsheng	26/09/2005	18/04/2006-25/09/2015	2,000,000	1.50
Mr. Cai Hongqiu	26/09/2005	18/04/2006-25/09/2015	1,400,000	1.50
Mr. Yu Jianchao	26/09/2005	18/04/2006-25/09/2015	1,000,000	1.50
Mr. Zhao Xiaowen	26/09/2005	18/04/2006-25/09/2015	1,000,000	1.50
Mr. Zhou Kexing	26/09/2005	18/04/2006-25/09/2015	1,000,000	1.50

Note: Ms Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

As at the Latest Practicable Date, no option had been granted under the GEM Share Option Scheme.

(iii) Directors' interests in the shares of associated corporations of the Company

		Number of shares					
Name of associated corporation of the Company	Name of Director	Personal interests	Family interests	Corporate interests	Interest in underlying shares pursuant to share options	Total	Percentage of shareholding
XGII	Mr. Wang	500	500	–	–	1,000	100%
XGII	Ms. Zhao	500	500	–	–	1,000	100%

Save as disclosed herein, as at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would 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), or would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or would be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Main Board Listing Rules to be notified to the Company and the Stock Exchange.

2. Particulars of service agreements

Each of Mr. Wang, Mr. Cai Hongqiu, Mr. Yu Jianchao, Mr. Zhao Xiaowen and Mr. Zhou Kexing, being executive Directors, has entered into a service agreement and a supplemental service agreement with the Company. Mr. Jin Yongsheng, who was appointed as an executive Director and the chief executive officer of the Company on 5 June 2006, 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) Other than the service agreement of Mr. Jin Yongsheng which commenced on 5 June 2006 and expires on 30 September 2008, each service agreement (as supplemented) is of an initial term of three years commencing on 1 October 2005. Under the service agreement (as supplemented), either party may terminate such agreement at any time by giving to the other not less than six months' prior written notice;

(b) the monthly salary for each of Mr. Wang, Mr. Jin Yongsheng, Mr. Cai Hongqiu, Mr. Yu Jianchao, Mr. Zhao Xiaowen and Mr. Zhou Kexing from the commencement of his appointment as executive Director during their term of appointment shall be HK$75,000, HK$50,000, HK$50,000, HK$25,000, approximately HK$33,000 and approximately HK$33,000 respectively;

(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, amongst others, the amount of annual salary and management bonus.

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).

3. 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 adopted by the Company from time to time, as part of their remuneration package.

(b) An aggregate of approximately RMB142,000 and RMB2,239,000 were paid to the Directors as remuneration for the two financial years ended 31 December 2004 and 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 the Accountants' Report of the Group set out in Appendix I to this document.

(c) The aggregate remuneration payable to the Directors from the Group (excluding any management bonus which may be paid) in respect of the financial year ending 31 December 2006 pursuant to the present arrangement so far as can be estimated as at the Latest Practicable Date will be not less than HK$3,190,000.

(d) No bonus has been paid to the Directors for each of the years ended 31 December 2003, 2004 and 2005 respectively.

(e) The Directors' emoluments during the Track Record Period are set out as follows:

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:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contri-butions	Discre-tionary bonuses	Share-based payments	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Executive Directors:						
Wang Yusuo	–	–	–	–	–	–
Jin Yongsheng	–	–	–	–	–	–
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 year ended 31 December 2005 are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contri-butions	Discre-tionary bonuses	Share-based payments	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Executive Directors:						
Wang Yusuo	–	234,000	–	–	530,704	764,704
Jin Yongsheng	–	–	–	–	–	–
Cai Hongqiu	–	264,956	–	–	185,746	450,702
Yu Jianchao	–	78,000	–	–	132,676	210,676
Zhao Xiaowen	–	171,543	7,029	–	132,676	311,248
Zhou Kexing	–	182,182	–	–	132,676	314,858
Non-executive Director:						
Zhao Baoju	15,600	–	–	–	–	15,600
Independent non-executive Directors:						
Gao Zhengping	57,200	–	–	–	–	57,200
Shou Binan	57,200	–	–	–	–	57,200
Wong Chun Ho	57,200	–	–	–	–	57,200
Total	187,200	930,681	7,029	–	1,114,478	2,239,388

The above emoluments include the value of share options granted to certain Directors under the Pre-GEM Listing Share Option Plan as estimated at the date of grant. The details of these benefits in kind are disclosed in note 23 of the Accountants' Report as set out in Appendix I to this document.

