INDEBTEDNESS

Borrowings, securities and banking facilities

As at the close of business on 31 August 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining information contained in this indebtedness statement, the Group had total outstanding bank borrowings amounting to approximately RMB140.0 million which was repayable within one year, comprising term loans amounting to RMB65.0 million and utilised banking facilities amounting to RMB75.0 million.

Out of the total term loans of RMB65.0 million, RMB55.0 million were guaranteed by XGCL, a related party controlled by a major Shareholder, and the remaining RMB10.0 million was guaranteed by Enric Compressor, a subsidiary of the Company. The annual rate of interest charged on these term loans ranged from 5.6% to 6.8% as at 31 August 2005.

As at 31 August 2005, the Group had aggregate banking facilities of RMB85.0 million, of which RMB75.0 million had been utilised. These banking facilities were guaranteed by XGCL, and the annual rate of interest charged on these banking facilities ranged from 5.6% to 6.8% as at 31 August 2005.

In addition, as at 31 August 2005, the Group had cash advances from a related party amounting to RMB45.0 million which were unsecured and interest-free. This balance, taking into account subsequent settlement, if any will be capitalised pursuant to the Capitalisation Issue.

The Redeemable Convertible Bonds authorised but unissued

As at 31 August 2005, the Group had authorised the issue of the Redeemable Convertible Bonds to Investec, pursuant to the Convertible Bond Subscription Agreement whereby Investec will subscribe for redeemable convertible bonds in the aggregate principal amount of US$5,000,000 issued by EIGL. The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8 a.m. on the Listing Date. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised). Based on the number of Shares which are expected to be in issue immediately upon the Listing, Investec is expected to be allotted and issued 51,840,000 Shares at a conversion price of approximately HK$0.75 per Share.

The Redeemable Convertible Bonds had not been issued to Investec as at 31 August 2005.

Contingent liabilities

As at the close of business on 31 August 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining information contained in this indebtedness statement, the Group had no contingent liabilities.

Release from guarantees

Out of the total term loans and banking facilities of RMB150 million, RMB140 million were guaranteed by XGCL. The relevant banks have agreed in principle that the guarantees provided by XGCL will be released and replaced by guarantees provided by the Company and/or its subsidiaries upon or prior to the Listing. The releases of the guarantees provided by XGCL are subject to the examination of the qualifications and financial ability of the Company and/or its subsidiaries to the satisfaction of the relevant banks and such releases will take effect immediately after the execution of the new guarantees to be given by the Company and/or its subsidiaries in favour of the relevant banks.

Disclaimer

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 31 August 2005, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

Material changes

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 August 2005.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

The Group generally relies on its internal cash flows, bank borrowing available from its principal bankers and advances received from related parties to meet the requirements for its operations. The Directors expect to meet its anticipated cash needs, including capital expenditures, repayment of borrowings and working capital, principally through cash generated from operations and the net proceeds of the Placing. As at 31 December 2003, 31 December 2004 and 30 June 2005, the Group had cash and cash equivalents of approximately RMB10.3 million, RMB31.5 million and RMB38.3 million respectively.

Cash flow information

The table below sets out the cash inflow and outflow for each of the two years ended 31 December 2004 and each of the six months ended 30 June 2004 and 30 June 2005:

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash from/(used in) operating activities	3,732	(2,416)	1,415	15,680
Net cash (used in)/from investing activities	(42,307)	50,803	(25,137)	(6,496)
Net cash from/(used in) financing activities	45,091	(27,162)	31,556	(2,429)
Net increase in cash and cash equivalents	6,516	21,225	7,834	6,755
Cash and cash equivalents at beginning of the year/period	3,786	10,302	10,302	31,527
Cash and cash equivalents at end of the year/period	10,302	31,527	18,136	38,282

Operating activities

The Group had net cash from operating activities of approximately RMB3.7 million for the year ended 31 December 2003, while profit from ordinary activities before taxation was approximately RMB10.6 million. The cash inflow was mainly attributable to approximately RMB13.1 million operating profit before changes in working capital and approximately RMB17.7 million increase in trade and bills payable and amounts due to related parties due to purchase of raw materials, and approximately RMB0.5 million increase in provision for product warranties as a result of increase in product sales, which was partially offset by approximately RMB4.6 million decrease in other payables and accrued expenses, approximately RMB11.8 million increase in inventories, and approximately RMB11.3 million increase in trade and bills receivable and deposits, other receivables and prepayments as a result of increase of sales and increase of deposits for purchase of raw materials. The significant increase in inventories was to satisfy the increased sales orders on hands of compressors near year end as well as the expected market growth of compressors business.

The Group had net cash used in operating activities of RMB2.4 million for the year ended 31 December 2004, while operating profit before changes in working capital was approximately RMB48.1 million for the year ended 31 December 2004. The difference of RMB50.5 million, which led to cash used in operating activities, was mainly attributable to an increase in inventories of approximately RMB52.0 million, increase in trade and bills receivable of approximately RMB25.4 million due to increase of sales, decrease in trade and bills payable and amounts due to related parties of approximately RMB17.6 million as a result of payment made for purchases. These were partially offset by decrease in deposits, other receivables and prepayments of approximately RMB4.4 million and decrease in amounts due from related parties of approximately RMB32.3 million and increase in other payables and accrued expenses and provision for product warranties of approximately RMB9.2 million as a result of increase in product sales. The increase in inventories was mainly due to the substantial increase in business volume as a result of the commencement of operation of Enric Gas Equipment, and the significant increase in sales orders on hand near year end, therefore, increased inventory level was necessary to satisfy sales orders on hand for early 2005.

The Group's net cash from operating activities for the six months ended 30 June 2005 was approximately RMB15.7 million as compared to approximately RMB1.4 million for the six months ended 30 June 2004. The increase in cash inflow for the six months ended 30 June 2005 when compared with the corresponding period in 2004 was mainly due to significant increase in operating profit before changes in working capital from approximately RMB16.7 million for the six months ended 30 June 2004 to approximately RMB42.9 million for the six months ended 30 June 2005. The significant increase in operating profit before changes in working capital was mainly due to significant increase in sales for the six months ended 30 June 2005.

Investing activities

Net cash used in investing activities for the year ended 31 December 2003 was approximately RMB42.3 million. The cash outflow for investing activities was mainly due to the acquisition of 12.27% equity interest in XGCL by Enric Compressor in September 2003 for approximately RMB26.2 million, net increase in interest-bearing loans of RMB18.6 million to XGCL, and purchase of machinery and equipment and further investment into existing compressor manufacturing facilities of approximately RMB7.3 million, and advances made to related parties of approximately RMB7.5 million which were unsecured and interest free. The advances were mainly made to XGCL, XGII, and Bengbu Property Company Limited. The cash outflow for investing activities was partially offset by the cash inflow from repayments of advances made to related parties of approximately RMB16.2 million and proceeds from disposal of property, plant and equipment of approximately RMB1.1 million which was mainly due to sale of sales office, and disposal of machinery and motor vehicles.

Net cash from investing activities for the year ended 31 December 2004 was approximately RMB50.8 million. The cash inflow from investing activities was mainly due to proceeds of approximately RMB26.2 million from the disposal of the 12.27% equity interest in XGCL to Langfang Guofu in June 2004 so as to streamline the corporate structure, repayments of interest-bearing loans from XGCL of RMB78.6 million to settle outstanding loans in 2004, interest income from loans to XGCL of approximately RMB8.7 million from 2002 to 2004, proceeds from disposal of property, plant and equipment of approximately RMB1.6 million, which was mainly due to the disposal of certain staff quarters, machinery, office equipment and motor vehicles and repayments of advances from related parties amounting to approximately RMB59.3 million for settlement of advances made during the year.

The cash inflow from investing activities was partially offset by cash outflow of approximately RMB32.2 million for the purchase of machinery and equipment and construction of factory buildings pursuant to the expansion of production facilities for its CNG and LNG production lines, increase in advances made to related parties (details of the related parties are set out in the section headed "Relationship with the Controlling Shareholders" in this prospectus) of approximately RMB54.5 million, and payments for the acquisition of the entire equity interests in Enric Compressor and Enric Gas Equipment of approximately RMB36.8 million.

The classification of advances made to related parties and repayments of advances made to related parties under investing activities complies with Hong Kong Accounting Standard 7, Cash flow statements, paragraphs 16 (e) – "cash advances and loans made to other parties" and 16 (f) – "cash receipts from the repayment of advances and loans made to other parties", which represented advances lent to related parties.

