## INTRODUCTION

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

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

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

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

In order to further expand the spectrum of the Group's gas equipment products and to establish the Group's brandname in the gas equipment market, the Group established Enric Gas Equipment in 2003 and pursuant to the Tripartite Agreement, part of the assets, amongst other things, previously owned by Xinao Shijiazhuang were injected to Enric Gas Equipment as capital contribution on 31 March 2004. The Group then advanced the manufacture and sale of pressure vessels and other types of gas equipments, including

various standards of stationary or mobile pressure vessels in 2004. Through the expansion of the Group's specialised gas equipment capabilities, the Group is able to establish a consolidated platform to develop and provide integrated business solutions to its customers, which are essential in assisting them with the implementation of projects in the gas energy industry.

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

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

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

**STRENGTHS OF THE GROUP**

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

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

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

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

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

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

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

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

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

**Industry standards form high barrier to entry**

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

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

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

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

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

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

**Comprehensive sales network and effective marketing strategies**

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

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

**Highly experienced management team**

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

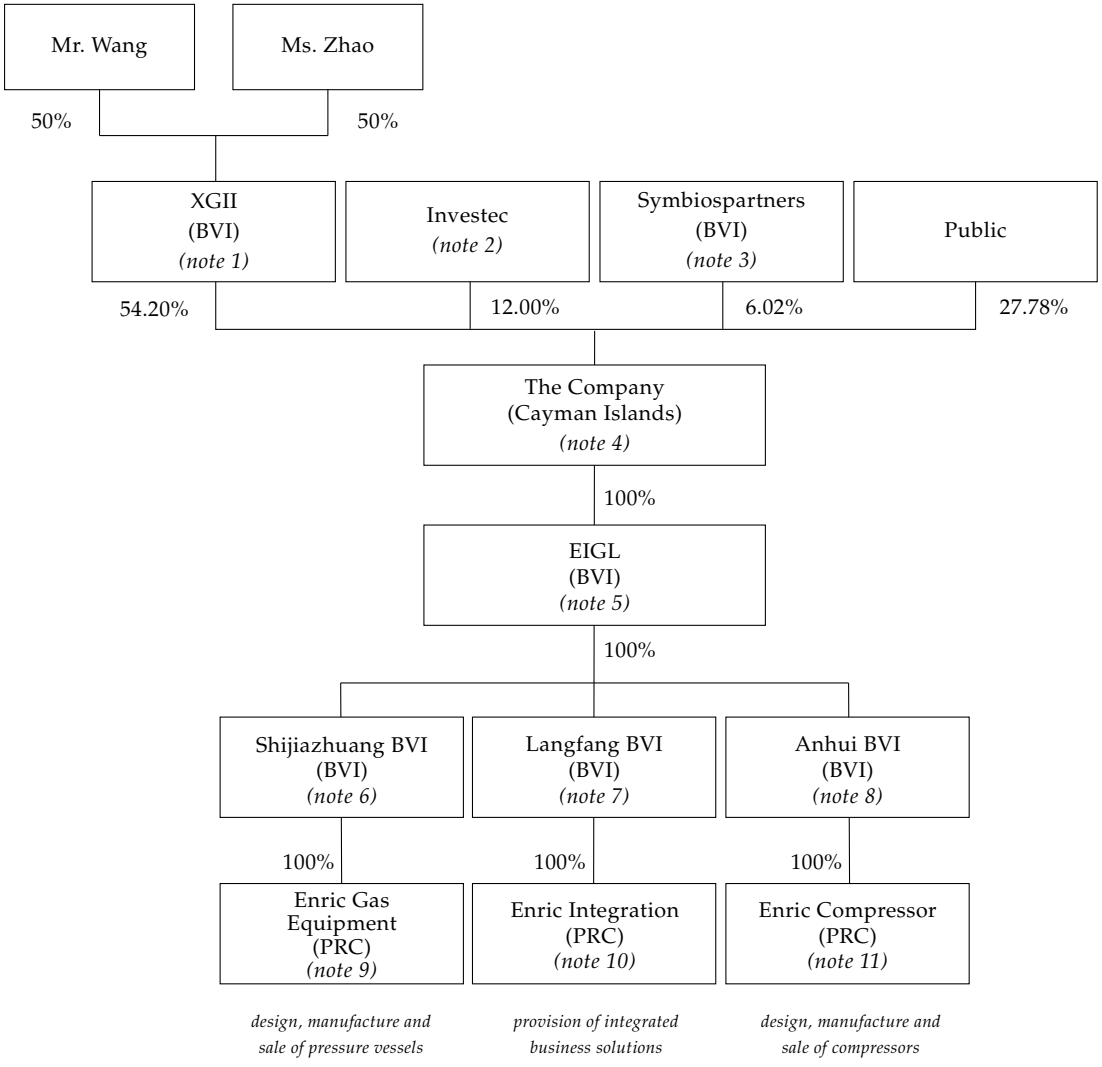
While the management team of the Group as a whole plays a significant role in the development of the Group's business, certain members of the team play key roles in the future success of the Company: Mr. Wang, the co-founder, chairman and one of the executive Directors of the Company, has over 18 years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