During the Track Record 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 Track Record Period.

(f) 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 years ended 31 December 2003, 2004 and 2005 (i) as inducement to join or upon joining the Group; or (ii) as compensation for loss of office.

(g) There has been no arrangement under which a Director has waived or agreed to waive any emoluments in each of the years ended 31 December 2003, 2004 and 2005.

(h) The non-executive Director and each of the independent non-executive Directors has been appointed for a term of three years, commencing on 18 October 2005 and on 7 February 2005 respectively and thereafter eligible for re-election. Save for a 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 an independent non-executive Director (as the case may be).

(i) Save as disclosed in Note 6 of Appendix I to this document, none of the Directors received any remuneration or benefits in kind from the Group for each of the three financial years ended 31 December 2005. Particulars of emoluments paid to the five persons who received the highest emoluments from the Group for each of the three financial years ended 31 December 2005 are set out in Note 7 to the accountants' report set out in Appendix I to this document.

4. 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 would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Main Board Listing Rules;

(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 document 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 document which is significant in relation to the business of the Group;

(d) 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);

(e) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this document 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 Introduction or related transaction as mentioned in this document; and

(f) so far as is known to the Directors, none of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

IV. INTERESTS OF SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors are aware, the persons or corporations (other than the Directors or chief executives of the Company as disclosed above) who had interests or short positions in the Shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in the Shares

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of the Company's total issued share capital
XGII	Beneficial owner	234,144,000	52.6%
INVESCO Hong Kong Limited	Investment manager	43,784,000	9.8%
Symbiospartners	Beneficial owner	26,016,000	5.8%
JPMorgan Chase & Co.	Custodian corporation/ interest in controlled corporation	25,280,000 (lending pool)	5.7%

Save as disclosed above, the Directors are not aware of any persons or corporations (other than Directors or chief executives of the Company) who, as at the Latest Practicable Date, had interests or short positions in the Shares or underlying shares in the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and was also, as practicable mater, able to direct or influence the management of the Company.

V. SHARE OPTION SCHEMES

1. Summary of the principal terms of the Proposed Share Option Scheme

The following is a summary of the principal terms of the rules of the Proposed Share Option Scheme proposed to be adopted at the Extraordinary General Meeting. The adoption of the Proposed Share Option Scheme is conditional on, amongst others, the Listing Committee granting approval of the listing of, and permission to deal in, the Shares on the Main Board.

(1) Purpose of the Proposed Share Option Scheme

The purpose of the Proposed 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 or substantial shareholders of the Company; (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 within the above categories, the Directors would mainly take into account of the experience of the Participant on the Group's business, the length of service of the Participant with the Group (if the Participant is an employee or a director of any member of the Group), the length of business relationship the Participant has established with the Group (if the Participant is an employee, a partner or a director of any consultant, professionals and other advisers to any member of the Group) and such other 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 Main Board 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 Main Board Listing Rules); and (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Main Board Listing Rules or quarterly or any other interim period (whether or not required under the Main Board Listing Rules), and ending on the date of a relevant results announcement, no Option may be granted.

(4) Acceptance of option offer

An Option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the Option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the granting thereof is received by the Company within 14 days from the date of the offer, and the Option to which the offer relates shall be deemed to have been granted on the offer date of such Option.