The Group's net cash used in investing activities for the six months ended 30 June 2005 was approximately RMB6.5 million as compared to approximately RMB25.1 million for the same period of 2004. The decrease in the net cash used in investing activities for the six months ended 30 June 2005 when compared with the corresponding period in 2004 was primarily due to decrease in payment for acquisition of property, plant and equipment from approximately RMB13.9 million for the six months ended 30 June 2004 to approximately RMB7.4 million for the six months ended 30 June 2005. In addition, there was no cash inflow and outflow in relation to advances from and advances to related parties during the six months ended 30 June 2005 whereas net cash outflow in relation to advances made to related parties was approximately RMB11.2 million during the six months ended 30 June 2004. The cash used in the payment for acquisition of property, plant and equipment was partially offset by the cash inflow from interest received of approximately RMB1.0 million for the six months ended 30 June 2005.

Financing activities

Net cash from financing activities for the year ended 31 December 2003 was approximately RMB45.1 million, which was mainly due to the net increase of RMB19.0 million in bank loans for financing the Group's expansion in the compressor business and net increase of approximately RMB30.5 million in advances received from related parties for financing working capital requirement.

The net cash used in financing activities for the year ended 31 December 2004 was approximately RMB27.2 million, which was mainly due to repayments of bank loans outweighing the proceeds from new bank loans. Cash outflow from financing activities was offset by the cash inflow from net increase of advances received from related parties, of which RMB45.0 million due to XGII as at 31 August 2005, taking into account subsequent settlements, if any, will be capitalised pursuant to the Capitalisation Issue.

The Group's net cash used in financing activities for the six months ended 30 June 2005 was approximately RMB2.4 million as compared to the net cash from financing activities for the six months ended 30 June 2004 of approximately RMB31.6 million. The cash used in financing activities for the six months ended 30 June 2005 was mainly due to cash outflow in relation to the repayment of the balance of cash advances from related parties as at 31 December 2004 of approximately RMB6.4 million during the period. The proceeds from shares issued under a share subscription agreement received in February 2005 amounting to approximately RMB15.7 million and proceeds from new bank loans of approximately RMB45.0 million were offset by the repayment of bank loans of approximately RMB52.9 million and interest on bank loans of approximately RMB3.9 million during the six months ended 30 June 2005. No cash advances were received from related parties during the six months ended 30 June 2005, whereas the cash advances received from related parties during the six months ended 30 June 2004 were approximately RMB76.7 million resulting in net cash inflow from financing activities for the six months ended 30 June 2004.

The classification of advances received from related parties and repayments of advances received from related parties under financing activities complies with Hong Kong Accounting Standard 7 , Cash flow statements, paragraphs 17 (c) – "cash proceeds from issuing debenture, loans and other short or long term borrowings" and 17 (d) – "cash repayment of amounts borrowed", which represented advances borrowed from related parties.

Net current liabilities

As at 30 June 2005, the Group had net current liabilities of approximately RMB29.0 million. Current assets consisted of inventories of approximately RMB116.3 million, trade and bills receivables of approximately RMB52.9 million, deposits, other receivables and prepayments of approximately RMB35.4 million, amounts due from related parties of approximately RMB15.7 million, and cash at bank and in hand of approximately RMB52.7 million. Current liabilities consisted of bank loans of approximately RMB125.0 million, trade and bills payables of approximately RMB83.7 million, other payables and accrued expenses of approximately RMB36.4 million, amounts due to related parties of approximately RMB54.3 million, income tax payable of approximately RMB1.5 million and provisions for product warranties of approximately RMB1.1 million. In relation to the amounts due to related parties, approximately RMB6.0 million were trade in nature and approximately RMB48.3 million related to cash advances from XGII. In respect of the cash advances from XGII, taking into consideration settlements subsequent to 30 June 2005, the amount of RMB45.0 million will be capitalised pursuant to the Capitalisation Issue. Particulars of the arrangements of the Capitalisation Issue are set out in the section headed "Corporate reorganisation" in Appendix VII to this prospectus. In the event that the Capitalisation Issue of RMB45.0 million due to XGII had been completed, the Group would have net current assets of approximately RMB16.0 million as at 30 June 2005.

The improvement in the position of net current liabilities as at 30 June 2005 as compared with that of approximately RMB75.1 million as at 31 December 2004 was mainly due to (i) the Group's cash inflow from operating activities during the six months ended 30 June 2005; and (ii) inflow of approximately RMB15.7 million in relation to the issuance of 10% equity interests of EIGL prior to the Placing pursuant to the share subscription agreement entered into between the Group and Symbiospartners, an Institutional Investor, on 21 January 2005.

Certain amount of bank loans of approximately RMB2.2 million as at 31 December 2004 was utilised to finance the construction of production facilities of the Group which had been subsequently transferred to property, plant and equipment and the remaining bank loans and other short term liabilities were used to finance the working capital requirement for the rapid business development of the Group.

Out of approximately RMB132.9 million bank loans as at 31 December 2004, approximately RMB52.9 million had been repaid upon 30 June 2005. During the six months ended 30 June 2005, bank loans of RMB45.0 million in aggregate were made. The Directors advise that given its relationship with the banks and as long as the bank loans are repaid on their respective maturity dates on time as specified in each of the loan agreements, it is expected that such bank loans can be rolled over upon maturity.

Based on the combined financial statements of the Group as at 30 June 2005, the Group had cash at bank and in hand of approximately RMB52.7 million. The following current liabilities as at 30 June 2005 are expected to be settled within the next 12 months:

	Balance as at 30 June 2005 *RMB'000*
Bank loans	125,000.0
Trade payables	83,737.4
Other payables and accrued expenses	36,397.5
Amounts due to related parties	9,310.5
Provisions	1,101.7
Income tax payable	1,491.8
Total	257,038.9

The Group is able to meet these obligations based on the following considerations: (i) As at 30 June 2005, the Group had current assets of approximately RMB273.0 million of which approximately RMB116.3 million represented inventories; (ii) funds will continue to be generated from operating activities; (iii) RMB100.0 million of bank loans will be rolled over upon maturity, as indicated above; and (iv) proceeds of approximately RMB40.6 million in relation to the issuance of the Redeemable Convertible Bonds prior to the Placing pursuant to the Convertible Bond Subscription Agreement. The Directors consider that the Group is able to settle its current liabilities as at 30 June 2005 within the next 12 months.

The Directors believe that although the Group still had net current liabilities of approximately RMB29.0 million as at 30 June 2005, the position of net current liabilities will be reverted to net current assets of approximately RMB16.0 million after taking into account the amount of RMB45.0 million due to XGII, considering subsequent settlements, if any, which will be capitalised under the Capitalisation Issue.

In addition, the Directors have closely reviewed its cash positions taking into consideration of expected cash inflow and outflow to ensure sound liquidity of the Group's operation and adequate cash on hand to satisfy its short term liabilities when fall due.

The Directors review monthly management accounts and cash flow statements and compare with the budgeted monthly management accounts and cash flow. The Directors will then check on its funding availability by taking into consideration its upcoming monthly cash payments on its working capital and capital expenditures.

Commitments

(a) Capital commitments

As at 30 June 2005, the Group had contracted but not provided for capital commitments of approximately RMB3,900,000 which were related to purchase of lathe for producing CNG containers, other production equipment and two motor vehicles. In addition, the Group had authorised but not contracted for capital commitments of approximately RMB1,900,000 which were related to the renovation of office building.

(b) Operating lease commitments

As at 30 June 2005, the Group had leased a number of properties and items of plant and machinery and office equipment under operating leases. The aggregate future minimum lease payments under non-cancellable operating leases payable were approximately RMB2,100,000 of which RMB1,400,000 was payable within one year, while the remaining of approximately RMB700,000 was payable after one year but within five years.

Working Capital

The Directors are of the opinion that, after taking into account the financial resources of the Group, including internally generated funds from operating activities, banking facilities currently available, proceeds from issuance of the Redeemable Convertible Bonds to Investec and the estimated net proceeds of the Placing, the Group has sufficient working capital for its present requirements. After taking into consideration of the above and the cashflow forecast of the Group for the period ending 30 June 2007 prepared by the Company, the Sponsor concur with the Directors' view that the Group had sufficient working capital for its present requirement.

It is the funding policies of the Group to finance its operation and expansion by using internally generated funds as well as bank loan facilities available to the Group. Given that the business operation of the Group is currently expanding, cash flow requirement of the Group is high and accordingly short-term bank loans were obtained to finance any anticipated cash needs.