**Strong shareholder's background**

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

## SHAREHOLDING AND GROUP STRUCTURE

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




*Notes:*

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

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

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

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

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

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

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

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

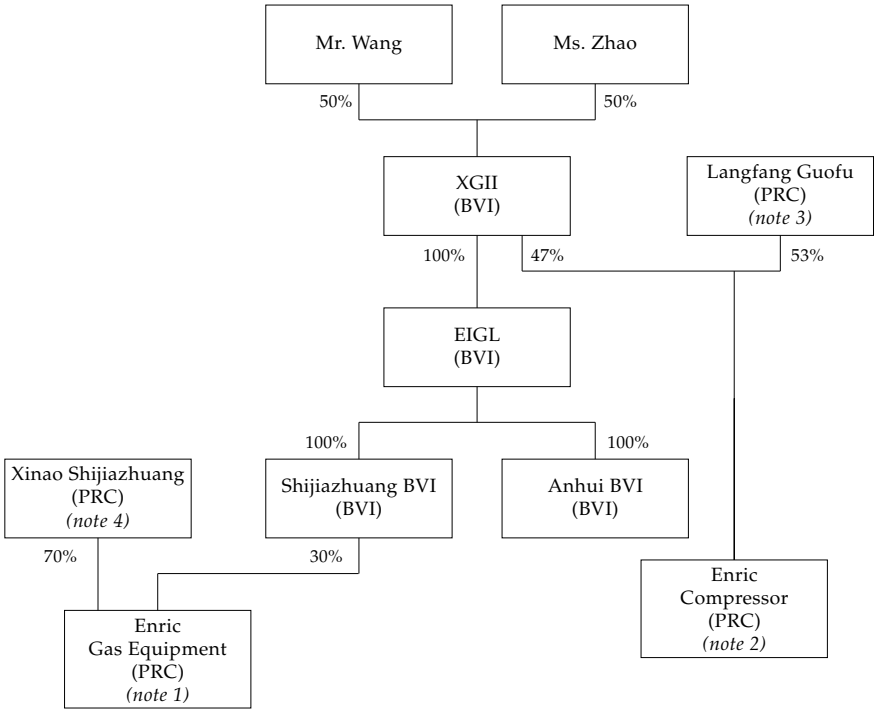
9. Enric Gas Equipment is a wholly foreign owned enterprise with limited liability incorporated in the PRC on 30 September 2003 and is wholly owned by Shijiazhuang BVI.