(5) Subscription price of Shares

Subject to any adjustments made pursuant to paragraph (12) below and pursuant to Rule 17.03(9) of the Main Board Listing Rules, the subscription price in respect of each Share issued pursuant to the exercise of the Options granted under the Proposed 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; 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 Proposed 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 issued share capital of the Company as at the date of passing of the relevant resolution approving the adoption of the Proposed Share Option Scheme (which, assuming that there is no change in the total issued share capital of the Company from the Latest Practicable Date to the date of passing of the relevant resolution approving the adoption of the Proposed Share Option Scheme, shall be 44,520,000 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 Proposed 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 Proposed 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 Proposed Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Proposed 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 Main Board 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 Main Board 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 Proposed Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Main Board Listing Rules) of the total number of Shares in issue from time to time. No options may be granted under the Proposed Share Option Scheme and any other share option schemes of the Company if this will result in such 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 Proposed 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 Proposed 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 Main Board Listing Rules.

(7) Requirements on granting Options to connected persons

Any grant of Options to a Participant who is a director, chief executive or substantial shareholder of the Company or any of their respective associates (including a discretionary trust whose discretionary objects include a director, chief executive or substantial shareholder of the Company or a company beneficially owned by any director, chief executive 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 Proposed 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 Main Board Listing Rules. All connected persons of the Company must abstain from voting in favour 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 Proposed 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 three 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, the personal representative(s) of the deceased 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 a capitalisation of profits or reserves, further rights issues of Shares, consolidation or sub-division of Shares, or reduction of the share capital of the Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to:

(a) the number of Shares, the subject matter of the Option (insofar as it is unexercised); and/or

(b) the price at which the Options are exercisable.

Any such adjustment shall be in compliance with the requirements of the Main Board Listing Rules and made on the basis that:

(i) the proportion of the issued share capital of the Company to which an Option-holder is entitled after such adjustment shall remain the same as that to which he was entitled before such adjustment; and

(ii) it will not enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of the Company for which any Option-holder would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments; and

(iii) the auditors or independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the note to Rule 17.03(13) of the Main Board Listing Rules, except where such adjustment is made on a capitalisation issue.

(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 Proposed 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 Proposed 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 established by any substantial shareholders of the Company or any employees, executive or non-executive directors of each member of the Group, 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 Proposed 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 Proposed Share Option Scheme

The Proposed Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Proposed Share Option Scheme is conditionally adopted by the Company, after which period no further Options will be issued but in all other respects the provisions of the Proposed 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 Proposed Share Option Scheme, and Options which are granted during the life of the Proposed Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(21) Alteration to the Proposed Share Option Scheme

The provisions of the Proposed Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions relating to matters contained in Rule 17.03 of the Main Board 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 Proposed 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 Proposed Share Option Scheme. Any changes to the authority of the Board or scheme administrators in relation to any alterations to the terms of the Proposed Share Option Scheme must be approved by the Shareholders in general meeting. The terms of the Proposed Share Option Scheme, as it may from time to time be amended, must comply with the relevant requirements of Chapter 17 of the Main Board Listing Rules, any letter and supplementary guidance issued by the Stock Exchange 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 Proposed Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Proposed Share Option Scheme shall remain in full force and effect.

Details of the Options granted, including Options exercised or outstanding, under the Proposed 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 Proposed Share Option Scheme.

(23) Conditions of the Proposed Share Option Scheme

The Proposed Share Option Scheme is conditional upon (a) the passing of an ordinary resolution by the Shareholders to approve (i) the termination of the GEM Share Option Scheme; and (ii) the adoption of the Proposed Share Option Scheme; (b) no objection having been received by the Company from the Listing Committee prior to the listing of the Shares on the Main Board in relation to the adoption of any of the terms of the Proposed Share Option Scheme; (c) the Listing Committee granting approval of the listing of, and permission to deal in, any Shares representing 10% of the total issued share capital of the Company as at the date of passing the relevant resolution approving the adoption of the Proposed Share Option Scheme (which, assuming that there is no change in the total issued share capital of the Company from the Latest Practicable Date to the date of passing of the relevant resolution approving the adoption of the Proposed Share Option Scheme, shall be 44,520,000 Shares) which may be issued pursuant to the exercise of Options granted under the Proposed Share Option Scheme; and (d) the commencement of dealings of the Shares on the Main Board.