Foreign exchange

The Group earns revenue and incurs costs and expenses mainly in RMB. This will continue to be the case following the Listing. The Group presently does not intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies.

Under the current foreign exchange control system in the PRC, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demand of a particular enterprise in full, there can be no assurance that shortage in the availability of foreign currency will not restrict the Company's ability to obtain sufficient foreign currency to pay dividends on the Shares in the future or to satisfy its other foreign currency requirements.

TRADING RECORD

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

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

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a discussion of the results of operations of the Group during the Track Record Period. Such discussion should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

Basis of presentation

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set forth in Appendix I to this prospectus include the combined results of operations and combined cash flows of the companies now comprising the Group for the Track Record Period or where the companies were incorporated/established, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2003, for the period from the respective dates of incorporation/establishment and the acquisition of the additional interests in Enric Gas Equipment to 30 June 2005, as if the current group structure had been in existence throughout the Track Record Period. The combined balance sheets of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005 as set forth in Appendix I to this prospectus have been prepared to present the combined state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

Since the date of establishment of Enric Gas Equipment on 30 September 2003, the Group had 30% equity interests in Enric Gas Equipment. On 16 July 2004, Shijiazhuang BVI acquired 70% additional interests in Enric Gas Equipment from Xinao Shijiazhuang, and Enric Gas Equipment became 100% owned by the Group thereupon.

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

Overview

General

The Group is principally engaged in the design, manufacture and sale of specialised gas equipment and the provisions of integrated business solutions in the gas energy industry. The results of operation of the Group for the year ended 31 December 2003 represented the operating result of the compressors and pressure vessels businesses conducted by Enric Compressor which commenced operations since March 2002. For the year ended 31 December 2004, the results of operation represented the results of the compressors, pressure vessels and integrated business solutions businesses, following the commencement of operations by Enric Gas Equipment, which principally engaged in the sales of pressure vessels and the provision of integrated business solutions in April 2004. Therefore, there were significant growth in the operation results of the Group for the year ended 31 December 2004. In addition, in order to streamline the Group's business of integrated business solutions in future, the Group established Enric Integration on 28 December 2004.

For the six months ended 30 June 2005, the Group experienced significant growth in the operating results as compared to the corresponding period in 2004. It was primarily due to the strong demand for the Group's specialised gas equipment products and integrated business solutions for the gas energy industry.

Turnover

Turnover of the Group is mainly generated from the sale of compressors, sale of pressure vessels, and the provision of integrated business solutions for gas equipment. It represents the sales value of goods sold after allowances for return of goods, excludes value added or other sales taxes and is after the deduction of any trade discounts.

The following table illustrates the breakdown of the Group's turnover during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2003		2004		2004		2005	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
Sales of compressors	68,615,843	99.5%	115,224,362	45.7%	49,544,751	59.8	59,735,852	28.5%
Sales of pressure vessels	327,580	0.5%	120,120,442	47.6%	25,959,418	31.3	110,461,591	52.7%
Provision of integrated business solutions for gas equipment	–	–	17,030,894	6.7%	7,374,484	8.9	39,526,810	18.8%
	68,943,423	100.0%	252,375,698	100.0%	82,878,653	100.0%	209,724,253	100.0%

The substantial growth in turnover for the year ended 31 December 2004 and the six months ended 30 June 2005 was attributable to the injection of assets by Xinao Shijiazhuang to Enric Gas Equipment pursuant to the Shijiazhuang JV Agreement which advanced the Group's platform in the provision of integrated business solutions and the production capabilities in pressure vessels.

Cost of sales

Cost of sales mainly consists of cost of inventories sold, salaries and wages, welfare, depreciation of property, plant and equipment used for production and manufacturing overheads.

The following table sets out the cost components for each of three product lines:

	For the year ended 31 December 2003			For the year ended 31 December 2004				For the six months ended 30 June 2004				For the six months ended 30 June 2005			
	Compressors	Pressure vessels	Total	Compressors	Pressure vessels	Integrated business solutions	Total	Compressors	Pressure vessels	Integrated business solutions	Total	Compressors	Pressure vessels	Integrated business solutions	Total
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cost of materials	81.5	52.8	81.3	87.6	88.9	89.0	88.4	85.3	90.9	92.4	88.0	88.0	87.4	92.4	88.3
Salaries and wages	8.3	22.4	8.4	6.3	5.4	5.2	5.7	7.3	2.5	1.1	5.0	5.4	2.3	1.1	3.0
Welfare	1.2	3.2	1.2	0.7	0.7	0.9	0.8	1.0	0.3	0.1	0.7	0.8	0.3	0.1	0.4
Depreciation of property, plant and equipment	4.4	4.2	4.4	1.7	0.8	0.8	1.1	1.2	2.7	1.9	1.8	2.5	3.5	1.9	3.0
Manufacturing overhead	4.6	17.4	4.7	3.7	4.2	4.1	4.0	5.2	3.6	4.5	4.5	3.3	6.5	4.5	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Gross profits

The following table illustrates the breakdown of the Group's gross profit by products during the Track Record Period:

	Year ended 31 December 2003			Year ended 31 December 2004			For the six months ended 30 June 2004			For the six months ended 30 June 2005		
	RMB	*% of turnover/ cost of sales/ gross profit*	*GP %*	*RMB*	*% of turnover/ cost of sales/ gross profit*	*GP %*	*RMB*	*% of turnover/ cost of sales/ gross profit*	*GP %*	*RMB*	*% of turnover/ cost of sales/ gross profit*	*GP %*
Turnover												
Sale of compressors	68,615,843	99.5%		115,224,362	45.7%		49,544,751	59.8%		59,735,852	28.5%	
Sale of pressure vessels	327,580	0.5%		120,120,442	47.6%		25,959,418	31.3%		110,461,591	52.7%	
Provision of integrated business solutions for gas equipment	–	–		17,030,894	6.7%		7,374,484	8.9%		39,526,810	18.8%	
	68,943,423	100.0%		252,375,698	100.0%		82,878,653	100.0%		209,724,253	100.0%	
Cost of sales												
Sale of compressors	40,503,465	99.3%		72,994,914	41.1%		30,572,558	54.4%		38,610,238	26.9%	
Sale of pressure vessels	267,543	0.7%		95,596,039	53.7%		21,771,114	38.8%		82,913,085	57.7%	
Provision of integrated business solutions for gas equipment	–	–		9,199,846	5.2%		3,825,833	6.8%		22,233,112	15.4%	
	40,771,008	100.0%		177,790,799	100.0%		56,169,505	100.0%		143,756,435	100.0%	
Gross profit												
Sale of compressors	28,112,378	99.8%	41.0%	42,229,449	56.6%	36.6%	18,972,193	71.0%	38.3%	21,125,614	32.0%	35.4%
Sale of pressure vessels	60,037	0.2%	18.3%	24,524,402	32.9%	20.4%	4,188,304	15.7%	16.1%	27,548,506	41.8%	24.9%
Provision of integrated business solutions for gas equipment	–	–	–	7,831,048	10.5%	46.0%	3,548,651	13.3%	48.1%	17,293,698	26.2%	43.8%
	28,172,415	100.0%	40.9%	74,584,899	100.0%	29.6%	26,709,148	100.0%	32.2%	65,967,818	100.0%	31.5%

Other revenue

Other revenue mainly consists of government grants given by the local PRC Government, income arising from sale of steel materials left-over from production which represented scrap materials arising from production and interest income from loans to related parties and bank deposits.

Selling expenses

Selling expenses mainly consist of salaries, welfare, transportation expenses, sales commission expenses, provision for product warranties, travelling and entertainment expenses and rental expenses.

Administrative expenses

Administrative expenses mainly consist of salaries, welfare, depreciation of fixed assets for office equipment and furniture, utilities and office expenses and provision for doubtful debts.

Finance costs

Finance costs mainly consist of interest expenses on bank loans.

Other net income

Other net income mainly consists of gain on disposal of fixed assets, compensation from third parties for non-compliance of supply contracts and fire compensation.

Taxation

The Group is not subject to Hong Kong profits tax as the Group did not earn income subject to Hong Kong profits tax during the Track Record Period.

The statutory state income tax rates applicable to Enric Compressor, Enric Gas Equipment and Enric Integration are 30%, 24% and 30% respectively. As Enric Compressor, Enric Gas Equipment and Enric Integration are foreign-invested enterprises, commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, each of Enric Compressor, Enric Gas Equipment and Enric Integration is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in state income tax rate for the third to fifth years.