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

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

## REORGANISATION OF THE GROUP

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




*Notes:*

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

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

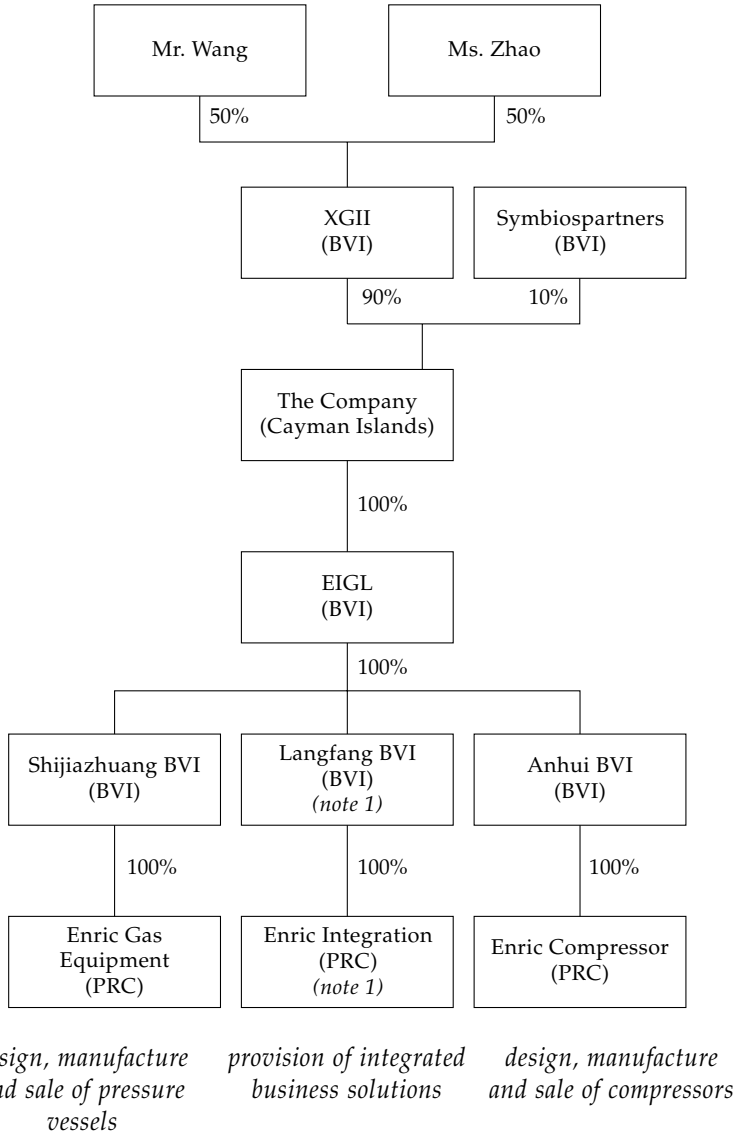
3. Langfang Guofu is a company incorporated in the PRC with limited liability on 13 January 2000 and beneficially owned as to 90% by Mr. Wang and 10% by Mr. Wang Baozhong, Mr. Wang's father, as nominee for the benefit of Mr. Wang.

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

**The Reorganisation**

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

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



*Notes:*

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

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

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

## HISTORY AND DEVELOPMENT

### Corporate development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Due partly to the delay in the transfer of relevant titles and qualifications regarding the design and manufacture of pressure vessels, Xinao Shijiazhuang and Shijiazhuang BVI entered into an agreement (the "Shijiazhuang Revised Agreement") dated 28 December 2003 to amend the scope of assets to be contributed to a total of net assets of US$1,715,000 and the completion date of the capital contribution to within six months from the date of

issue of business licence of Enric Gas Equipment. The Shijiazhuang Revised Agreement was properly approved by the Administrative Committee of Shijiazhuang Gao Xin District.

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

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

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

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

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

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

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

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

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

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

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

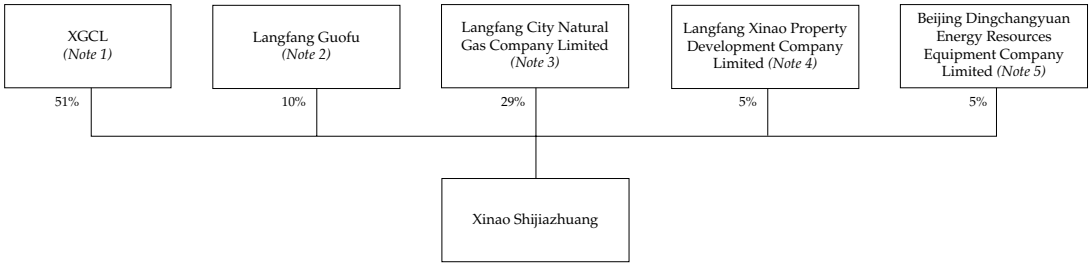
Conditional upon the grant of approval for the Listing and the Underwriting Agreement becoming unconditional and not being terminated, the cash advances in the sum of RMB45,000,000 due and owing by the Company to XGII were capitalised by the Company allotting and issuing a total of 260,159,120 Shares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