2. Summary of the principal terms of the GEM Share Option Scheme

The following is a summary of the principal terms of the rules of the GEM Share Option Scheme which was approved by written resolution of the then sole Shareholder on 26 September 2005 and which is proposed to be terminated with effect from the date on which the terms of the Proposed Share Option Scheme become unconditional and effective. The Directors have confirmed that the Company will not grant any options under the GEM Share Option Scheme prior to its termination.

(1) Purpose of the GEM Share Option Scheme

The purpose of the GEM 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 under the GEM Share Option Scheme 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 GEM 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 GEM 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 GEM 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 GEM Listing Date (without taking into account any Shares which may be issued pursuant to the exercise of the over-allotment option), which is 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 GEM 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 GEM 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 GEM Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the GEM 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 GEM 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 GEM 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 GEM 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 GEM 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 GEM 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 GEM 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 GEM 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 GEM 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 GEM 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 GEM Share Option Scheme

The GEM Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the GEM 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 GEM 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 GEM Share Option Scheme, and options which are granted during the life of the GEM Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(21) Alteration to the GEM Share Option Scheme

The provisions of the GEM 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 GEM 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 GEM Share Option Scheme. Any changes to the authority of the Board or scheme administrators in relation to any alterations to the terms of the GEM Share Option Scheme must be approved by the Shareholders in general meeting. The terms of the GEM 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 GEM Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the GEM Share Option Scheme shall remain in full force and effect.

Details of the options granted, including options exercised or outstanding, under the GEM 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 GEM Share Option Scheme.

(23) Conditions of the GEM Share Option Scheme

The GEM Share Option Scheme was conditional upon (a) the passing of the necessary resolution to adopt the GEM Share Option Scheme by the Shareholder; (b) no objection having been received by the Company from the Listing Committee prior to the GEM Listing in relation to the adoption of any terms of the GEM Share Option Scheme; (c) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares on GEM which were in issue and to be issued pursuant to the Prospectus and the granting of the listing of, and permission to deal in, any Shares on GEM which may be issued pursuant to the exercise of options granted under the GEM Share Option Scheme; and (d) the obligations of the underwriters under the underwriting agreement as described in the section headed "Material Contracts" in this Appendix 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. The GEM Share Option Scheme became unconditional on the GEM Listing Date as a result of the satisfaction of the above conditions.

3. Summary of the principal terms of the Pre-GEM Listing Share Option Plan

The principal terms of the Pre-GEM Listing Share Option Plan, approved by written resolution of the then sole Shareholder passed on 26 September 2005 and which was terminated on the day immediately before the GEM Listing Date, are substantially the same as the terms of the GEM Share Option Scheme except that:

(a) the purpose of the Pre-GEM Listing 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 GEM Listing;

(b) the total number of Shares in respect of which options may be granted under the Pre-GEM Listing 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 of the Shares of HK$1.50 under the Placing; and

(d) the Pre-GEM Listing Share Option Plan is valid from 26 September 2005 until the day immediately prior to the GEM 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.

The outstanding options granted pursuant to the Pre-GEM Listing Share Option Plan, but not yet exercised will remain valid and exercisable in accordance with the terms of the Pre-GEM Listing Share Option Scheme.

VI. OUTSTANDING OPTIONS GRANTED UNDER THE PRE-GEM LISTING SHARE OPTION PLAN

As at the Latest Practicable Date, the Shares held in public hands represented approximately 47.4% of the total issued share capital of the Company, without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Pre-GEM Listing Share Option Plan. Assuming that all of the outstanding options granted under the Pre-GEM Listing Share Option Plan were exercised in full on the Latest Practicable Date, the shareholding interest of the public would be decreased from approximately 47.4% to approximately 46.7% of the total issued share capital of the Company, assuming that the total issued share capital of the Company remained unchanged as at the Latest Practicable Date other than pursuant to the exercise of the outstanding options granted under the Pre-GEM Listing Share Option Plan.