The statutory local income tax rate applicable to Enric Compressor, Enric Gas Equipment and Enric Integration is 3%. Commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, Enric Gas Equipment is entitled to a tax holiday of a tax-free period for the first to fifth years and a 50% reduction in local income tax rate for the sixth to tenth years. Enric Compressor and Enric Integration are exempted from local income taxes.

Enric Compressor was in the tax holiday of a tax-free period in respect of PRC income tax for the year ended 31 December 2003. It is subject to PRC income tax at 15% for the year ended 31 December 2004. The Enterprise Income Tax ("EIT") rates applicable to Enric Compressor for each of the two years ended 31 December 2004 and for the six months ended 30 June 2005 were 0% and 15% and 15% respectively. The EIT rates for the six months ending 31 December 2005 and for the year ending 31 December 2006 are expected to be 15% and 15% respectively. Thereafter, the EIT rate is expected to be 30%. However, based on the Notice [2004] No. 247 dated 13 October 2004 and the Notice [2005] No. 16 dated 17 January 2005 issued by the Anhui State Tax Bureau, Enric Compressor is entitled to an income tax reduction amounting to RMB2,035,384 for the year ended 31 December 2004 as an incentive for purchase of domestically manufactured equipment.

No provision for PRC income tax has been provided by Enric Gas Equipment for the period from the date of establishment to 30 June 2005. Accordingly, the EIT rates applicable to Enric Gas Equipment for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 was 0%. Based on current applicable rates, the EIT rates applicable to the six months ending 31 December 2005, each of the years ending 31 December 2006, 2007, 2008, 2009 to 2013, and 2014 and thereafter are expected to be 0%, 12%, 12% , 12%, 25.5% and 27%, respectively.

No provision for PRC income tax has been made by Enric Integration for the period from the date of establishment to 30 June 2005 as it was in the tax holiday of a tax-free period in respect of PRC income tax. Based on current applicable rates, the EIT rates of Enric Integration for the year ending 31 December 2009, and for the year ending 31 December 2010 and thereafter are expected to be 0%, 15% and 30%, respectively.

Apart from income tax, the Group's sale of products are subject to value-added tax ("Output VAT"). Output VAT is calculated at a rate of 17% on the sales value of goods and is payable by the customer in addition to the sales value of goods. The Group pays VAT on its purchases ("Input VAT") which is deducted against Output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, and included in other payables and accrued expenses on the balance sheet.

Factors affecting the Group's results of operations and financial condition

In view of the rising demand for compressors, pressure vessels and integrated business solutions, the Group is expanding its production capacity. The Directors believe such expansion will increase the market share of the Group in the long run. The Directors also believe that the Group can secure a larger market share with its unique technology, existing experienced management team and high quality products. However, potential investors should be aware of the following factors that may affect the Group's results of operations and financial condition.

Growth of the natural gas equipment industry

According to China's Energy Development Report 2003 issued by Beijing Academy of Economic Development Institution in 2004, the demand for natural gas is forecasted to increase to approximately 200.0 bcm by 2020, representing an increase of approximately 785.0% when comparing to a demand of approximately 22.6 bcm in 2000. It is projected that approximately 37.5% of the total demand of natural gas in the PRC in 2020 will be applied to the power generation sector and approximately 35.0% of the total demand in 2020 is forecasted to be applied to the city gas sector including natural gas vehicles. In view of the increasing demand in natural gas, the demand for gas equipment is also expected to increase. The Directors believe that the increasing overall volume in the natural gas industry will have direct effect on the demand on gas equipment which, in return, will have a direct effect on the Group's turnover. For more details of the PRC natural gas market, please see the section headed "Industry overview" in this prospectus.

Fluctuation in the cost of raw materials

Motors and steel are the major raw materials for the manufacture of compressors, pressure vessels and accessories. The costs of motors and steel consumed during the Track Record Period were approximately RMB9.6 million, RMB63.2 million and RMB73.3 million respectively, which accounted for approximately 29.0%, 42.3% and 57.7% of cost of inventories sold. The significant increase in cost of motors and steel in 2004 was mainly due to the increase in production volume of compressors and commencement of production of pressure vessels and integrated business solutions during the year. In addition, the unit cost of three major kinds of steel, namely CNG steel pipes, stainless steel and vessel steel board, increased by approximately 23%, 13% and 11% respectively during the six months ended 30 June 2005 when compared with those during the year ended 31 December 2004.

Apart from the above, potential investors should be aware that there are many factors which are beyond the control of the Group and might affect the Group's future performance, details of which are set out in the section headed "Risk factors" in this prospectus.

Critical accounting policies

The combined financial statements of the Group have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The following are accounting policies which are considered to be critical to the combined financial statements:

Intangible assets

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the assets reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

As at 30 June 2005, the Group had intangible assets of approximately RMB7.3 million which mainly represented technical blueprint in relation to the design of compressors of approximately RMB2.3 million (31 December 2004: approximately RMB2.5 million) which was acquired from an Independent Third Party, Bengbu Compressor, on 1 March 2002 and technology know-how for production of integrated business solutions of approximately RMB5.0 million (31 December 2004: approximately RMB 5.2 million) which arose pursuant to the exclusive rights granted to Xinao Shijiazhuang by Neogas in 2003, which has been exclusively licenced for use by Enric Gas Equipment and Enric Integration under a licence agreement dated 16 September 2005 entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric Integration jointly as licensees. For further details, please refer to the sections headed "Business – Intellectual property – Patented technologies" and "Connected transactions" in this prospectus. The recognition of intangible assets complies with Hong Kong Accounting Standard 38, Intangible Assets, because it is probable that the future economic benefits that are attributable to these assets will flow to the enterprise, and the costs of the assets can be measured reliably. In anticipation of the technical specification and lifespan of the technology in the market and based on the judgement of the management expertise in the industry, the Directors estimate that the amortisation period of the technical know-how should be 10 years.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Discussion of combined results of the Group for the Track Record Period

Year ended 31 December 2003

Turnover

For the year ended 31 December 2003, the Group's turnover was approximately RMB68.9 million. The growth in turnover of the Group for the year ended 31 December 2003 was mainly attributable to the increase in sales quantities of compressors for the year ended 31 December 2003.

The following table illustrates the details of sale of compressors by sub-product categories together with the average selling price and the quantity sold:

	Average selling price *RMB/unit*	**Quantity** *Unit (Note)*	**Amount** *RMB*
Sales of compressors			
– Gas compressor series	63,197.24	244	15,420,127
– Special-purpose compressor series	311,372.64	77	23,975,693
– General-purpose compressor series	81,051.39	313	25,369,085
	102,152.85	634	64,764,905
– Accessories			3,850,938
			68,615,843
Sales of pressure vessels			
– Chemical materials storage and transportation equipment series	4,199.74	78	327,580
Total			68,943,423

Note: The "unit" above represents the sum of units of different products sold during the year under the respective product categories.

Cost of sales

For the year ended 31 December 2003, the Group's cost of sales comprises (i) cost of inventories sold of approximately RMB33.1 million, representing 81.3% of total cost of sales; (ii) salaries and wages of approximately RMB3.4 million, representing 8.4% of total cost of sales; (iii) welfare of approximately RMB0.5 million, representing 1.2% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB1.8 million, representing 4.4% of total cost of sales; and (v) manufacturing overheads of approximately RMB1.9 million, representing 4.7% of total cost of sales.

Gross profit margin

The gross profit margin on the sales of compressors was 40.9% for the year ended 31 December 2003.

Other revenue

For the year ended 31 December 2003, other revenue amounted to approximately RMB5.8 million. Other revenue mainly consisted of government grants of approximately RMB1.6 million which was received by a subsidiary of the Group from the local PRC Government, sale of steel materials left-over from production of approximately

RMB0.2 million and interest income from loans to related parties of RMB4.0 million. Out of RMB1.6 million of government grants, approximately RMB0.4 million represented unclear purpose grant subsidised by the Bengbu Weishan District Finance Bureau (蚌埠市淮上區財政局). This government grant forms part of the terms of the acquisition of Bengbu Compressor from the Bengbu local district government. In accordance with the terms set out in the Bengbu Acquisition Agreement, Enric Compressor, after the acquisition of Bengbu Compressor, is entitled to receive an amount of subsidy equal to the amount of enterprise income tax and 50% of the local VAT paid and payable by Enric Compressor for each of the financial years from 2002 to 2004. The PRC legal advisers of the Company consider the risk of returning such government grant to be remote.