**Background of Xinao Shijiazhuang**

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

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

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



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

*Notes:*

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

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

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

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

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

**Business development**

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

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

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

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

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

**For the period from 14 March 2002 to 31 December 2002**

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

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

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

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

**For the year ended 31 December 2003**

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

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

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

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

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

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

**For the year ended 31 December 2004**

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

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

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

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

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

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

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

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

Pursuant to the capital contribution to Enric Gas Equipment on 31 March 2004, the sales contracts of Xinao Shijiazhuang were not included as part of the capital contribution. There was no assignment of sales contracts from Xinao Shijiazhuang to Enric Gas Equipment pursuant to the establishment and capital contribution of Enric Gas Equipment. As such, upon Xinao Shijiazhuang's contribution of its production facilities to Enric Gas Equipment, Xinao Shijiazhuang had to purchase goods from Enric Gas Equipment as a temporary

arrangement in order to fulfil the outstanding sales contracts entered into or negotiated between Xinao Shijiazhuang and its customers prior to April 2004. The aggregate of the above sales to Xinao Shijiazhuang accounted for 60% of Enric Gas Equipment's total sales from April to September 2004, and accounted for approximately 20.6% of the Group's total revenue in 2004.

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

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

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

**For the six months ended 30 June 2005**

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

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

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

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

## BUSINESS MODEL

### A. Products Overview

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

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

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

## 1. Compressors

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

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

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

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

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

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

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

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

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

1.1 Gas compressor series (燃氣壓縮機系列)

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

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

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

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

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

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

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

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

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

1.4 Accessories (配件)

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

**2. Pressure vessels series**

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

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

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

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

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

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

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

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

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

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

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

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

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

Gas storage cylinder group

(ii) CNG trailer (CNG拖車)

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

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

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

CNG trailer

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

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

This series includes the followings:

(i) LNG trailer (LNG拖車)

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

(ii) LNG storage tank (LNG儲罐)

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

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

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

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

(iv) LNG container (LNG 集裝箱)

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

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

This series of equipment comprises the following:

(i) Liquid ammonia tank truck (液氨槽車)

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

(ii) LPG tank truck (LPG槽車)

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

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

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

(iv) Propylene tank truck (丙烯槽車)

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

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

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

(vi) LPG storage tank (液化石油氣儲罐)

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

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

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

### 3. Integrated business solutions (集成業務)

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

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

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

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

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

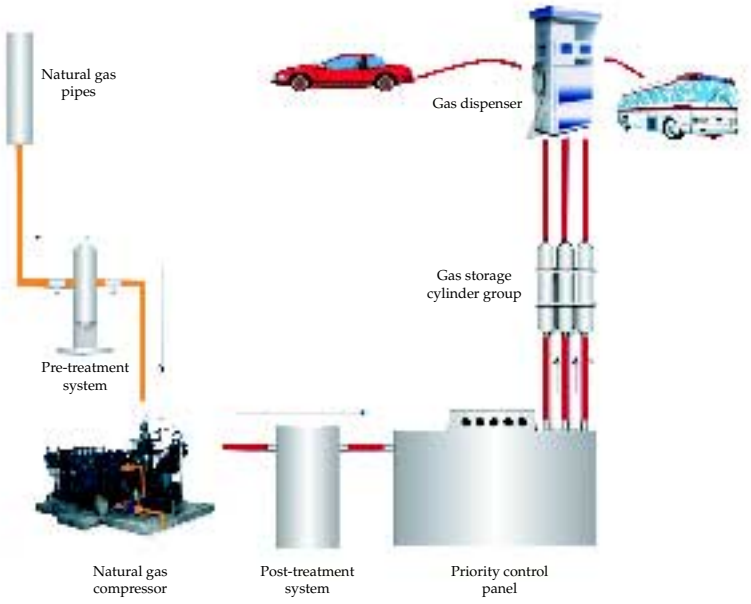
The principal products in relation to this service are as follows:

3.1.1 CNG refueling stations (CNG加氣站)

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

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

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




**Standard refueling station**

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

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

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

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

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

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

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

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

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

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


**Mother-daughter refueling station**

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

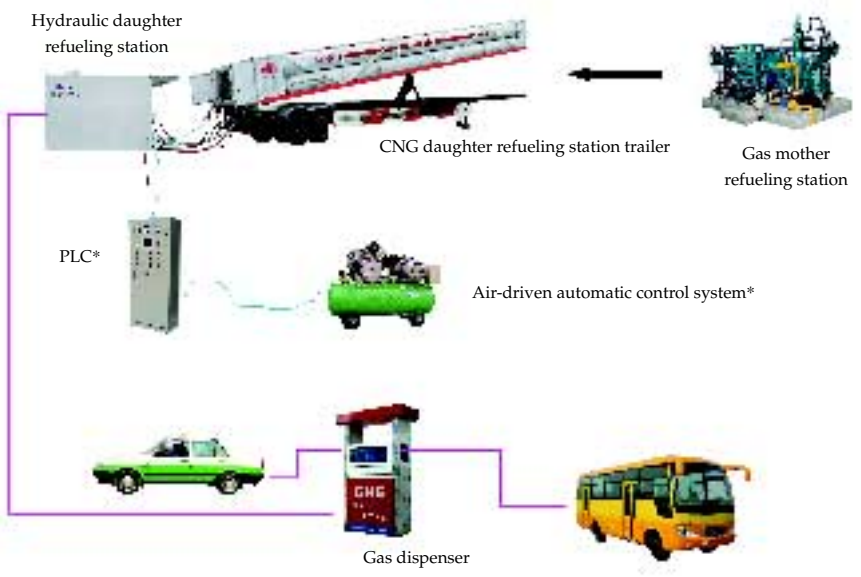
The CNG daughter refueling station trailer is developed based on the principle of CNG trailer. It consists of chassis and a group of seamless pressure cylinders, which can be tilted to different angles in order to facilitate the back flow of hydraulic oil inside the cylinders. The group of seamless pressure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

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

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

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

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




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

**CNG mother-daughter refueling station system**

3.1.3 LCNG refueling station (LCNG加氣站)

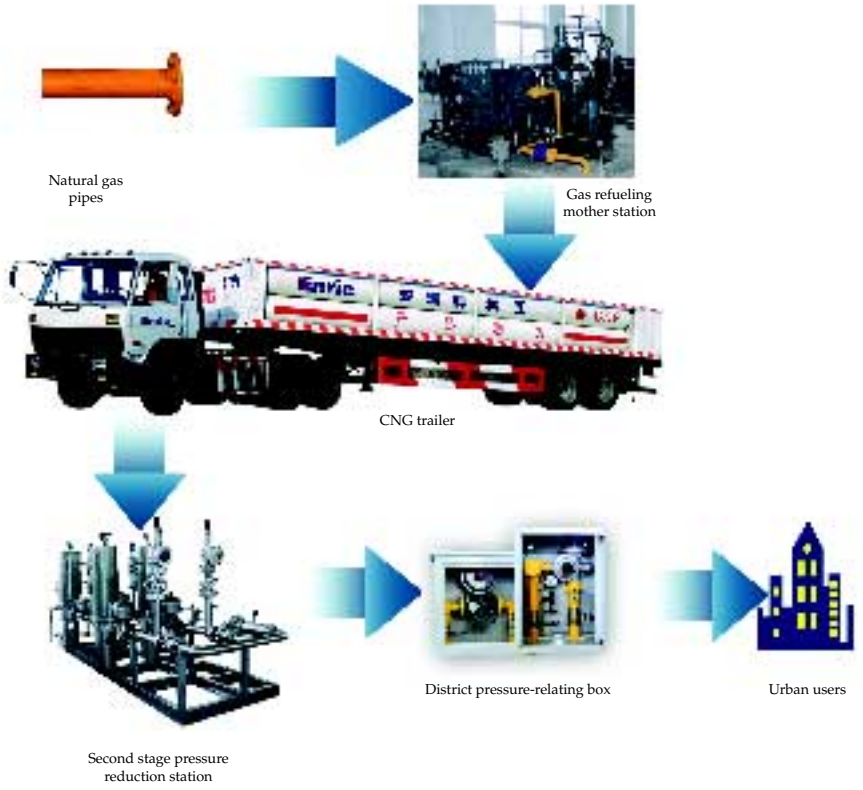
The Company is in the process of developing a LCNG refueling station system which uses LNG as a feedstock to deliver CNG to vehicles. The refueling station system carries out the processes of transportation, storage, pressurising and gasification which allow the regasification of LNG into CNG. The storage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