Under the Pre-GEM Listing Share Option Plan, options to subscribe for an aggregate of 13,800,000 Shares (including options to subscribe for an aggregate of 10,400,000 Shares granted to Mr. Wang, Mr. Jin Yongsheng, Mr. Cai Hongqiu, Mr. Yu Jianchao, Mr. Zhao Xiaowen and Mr. Zhou Kexing as disclosed above in the sub-section headed “1. Directors’ interests and short position in shares, underlying shares and debentures”) were granted and all of which remained outstanding as at the Latest Practicable Date.

Each grantee as named in the table below was granted an option carrying rights to subscribe for such number of Shares as set out against his name. Details of such outstanding options granted under the Pre-GEM Listing Share Option Plan as at the Latest Practicable Date were as follows:

Name of grantee	Date of grant	Address	Exercise period	Exercise price *(HK$)*	Number of Shares subject to the options	Approximate percentage of issued share capital of the Company
Directors						
Mr. Wang	26/9/2005	No.18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	4,000,000	0.898%
Mr. Jin Yongsheng	26/9/2005	No.1-502, Jin Cheng Lane Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	2,000,000	0.450%

Name of grantee	Date of grant	Address	Exercise period	Exercise price (*HK$*)	Number of Shares subject to the options	Approximate percentage of issued share capital of the Company
Mr. Cai Hongqiu	26/9/2005	903C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	1,400,000	0.314%
Mr. Yu Jianchao	26/9/2005	1503C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	1,000,000	0.225%
Mr. Zhao Xiaowen	26/9/2005	101, 2-3, Jinhua Lane Jinsanjiao District Yinhe Street Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	1,000,000	0.225%
Mr. Zhou Kexing	26/9/2005	603C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	1,000,000	0.225%
Senior management						
Mr. Cheong Siu Fai	26/9/2005	Flat D, 27th Floor, Block 2 Sunshine Grove Tak Yi Street, Shatin New Territories Hong Kong	18/04/2006 – 25/09/2015	1.50	700,000	0.157%

Name of grantee	Date of grant	Address	Exercise period	Exercise price (HK$)	Number of Shares subject to the options	Approximate percentage of issued share capital of the Company
Mr. Yang Weifeng	26/9/2005	2-1-503, Fenghe Xingyuen Xishi Dajie, Nankai District Tianjin City The PRC	18/04/2006 – 25/09/2015	1.50	600,000	0.135%
Mr. Ren Yingjian	26/9/2005	603C, Block 8 Kongzhong Garden Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	600,000	0.135%
Mr. Ren Zhiqing	26/9/2005	5-1-602, Jinhua Lane Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	500,000	0.112%
Mr. Tu Guangzong	26/9/2005	304D, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	18/04/2006 – 25/09/2015	1.50	500,000	0.112%
Employee						
Mr. Guo Wei	26/9/2005	1-3-5, Xijia Bei'eryuan 100 Xiyuan, Haidian District Beijing The PRC	18/04/2006 – 25/09/2015	1.50	500,000	0.112%
				Total	13,800,000	

The above options granted under the Pre-GEM Listing 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 GEM 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 GEM Listing Date up to 10 years from the date of grant of the options

Although the Pre-GEM Listing Share Option Plan was terminated before the GEM Listing Date, the options granted under the Pre-GEM Listing Share Option Plan will continue to be exercisable in accordance with the rules of the Pre-GEM Listing Share Option Plan and the terms of grant.

The full exercise of all the options granted under the Pre-GEM Listing Share Option Plan would dilute the earnings per Share for the three months ended 31 March 2006 from RMB0.035 to RMB0.034, it would also result in a dilution of the shareholding interests of the existing substantial Shareholders, INVESCO Hong Kong Limited and Symbiospartners as follows:–

Name of Shareholder	No. of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding as at the Latest Practicable Date	No. of Share held upon full exercise of all the options granted under the Pre-GEM Listing Share Option Plan	Approximate percentage of shareholding upon full exercise of all outstanding options granted under the Pre-GEM Listing Share Option Plan
XGII	234,144,000	52.6%	234,144,000	51.0%
Mr. Wang	234,144,000 *(Note 1)*	52.6%	238,144,000 *(Note 2)*	51.9%
Ms. Zhao	234,144,000 *(Note 1)*	52.6%	238,144,000 *(Note 2)*	51.9%
INVESCO Hong Kong Limited	43,784,000	9.8%	43,784,000	9.5%
Symbiospartners	26,016,000	5.8%	26,016,000	5.7%

Notes:

1. These Shares are held by XGII which is owned as to 50% by each of Mr. Wang and Ms. Zhao and do not take into account Mr. Wang's interest in the 4,000,000 underling Shares pursuant to the option granted to him under the Pre-GEM Listing Share Option Plan under the SFO.