Selling expenses

For the year ended 31 December 2003, the Group's selling expenses amounted to approximately RMB7.6 million which represented approximately 11.1% of turnover. Selling expenses mainly comprised salaries of approximately RMB0.8 million, welfare of approximately RMB0.1 million, transportation expenses of approximately RMB1.4 million, sales commission expenses of approximately RMB1.2 million, provision for product warranties of approximately RMB1.0 million, travelling and entertainment expenses of approximately RMB1.8 million and rental expenses of approximately RMB0.5 million.

Administrative expenses

For the year ended 31 December 2003, the Group's administrative expenses amounted to approximately RMB11.6 million which represented 16.9% of turnover. Administrative expenses mainly comprised salaries of approximately RMB2.7 million, welfare of approximately RMB2.0 million, depreciation of property, plant and equipment of approximately RMB1.0 million, utilities and office expenses of approximately 0.8 million, and provision for doubtful debts of approximately RMB1.1 million.

Finance costs

For the year ended 31 December 2003, the Group's finance costs amounted to approximately RMB4.4 million which represented 6.4% of turnover. Finance costs mainly represented interest expenses on bank loans.

Other net income

For the year ended 31 December 2003, the Group's other net income amounted to approximately RMB302,000. Other net income mainly consisted of gain on disposal of property, plant and equipment of approximately RMB109,000, write-back of other payables of approximately RMB267,000 which relates to miscellaneous expenses incurred when the Group acquired Bengbu Compressor in early 2002 and later agreed to be written off by Bengbu Compressor. This was offset by donation expenses of approximately RMB69,000.

Taxation

No income tax was provided as Enric Compressor, the Group's subsidiary in the PRC, was in the tax holiday of a tax-free period for the year ended 31 December 2003.

Minority interests

Minority interests represented Xinao Shijiazhuang's 70% interest in Enric Gas Equipment. As Xinao Shijiazhuang had not contributed any assets and liabilities to Enric Gas Equipment until 31 March 2004, the minority interests for the year ended 31 December 2003 was nil.

Year ended 31 December 2004

Turnover

For the year ended 31 December 2004, the Group's turnover increased by approximately RMB183.5 million to approximately RMB252.4 million, representing a surge of 266.3% when compared with that in 2003. The significant increase in the Group's turnover was mainly attributable to the increase in the volume of compressors sold by Enric compressor, an increase in the volume of pressure vessels sold, and the commencement of sale of integrated business solutions for gas equipment after the commencement of operation of Enric Gas Equipment during the year.

In addition, sale of compressors during the year ended 31 December 2004 increased by approximately RMB46.6 million or 67.9% to approximately RMB115.2 million. This was mainly due to the increase in sales quantities and selling prices of compressors during the year ended 31 December 2004. Sales quantities of compressors increased by 108 units or 17%, from 634 units during the year ended 31 December 2003 to 742 units during the year ended 31 December 2004. Average unit selling price increased by approximately 42.6% from approximately RMB102,152.85 per unit in 2003 to RMB145,653.95 per unit in 2004. It was mainly due to the change in product mix and the increase in sale of specific models under the gas compressors series and special-purpose compressor series, which command higher selling price than the general-purpose compressor series. In addition, there was a general increase in the unit selling price of all compressor products as a result of strong market demand for such products.

The following table illustrates the details of sale of products by each of the sub-product category together with the average selling price and the quantity sold for the year ended 31 December 2004:

	Average selling price *RMB/unit*	**Quantity** *unit (Note)*	**Amount** *RMB*
Sales of compressors			
– Gas compressor series	133,476.75	280	37,373,490
– Special-purpose compressor series	304,063.76	120	36,487,651
– General-purpose compressor series	100,041.20	342	34,214,090
	145,653.95	742	108,075,231
– Accessories			7,149,131
			115,224,362
Sales of pressure vessels			
– Seamless pressure cylinders and transportation equipment series	626,229.70	75	46,967,228
– Cryogenic liquid storage and transportation equipment series	856,738.39	23	19,704,984
– Chemical materials storage and transportation equipment series	144,065.31	371	53,448,230
	256,120.34	469	120,120,442
Provision of integrated business solutions for gas equipment			
– Integrated business solutions for city gas projects	40,616.43	54	2,193,287
– Integrated business solutions for CNG refueling stations and CNG refueling trailers	1,141,354.37	13	14,837,607
	254,192.45	67	17,030,894
Total			252,375,698

Note: The "unit" above represents the sum of units of different products sold during the year under the respective product categories.

Cost of sales

For the year ended 31 December 2004, the Group's cost of sales increased by approximately RMB137.0 million to approximately RMB177.8 million, a surge of 336.1% compared with that for the year ended 31 December 2003, which was mostly in line with the increase in turnover. Cost of sales comprised (i) cost of inventories sold of approximately RMB157.2 million, representing 88.4% of total cost of sales; (ii) salaries and wages of approximately RMB10.2 million, representing 5.7% of total cost of sales; (iii) welfare of approximately RMB1.3 million, representing 0.8% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB2.0 million, representing 1.1% of total cost of sales; and (v) manufacturing overheads of approximately RMB7.1 million, representing 4.0% of total cost of sales.

Gross profit margin

	Gross profit margin (%) For the year ended 31 December	
	2003	**2004**
Sales of compressors	41.0	36.6
Sales of pressure vessels	18.3	20.4
Provision of integrated business solutions for gas equipment	–	46.0
Overall	40.9	29.6

The decrease in the gross profit margin of compressors for the year ended 31 December 2004 was mainly due to the additional manufacturing overheads and higher labour cost rates required for the manufacturing of certain models in gas compressors series and special-purpose compressor series for gas equipment as compared to the general-purpose compressor series, thus overall gross profit margin of compressors decreased accordingly.

In addition, the relatively lower gross profit margin of pressure vessel products as compared with the other product lines was because approximately 44.5% of total sales of pressure vessels in 2004 represented sales of pressure vessel products of the chemical material storage and transportation equipment series, which had relatively lower gross profit margin with an average of 13.1% when compared with the average gross profit margin of seamless pressure cylinder storage and transportation equipment series of 24.9% as well as cryogenic liquid storage and transportation equipment series of 29.3%. Accordingly, the gross profit margin on sale of pressure vessels was diluted.

Although the gross profit margin derived from the provision of integrated business solutions for gas equipment was higher than those on the sale of compressors and pressure vessels, sale of compressors and pressure vessels together accounted for approximately 93.3% of the total sales. Thus overall gross profit margin decreased for the year ended 31 December 2004.

Other revenue

For the year ended 31 December 2004, other revenue amounted to approximately RMB5.1 million which decreased by approximately 12.6% when compared with that for the year ended 31 December 2003. Other revenue mainly consisted of government grants of approximately RMB0.7 million, sale of steel materials left over from production of approximately RMB0.8 million and interest income from loans to related parties of approximately RMB3.2 million. The decrease in other revenue for the year ended 31 December 2004 was mainly due to the decrease of interest income from loans to related parties. Out of RMB0.7 million of government grants, approximately RMB0.6 million represented unclear purpose grant subsidised by the Bengbu Weishan District Finance Bureau(蚌埠市淮上區財政局). This government grant forms part of the terms of the acquisition of Bengbu Compressor from the Bengbu local district government. In accordance with the terms set out in the Bengbu Acquisition Agreement, Enric Compressor, after the acquisition of Bengbu Compressor, is entitled to receive an amount of subsidy equal to the amount of enterprise income tax and 50% of the local VAT paid and payable by Enric Compressor for each of the financial years from 2002 to 2004. The PRC legal advisers of the Company consider the risk of returning the government grant to be remote.

Selling expenses

For the year ended 31 December 2004, the Group's selling expenses increased by approximately RMB5.2 million or 67.7% to approximately RMB12.8 million, representing approximately 5.1% of turnover. The selling expenses mainly represented salaries of approximately RMB1.3 million, welfare of approximately RMB0.3 million, transportation expenses of approximately RMB1.8 million, sales commission expenses of approximately RMB1.8 million, provision for product warranties of approximately RMB1.7 million, travelling and entertainment expenses of approximately RMB3.5 million and rental expenses of approximately RMB0.5 million. The significant increase in selling expenses was mainly due to the additional selling expenses incurred in relation to the new products, pressure vessels and integrated business solutions for gas equipment, launched during the year ended 31 December 2004. The additional selling expenses in association with the pressure vessels and integrated business solutions for gas equipment accounted for approximately RMB4.3 million for the year. The decrease in the ratio of selling expenses to turnover from 11.1% for the year ended 31 December 2003 to 5.1% for the year ended 31 December 2004 was mainly due to economies of scale in advertising expenses, transportation expenses and travelling and entertainment expenses.