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

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

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

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

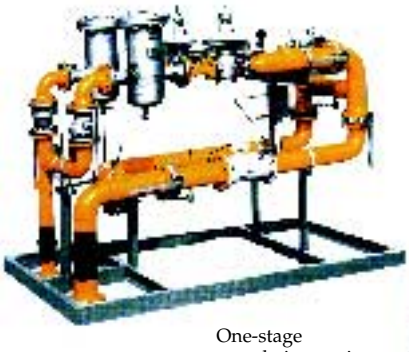



**Integrated business solutions city gas projects**

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

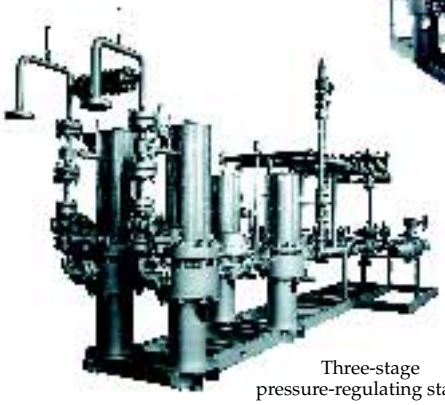
(i) Pressure-regulating station (調壓站)

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



One-stage
pressure-regulating station

Two-stage
pressure-regulating station



Three-stage
pressure-regulating station

**Pressure-regulating station**

(ii) Pressure-regulating box (調壓箱)