2. These Shares include the 4,000,000 Shares to be allotted and issued to Mr. Wang upon full exercise of his option granted under the Pre-GEM Listing Share Option Plan. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in such Shares by virtue of the SFO.

The related equity-settled share-based payment expense in respect of the Pre-GEM Listing Share Option Plan would be accounted for during the period from 18 October 2005 to 17 October 2007.

As at the Latest Practicable Date, no option had been granted under the GEM Share Option Scheme which will be terminated upon adoption of the Proposed Share Option Scheme by the Company.

VII OTHER INFORMATION

1. Estate duty and tax and other indemnities

Pursuant to the GEM Listing, 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 of the Shares made by the Company at the time when it was listed on GEM became unconditional; (2) any losses, damages and liabilities which might 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 might 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 GEM Listing Date.

Such indemnities will continue to be effective after the commencement of trading of the Shares on the Main Board.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of Cayman Islands, BVI or the PRC, being the jurisdictions in which one or more of the companies comprising the Group were incorporated.

2. Litigation

As at the Latest Practicable Date, no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

3. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, on the Main Board, (i) the 445,200,000 Shares in issue; (ii) 13,800,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Pre-GEM Listing Share Option Plan; and (iii) any Shares which may be issued upon the exercise of any option which may be granted under the Proposed Share Option Scheme.

4. Expenses

The expenses of the Company in relation to the Introduction are estimated to be approximately HK$6.7 million and are payable by the Company.

5. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualification
China Everbright Capital	licensed under the SFO to conduct Types 1, 4 and 6 regulated activities
KPMG	Certified public accountants
Sallmanns (Far East) Limited	Property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Beijing Grandfield Law Firm	PRC lawyers

6. 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 document 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.

7. Miscellaneous

Save as disclosed in this document:

(i) within the two years preceding the date of this document:

(a) no share or loan capital of the Company or any of its subsidiaries had been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and

(c) no share or loan capital of the Company or any of it subsidiaries was under option or was agreed conditionally or unconditionally to be put under option.

(ii) none of the persons whose names are listed in the section headed "Consents of experts" in this Appendix had 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;

(iii) there had not been any interruption in the business of the Group which may have had a significant effect on the financial position of the Group in the 12 months preceding the date of this document;

(iv) neither the Company nor any of its subsidiaries had issued or agreed to issue any founder shares, management shares, deferred shares or any debentures;

(v) all necessary arrangements had been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS; and

(vi) the Directors were not aware of any person who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.

The English text of this document shall prevail over the Chinese text.

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 document:

(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 document, together with the statements of adjustments;

(c) where applicable, the audited financial statements of the companies now comprising the Group for each of the three financial years ended 31 December 2005 (or for the period since their respective dates of incorporation/ establishment where it is shorter);

(d) the first quarterly report 2006 of the Group, the extract of which is set out in Appendix III to this document;

(e) 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 IV to this document;

(f) the material contracts referred to under the section headed "Summary of material contracts" in Appendix VI to this document;

(g) the service agreements (as supplemented, where applicable) referred to under the section headed "Particulars of service agreements" in Appendix VI to this document;

(h) the rules of the Pre-GEM Listing Share Option Plan, the GEM Share Option Scheme and the Proposed Share Option Scheme;

(i) the written consents referred to under the section headed "Consents of experts" in Appendix VI to this document;

(j) the legal opinions prepared by Beijing Grandfield Law Firm in connection with the Introduction and the property interests of the Group in the PRC;

(k) the letter prepared by Conyers Dill and Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix V to this document; and

(l) the Companies Law.

Enric