Administrative expenses

For the year ended 31 December 2004, the Group's administrative expenses increased by approximately RMB11.5 million or 98.6% to approximately RMB23.1 million, which represented approximately 9.2% of turnover. The administrative expenses mainly represented salaries of approximately RMB5.5 million, welfare expenses of approximately RMB3.9 million, depreciation of property, plant and equipment of approximately RMB2.4 million, utilities and office expenses of approximately 1.9 million, and provision for doubtful debts of approximately RMB2.2 million. The increase was mainly attributable to the related administrative expenses incurred by Enric Gas Equipment which has not had any operation in 2003 and such administrative expenses amounted to approximately RMB9.2 million in 2004. The decrease in the ratio of administrative expenses to turnover from 16.9% for the year ended 31 December 2003 to 9.2% for the year ended 31 December 2004 was mainly due to cost control measures implemented by the management of the Group during 2004.

Finance costs

For the year ended 31 December 2004, the Group's finance costs increased by approximately RMB1.7 million or 36.9% to approximately RMB6.1 million, which represented 2.4% of turnover. The finance costs mainly represented interest expenses on bank loans. The increase in finance costs was mainly due to the increase in bank borrowing during the year.

Other net income

For the year ended 31 December 2004, the Group's other net income increased by approximately RMB2.4 million to approximately RMB2.7 million. The other net income mainly represented gain on disposal of property, plant and equipment of approximately RMB13,000, compensation income from third parties for non-compliance of supply contracts and fire compensation of approximately RMB373,000 and recognition of negative goodwill directly into other net income, which arose from the acquisition of additional interest in Enric Gas Equipment, of approximately RMB2.4 million. This was partially offset by donation expenses of approximately RMB60,000. The compensation income from third parties for non-compliance of supply contracts amounting to RMB98,400 was due to sub-standard machinery from suppliers. The compensation income from fire compensation amounting to RMB274,600 was mainly due to the agreed write off of other payables by a supplier as compensation for a small fire caused by the leakage of oil from a machinery provided by such supplier. As only the machinery was damaged, and such machinery has been replaced, there was no impact on the Group's normal production and operation.

Taxation

For the year ended 31 December 2004, the effective tax rate of the Group was 4.5%. The income tax represented current PRC income tax of approximately RMB11.9 million which was charged at applicable tax rate of the assessable profits of Enric Compressor during the year plus the tax effect of tax non-deductible expenses of approximately RMB0.6 million, which offset against tax holiday of 50% reduction in income tax rate granted by the local government of approximately RMB8.0 million and tax incentive granted by the local government for the purchase of domestically manufactured equipment of approximately RMB2.0 million.

Minority interests

Minority interests represented Xinao Shijiazhuang's 70% interest in Enric Gas Equipment from 1 January 2004 to 15 July 2004. On 16 July 2004, Shijiazhuang BVI acquired 70% additional interests in Enric Gas Equipment from Xinao Shijiazhuang. Thereupon, Enric Gas Equipment became a wholly owned subsidiary of the Group.

Six months ended 30 June 2005

Turnover

Turnover increased by approximately 153.0% from approximately RMB82.9 million for the six months ended 30 June 2004 to approximately RMB209.7 million for the six months ended 30 June 2005. The increase was mainly due to the increase in the turnover of RMB10.2 million, RMB84.5 million and RMB32.1 million from sale of compressors, pressure vessels and integrated business solutions for gas equipment, respectively compared with the same period of 2004.

Compressors

Turnover from sale of compressors increased by approximately 20.6% from RMB49.5 million for the six months ended 30 June 2004 to approximately RMB59.7 million for the six months ended 30 June 2005, although the sales volume of compressors decreased from 402 units during the six months ended 30 June 2004 to 303 units during the corresponding period of 2005. The increase in turnover was mainly attributable to the increase in average unit selling price of gas compressor series and special-purpose compressor series from approximately RMB102,205.64 and RMB273,127.56 during the six months ended 30 June 2004 to approximately RMB350,660.54 (or 243.1%) and RMB323,560.94 (or 18.5%) during the six months ended 30 June 2005. The sale of gas compressor series and special-purpose compressor series accounted for approximately 70.3% of total turnover of compressors during the six months ended 2005. The significant increase in the average unit selling price of gas compressor series was primarily due to (i) increase in sales volume of relatively expensive CNG compressors from 36 units during the six months ended 30 June 2004 to 46 units during the same period of 2005 which accounted for approximately RMB19.8 million (or 99.0%) of the total turnover of gas compressor series during the six months ended 30 June 2005 as compared to approximately RMB12.1 million (or 89.6%) of the total turnover of gas compressor series during the same period of 2004. The increase in sales volume and unit selling price of CNG compressors during the six months ended 30 June 2005 were mainly due to the significant demand of specialised gas equipment in the PRC. The increase in average unit selling price of special-purpose compressor series during the six months ended 30 June 2005 was due to the increase in unit cost of production.

Pressure vessels

Turnover from the sale of pressure vessels increased approximately by 325.5% from approximately RMB26.0 million for the six months ended 30 June 2004 to approximately RMB110.5 million for the six months ended 30 June 2005. The increase was mainly due to significant increase in sales volume of pressure vessels from approximately 144 units during the six months ended 30 June 2004 to approximately 364 units during the corresponding period of 2005, and increase in average unit selling price of pressure vessels during the six months ended 30 June 2005. The increase in sales volume and unit selling price of pressure vessels during the six months ended 30 June 2005 were mainly due to the increased operations of Enric Gas Equipment after the injection of certain assets by Xinao Shijiazhuang which advanced the production capacities.

Integrated business solutions for gas equipment

Turnover from the sale of integrated business solutions for gas equipment increased by approximately 436.0% from approximately RMB7.4 million for the six months ended 30 June 2004 to approximately RMB39.5 million for the six months ended 30 June 2005. The increase in turnover was mainly due to increase in sales volume of integrated business solutions for CNG refueling stations and CNG refueling trailers from 5 units during the six months ended 30 June 2004 to 33 units during the six months ended 30 June 2005. The increase in sales volume of CNG refueling stations and CNG refueling trailers was mainly due to the Group's marketing effort to enlarge the Group's market share.

The following table illustrates the details of sale of products by each of the sub-product category together with the average selling price and the quantity sold for each of the six months ended 30 June 2004 and 30 June 2005:

	For the six months ended 30 June 2004			For the six months ended 30 June 2005		
	Average selling price *RMB/unit*	**Quantity** *Unit (Note)*	**Amount** *RMB*	**Average selling price** *RMB/unit*	**Quantity** *Unit (Note)*	**Amount** *RMB*
Sales of compressors						
– Gas compressor series	102,205.64	132	13,491,145	350,660.54	57	19,987,651
– Special-purpose compressor series	273,127.56	55	15,022,016	323,560.94	68	22,002,144
– General-purpose compressor series	87,399.30	215	18,790,850	63,912.41	178	11,376,409
	117,671.67	402	47,304,011	176,126.08	303	53,366,204
– Accessories			2,240,740			6,369,648
			49,544,751			59,735,852
Sales of pressure vessels						
– Seamless pressure cylinders and transportation equipment series	690,888.92	12	8,290,667	715,868.74	72	51,542,549
– Cryogenic liquid storage and transportation equipment series	643,560.60	5	3,217,803	670,742.53	32	21,463,761
– Chemical materials storage and transportation equipment series	113,786.99	127	14,450,948	144,058.77	260	37,455,281
	180,273.74	144	25,959,418	303,465.91	364	110,461,591
Provision of integrated business solutions for gas equipment						
– Integrated business solutions for city gas projects	24,407.48	29	707,817	566,349.0	7	3,964,443
– Integrated business solutions for CNG refueling stations and CNG refueling trailers	1,333,333.40	5	6,666,667	1,077,647.48	33	35,562,367
	216,896.59	34	7,374,484	988,170.25	40	39,526,810
Total			82,878,653			209,724,253

Note: The "unit" above represents the sum of units of different products sold during the period under the respective product categories.