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

## B. PRODUCT LICENCE, PERMITS AND REGULATIONS

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

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

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

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

**Licences, permits and registrations**

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

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

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

## C. SALES AND MARKETING

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

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

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

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

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

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

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

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

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

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

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

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

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

**Customer service and after-sales service**

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

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

**Top five customers of the Group**

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

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

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

**Pricing Policy**

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

**Terms of Payment and Credit Policy**

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

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

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

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

## D. PRODUCTION

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

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

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

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

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

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

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

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

*Compressor*

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

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

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

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

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

*Compressor*

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

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

*Pressure vessel*

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

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

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

*Integrated business solutions*

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

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

**Raw materials and components**

*Compressors*

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

*Pressure vessels*

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

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

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

*Integrated business solutions for gas equipment*

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

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

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

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

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

**Selection criteria of suppliers**

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

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

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

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

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

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

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

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

**Arrangement with subcontractors**

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

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

## E. PRODUCTION PROCESS

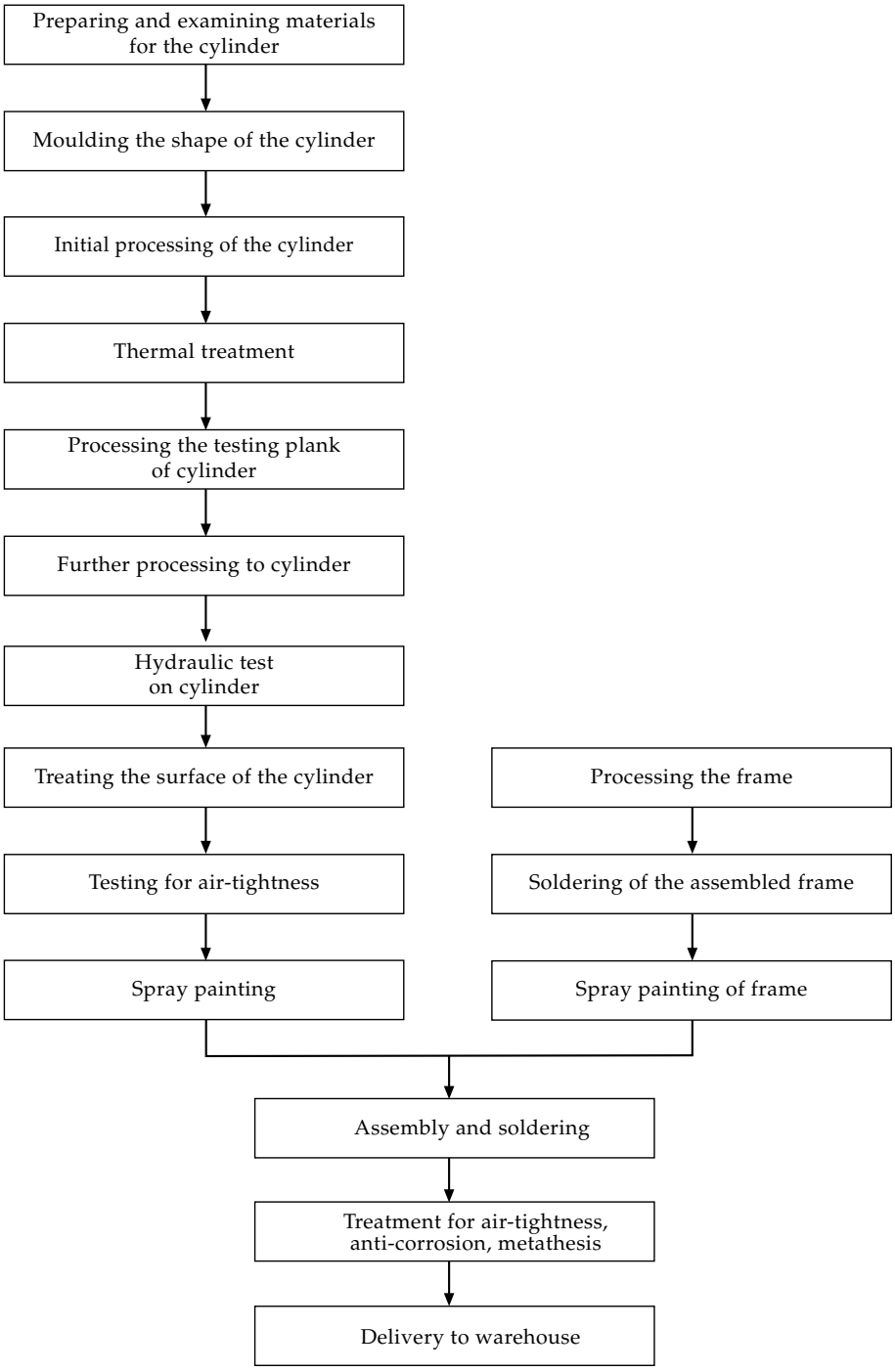
**Compressors**

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

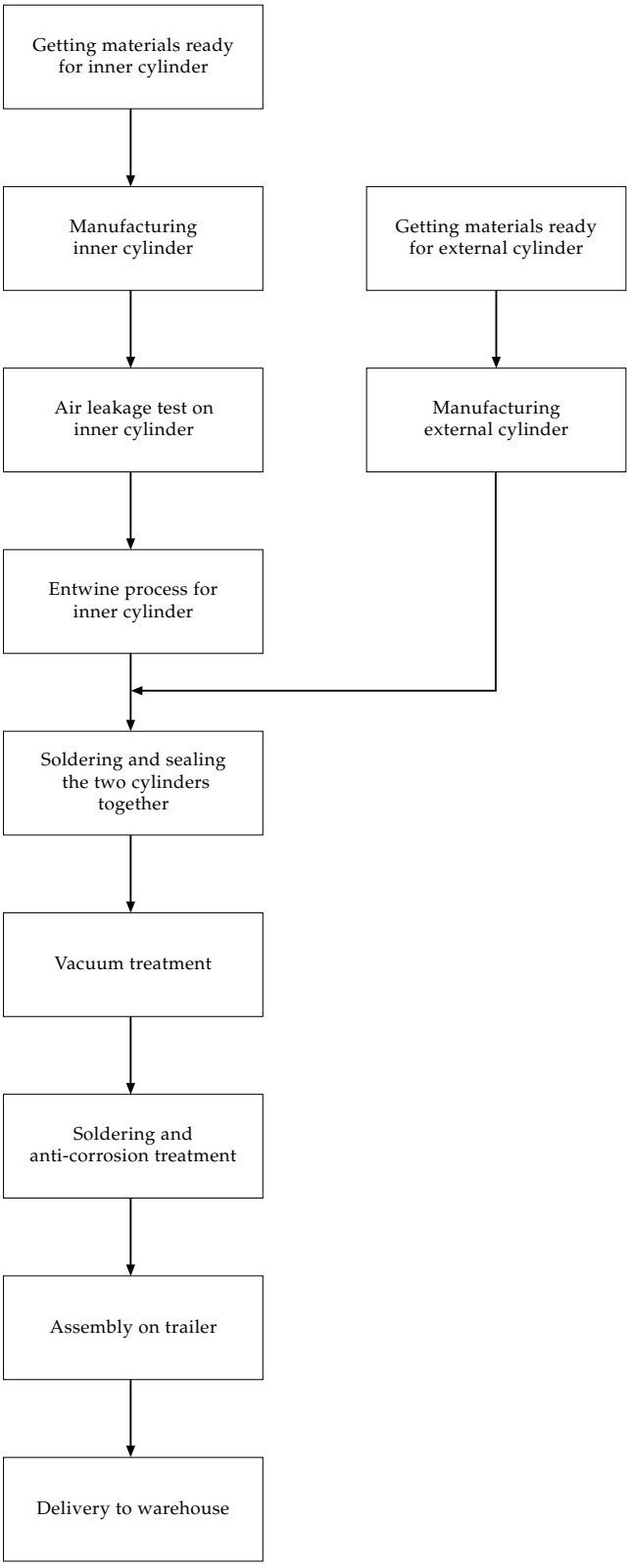
**Pressure Vessels**

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

*1. Seamless pressure cylinder storage and transportation equipment series*



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