Cost of sales

Cost of sales increased by approximately 155.9% from approximately RMB56.2 million for the six months ended 30 June 2004 to approximately RMB143.8 million for the six months ended 30 June 2005. Cost of sales for the six months ended 30 June 2005 comprised (i) cost of inventories sold of approximately RMB127.0 million, representing approximately 88.3% of total cost of sales; (ii) salaries and wages of approximately RMB4.2 million, representing approximately 3.0% of total cost of sales; (iii) welfare of approximately RMB0.6 million, representing approximately 0.4% of total cost of sales; (iv) depreciation of property, plant and equipment of approximately RMB4.3 million, representing approximately 3.0% of total cost of sales; and (v) manufacturing overheads of approximately RMB7.6 million, representing approximately 5.3% of total cost of sales. As a percentage of turnover, cost of sales increased slightly from approximately 67.8% to approximately 68.5%.

Gross profit margin

	Gross profit margin (%) For the six months ended 30 June	
	2004	**2005**
Sales of compressors	38.3	35.4
Sales of pressure vessels	16.1	24.9
Provision of integrated business solutions for gas equipment	48.1	43.8
Overall	32.2	31.5

The overall gross profit margin decreased slightly to approximately 31.5% for the six months ended 30 June 2005 as compared to approximately 32.2% of the corresponding period in 2004. The decrease in gross profit margin was mainly attributable to decrease in gross margin of compressors and decrease in gross margin of integrated business solutions for gas equipment, while such decreases were partially offset by a higher margin of approximately 24.9% of pressure vessels for the six months ended 30 June 2005 as compared to approximately 16.1% for the corresponding period in 2004 which contributed approximately 52.7% to the turnover of the Group for the six months ended 30 June 2005.

The decrease in the gross profit margin of compressors to approximately 35.4% for the six months ended 30 June 2005 as compared to approximately 38.3% of the corresponding period in 2004 was mainly because the increase in unit cost of materials has outweighed the increase in unit selling price. In addition, the decrease in the gross profit margin of integrated business solutions for gas equipment to approximately 43.8% for the six months ended 30 June 2005 as compared to approximately 48.1% of the corresponding period in 2004 was mainly due to decrease in the gross profit margin of integrated business solutions for CNG refueling stations and CNG trailers to approximately 44.6% for the six months ended 30 June 2005 as compared to approximately 49.8% of the corresponding period of 2004, which was mainly due to the decrease in average unit selling price by the Group during the six months ended 30 June 2005 as compared with the corresponding period in 2004 as a set of CNG refueling station was sold at a higher price during the six months ended 30 June 2004 to meet customer's special need.

The increase in the gross profit margin of pressure vessels to approximately 24.9% for the six months ended 30 June 2005 as compared to approximately 16.1% for the corresponding period in 2004 was mainly due to the change in product sales mix. During the six months ended 30 June 2004, a larger contribution of the relatively lower margin of pressure vessels of chemical materials storage and transportation equipment series was recorded, in the product sales mix, which contributed approximately 55.7% to the total sales of pressure vessel products for the six months ended 30 June 2004. However, during the six months ended 30 June 2005, the change in product sales mix from relatively lower margin of chemical materials storage and transportation equipment series to relatively higher margin of seamless pressure cylinders and transportation equipment series, which contributed to approximately 46.7% of the total sales of pressure vessel products during the period.

Other revenue

Other revenue decreased by approximately 78.2% from approximately RMB2,635,000 for the six months ended 30 June 2004 to approximately RMB575,000 for the six months ended 30 June 2005. Other revenue for the six months ended 30 June 2005 mainly consisted of sale of steel materials left over from production of approximately RMB436,000 which increased by approximately 103.0% as compared to approximately RMB215,000 for the six months ended 30 June 2004, and interest income from bank deposits of approximately RMB139,000 which increased significantly as compared to approximately RMB9,500 for the six months ended 30 June 2004 as a result of the significant increase in bank balances during the six months ended 30 June 2005. The significant decrease in other revenue was mainly because no government grant was received during the six months ended 30 June 2005 while there was approximately RMB672,000 government grants received during the six months ended 30 June 2004, and no interest income earned from loans to related parties for the six months ended 30 June 2005 as all outstanding related parties loans have been settled prior to 31 December 2004 while interest income earned from loans to related parties amounting to approximately RMB1,739,000 for the six months ended 30 June 2004.

Selling expenses

Selling expenses increased by approximately 75.2% from approximately RMB5.1 million for the six months ended 30 June 2004 to approximately RMB9.0 million for the six months ended 30 June 2005. The increase in selling expenses was mainly due to (1) increase in salaries from approximately RMB0.6 million for the six months ended 30 June 2004 to approximately RMB0.9 million for the six months ended 30 June 2005 as a result of expansion of business scale during the period; (2) increase in transportation expenses from approximately RMB0.4 million for the six months ended 30 June 2004 to approximately RMB1.7 million for the six months ended 30 June 2005 which is in line with the increase in sales volume during the period; (3) increase in provision for product warranties from approximately RMB0.7 million for the six months ended 30 June 2004 to approximately RMB1.1 million for the six months ended 30 June 2005 as a result of increase in the turnover and (4) royalty fee for certain model of products of approximately RMB0.5 million payable to Neogas incurred for the six months ended 30 June 2005 whereas no such royalty fee incurred for the corresponding period in 2004. As a percentage of turnover, selling expenses decreased from approximately 6.2% to approximately 4.3% over the same period which was mainly due to economies of scale achieved in travelling and entertainment expenses and general office expenses.

Administrative expenses

Administrative expenses increased by approximately 127.8% from approximately RMB8.7 million for the six months ended 30 June 2004 to approximately RMB19.8 million for the six months ended 30 June 2005. The increase in administrative expenses was mainly due to (1) increase in salaries by approximately 92.0% from approximately RMB2.5 million for the six months ended 30 June 2004 to approximately RMB4.8 million for the six months ended 30 June 2005 as a result of expansion of business scale; (2) increase of welfare by approximately 64.7% from approximately RMB1.7 million for the six months ended 30 June 2004 to approximately RMB2.8 million which was in line with the increase of salaries; (3) increase in utilities and office expenses from approximately RMB0.4 million for the six months ended 30 June 2004 to approximately RMB1.4 million for the six months ended 30 June 2005 after the commencement of operation of Enric Integration on 28 December 2004; and (4) increase in provision for doubtful debts from approximately RMB0.5 million for the six months ended 30 June 2004 to approximately RMB1.8 million as the Group had provided approximately RMB1.8 million for debts due over one year during the six months ended 30 June 2005. As a percentage of turnover, administrative expenses decreased from approximately 10.5% to approximately 9.5% over the same period which was mainly due to cost control measures implemented by the management of the Group during the period.

Finance costs

Finance costs increased by approximately 45.6% from approximately RMB2.8 million for the six months ended 30 June 2004 to approximately RMB4.0 million for the six months ended 30 June 2005. The increase in finance costs was mainly due to increase in outstanding bank loans balances during the six months ended 30 June 2005.

Taxation

The effective tax rate of the Group was approximately 4.1% for the six months ended 30 June 2005 as compared to approximately 1.1% for the six months ended 30 June 2004. The income tax represented current PRC income tax of approximately RMB9.8 million which was charged at applicable tax rate of the assessable profits of Enric Compressor during the six months ended 30 June 2005, plus the tax effect of non-deductible expenses of approximately RMB0.4 million and offset against tax holiday of 50% reduction in income tax rate granted by the local government of approximately RMB8.8 million.

The increase in effective tax rate for the six months ended 30 June 2005 was due to the increase in assessable profits of Enric Compressor for the six months ended 30 June 2005, and for the six months ended 30 June 2004, Enric Compressor was entitled to state income tax reduction amounting to RMB1.5 million as an incentive for purchase of domestically manufactured equipment. No such incentive was granted during the period of 2005.

Minority interests

No minority interests were recorded for the six months ended 30 June 2005 after the acquisition of 70% additional interest in Enric Gas Equipment by Shijiazhuang BVI from Xinao Shijiazhuang on 16 July 2004.

Review of past position

Long term investment

During the year ended 31 December 2003, Enric Compressor contributed approximately RMB26.2 million to XGCL, representing approximately 12.27% equity interests in the XGCL. On 10 June 2004, Enric Compressor sold this investment to Langfang Guofu at cost.

As XGCL had funding needs at the time, a cash capital contribution by Enric Compressor was made to XGCL in 2003. When making such investment, XGCL and Enric Compressor were private companies and were both controlled by Mr. Wang. Such investment for long term purpose was considered acceptable by the management of the Group to facilitate funding within Mr. Wang's businesses. In addition, the Group was still privately-owned at that time and had not considered the needs to streamline its business activities. Since the Group only had equity interest of 12.27%, and had control nor significant influence over XGCL, its results had not been included as part of the results of the Group during the Track Record Period. During the period of investment in XGCL by the Group, XGCL had not declared or paid dividends to the Group.