**Integrated business solutions for gas equipment**

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

## F. QUALITY CONTROL

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

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

**Pressure Vessels**

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

*Quality guarantee procedures*

The Group implements on-site inspection of the manufacture of its pressure vessels to ensure compliance with the Procedures of Pressure Vessels 《壓力容器安全技術監察規程》, the Procedures for Safety of Gas Cylinders 《氣瓶安全監察規程》 and the ASME standards. In relation to the supply of raw materials, the Group carries out quality examination of the procured raw materials, parts and components to ensure they are up to the Group's internal standards for production. In terms of production, the quality control procedures

include the inspection and control of the metal-processing, welding and soldering, assembly and repair processes, and the examination of parts produced at each stage. Further, the Group's after-sales service team is responsible for collecting customers' feedback and disseminating the same to the production department and design division.

*Quality supervisory examination procedures*

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

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

**Compressors**

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

**Integrated business solutions**

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

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

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

## G. INVENTORY CONTROL

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

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

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

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

## RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

## COMPETITION

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

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

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

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

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

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

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

## INTELLECTUAL PROPERTY

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

### Trademarks

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

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

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

### Patented technologies

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

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

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

Considering that such licencing by Xinao Shijiazhuang to Enric Gas Equipment will constitute an exempt continuing connected transaction for the Group upon the Listing, a licence agreement dated 16 September 2005 (the "Licence Agreement") was entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric Integration jointly as licensees whereby it was agreed, during the remaining term of the Neogas Agreement commencing on the Listing Date, that (i) Xinao Shijiazhuang shall licence its rights under the Neogas Agreement to Enric Gas Equipment and Enric Integration exclusively at nil consideration; (ii) Xinao Shijiazhuang shall unconditionally and irrevocably undertake not to use its rights under the Neogas Agreement and not to grant any licences under the Neogas Agreement to any other parties outside the Group; (iii) any

licence fees, royalties and other related fees (if any) payable under the Neogas Agreement shall be paid by Enric Gas Equipment and/or Enric Integration directly to Neogas; and (iv) Xinao Shijiazhuang shall fully indemnify the Group for any losses, damages and liabilities which may be suffered by any members of the Group as a result of the breach of the Licence Agreement and/or the Neogas Agreement by Xinao Shijiazhuang. The particulars of the Licence Agreement are also set out in the section headed "Connected transactions" in this prospectus.

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

**Domain name**

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

## AWARDS AND HONOURS

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

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

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

**ENVIRONMENTAL PROTECTION**

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

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

**INSURANCE**

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

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

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