The investment in XGCL is categorised as long term investment since the management of the Group had the intention to invest in XGCL for long term purpose as indicated above. The classification as long term investment complied with the relevant requirement as set out in Hong Kong Accounting Standard 39 – Financial instruments: Recognition and measurement. In the preparation for the Listing, in order to streamline the Group's business, the management Group decided to dispose of the long term investment in XGCL which was engaged in a business different from that of the Group.

Inventories

The inventories of the Group amounted to approximately RMB27.6 million and RMB79.7 million and RMB116.3 million as at 31 December 2003, 31 December 2004 and 30 June 2005 respectively. The significant increase in inventories as at 30 June 2005 was mainly attributable to the increase of raw materials and work in progress necessary for the production of finished goods to meet the sales orders on hand as of 30 June 2005.

The Directors consider that no provision for obsolete inventories was necessary as at 30 June 2005 as finished goods had been covered by current sales orders as of 30 June 2005.

As at 30 June 2005, the Group had raw materials of approximately RMB63.3 million. Raw materials represented steel, motors, various kinds of valves and miscellaneous accessories for the manufacturing of compressors, pressure vessels and integrated business solutions. Out of RMB63.3 million of raw materials, approximately RMB59.5 million or approximately 94.0% of raw materials were aged within one month to six months, and the remaining approximately RMB3.8 million or approximately 6.0% of raw materials were aged over six months but less than one year. The normal holding period for raw materials was about six months, however, certain major raw materials such as steel and motors may be held for a longer period.

In addition, approximately 59.2% of the balances of raw materials and work in progress as of 30 June 2005 had been subsequently used with the remaining balances, aged less than six months, expected to be further processed to finished goods to satisfy the sales orders on hand.

In accordance with the special characteristics of each product, the Group has compiled a set of standardised management process in order to strengthen its internal control over inventories and the associated logistics needs. The Group's inventory control policy covers its finished products, work in progress, components and fittings, raw materials and packaging. The average inventory turnover days were 194, 110 and 124 for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The decrease in inventory turnover days for the year ended 31 December 2004 as compared to that for the year ended 31 December 2003 was mainly due to the increased demand of compressors and pressure vessels products in the market. The increase in average inventory turnover days for the six months ended 30 June 2005 compared with that for the year ended 31 December 2004 was mainly due to increase in purchase of raw materials during the period to cope with the increase in sales orders. Included in raw materials were approximately RMB18.7 million of steel materials maintained as reserve in anticipation of increase in steel price;

The normal production cycle for the Group's products ranged from 60 to 90 days, the difference of inventory turnover period of 124 days as compared to the production cycle was mainly because certain raw materials, such as steel, and standard model of compressors were maintained as reserves for the reasons stated above.

No inventories were stated at fair value less costs to sell as at 31 December 2003, 31 December 2004 and 30 June 2005. By reviewing the conditions of the inventories, the Group makes provisions for obsolete inventories based on specifically identified items that the Group believes to be obsolete.

Trade and bills receivables

The trade and bills receivables of the Group amounted to approximately RMB18.1 million, RMB48.8 million and RMB52.9 million as at 31 December 2003, 31 December 2004 and 30 June 2005 respectively. The increase in trade and bills receivables as at 30 June 2005 was mainly due to increase in sales during the period.

The Directors considered that as most of the customers of the Group have continuing business and maintain sound relationship with the Group, no further provision on the balance is considered necessary.

Aging analysis

The general credit and payment policy is payment upon delivery. Based on Directors' evaluation of the creditworthiness of customers and subject to negotiation, credit terms ranging from three to 12 months are available for certain customers with satisfactory financial background, well-established trading relationship and/or good repayment history on a case-by-case basis.

The management of the Group closely monitors the credit exposure and repayment progress of its customers. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the average debtors' turnover days were 77, 48 and 44 respectively. The improvement in debtors' turnover days for the year ended 31 December 2004 and the six months ended 30 June 2005, was mainly due to the tighter credit control of the Group and the launch of pressure vessels and integrated business solutions in 2004, both of which have generally shorter credit period granted to customers.

The Group adopted a provisioning policy on trade receivables where an allowance for doubtful debts is provided when, based upon the management's evaluation, the recoverability of these trade receivables is doubtful at the balance sheet date. As at 30 June 2005, a provision was made for those receivables aged over one year. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the Group made provision for doubtful debts of approximately RMB1.1 million, RMB1.7 million and RMB1.8 million respectively. As at 31 December 2003, 31 December 2004 and 30 June 2005, the Group had provisions for doubtful debts amounting to approximately RMB1.2 million, RMB2.9 million and RMB4.8 million respectively. The management of the Group considered the provisions for doubtful debts were adequate during the Track Record Period.

Deposits, other receivables and prepayments

As at 31 December 2003, 31 December 2004 and 30 June 2005, deposits, other receivables and prepayments amounted to approximately RMB2.9 million, RMB21.9 million and RMB35.4 million respectively. As at 30 June 2005, advances to suppliers were approximately RMB25.8 million, representing approximately 72.9% of the balance of approximately RMB35.4 million of deposits, other receivables and prepayments.

The increase in the balance of deposits, other receivables and prepayments as at 30 June 2005 was mainly due to the increase in advances to suppliers from approximately RMB16.1 million as at 31 December 2004 to approximately RMB25.8 million as at 30 June 2005. Such increase was mainly due to the import of certain raw materials of pressure vessels, namely steel pipes, from overseas which required deposits in advance.

Trade and bills payable

As at 31 December 2003 and 31 December 2004, the Group's trade and bills payable amounted to RMB16.8 million and RMB41.7 million respectively.

The Group has maintained good business relationship with its major suppliers and the respective payment periods to major suppliers ranged from one to three months. For other suppliers, payment periods normally ranged within six months. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the average creditors' turnover days were 94, 60 and 79 respectively. The increase in average creditors' turnover days during the six months ended 30 June 2005 was mainly due to increase in settlement to suppliers in the form of bills during the period, which generally granted credit terms for settlement ranging from 90 to 180 days. The decrease in average creditors' turnover days from 2003 to 2004 was mainly due to increased purchase of raw materials, especially steel pipes, of which the Group adopted prepayment on certain percentage of the invoiced amount.

Provision for product warranties

The Group provides product warranties of 12 months to its customers. Should there be any defect arising from the normal operation of the Group's products, the Group will provide warranty services to its customers without any charges unless the defects are caused by the customers themselves. The Group make a provision for product warranties based on the actual warranty expenses incurred in the previous accounting periods and management's experience. The basis of provision has been consistently applied throughout the Track Record Period. The current provision mechanism is fair and reasonable. The total provision made to product warranties for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 were approximately RMB1.0 million, RMB1.8 million and RMB1.1 million respectively. The Directors believe that the provision for product warranties is adequate. The product warranties were utilised during the Track Record Period in the form of repair and maintenance costs incurred.

Loans receivable

The loans receivable of the Group as at 31 December 2003 was RMB78.6 million. As the loans had been repaid during 2004, the Group had no loans receivable outstanding as at 31 December 2004.

The loans due from XGCL, a company directly or indirectly controlled by Mr. Wang, a controlling shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the Controlling Shareholders" in this prospectus), were unsecured and carried interest ranging from 5.10% to 6.14% per annum during the loan period. The interest income earned from the loans amounted to approximately RMB4.0 million and RMB3.2 million for each of the two years ended 31 December 2004 respectively.

Legal implication on the loans receivable under PRC laws

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

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

During the Track Record Period, the interests accrued from the Group's unlawful loans receivable amounted to approximately RMB7.2 million. In the event that PBOC decides to penalise the Group for its unlawful loans receivables, the penalties will be up to approximately RMB36.0 million, being five times the "interests accrued from the unlawful loans which has been received by the lender". In such event, the controlling Shareholder, Mr. Wang will indemnify the Group against such penalty and loss.

The Directors considered that, at the time of making such advances, the Group were private group companies, and in order to facilitate its funding, loans were advanced to XGCL for its short term investment purpose.

Non-trade cash advances from related parties

During each of the two years ended 31 December 2004 and the six months ended 30 June 2004, the Group received non-trade cash advances from related parties of approximately RMB34.5 million, RMB270.6 million and RMB76.7 million, respectively. The Group had not received any cash advances from related parties for the six months ended 30 June 2005. During the same periods, the Group had made repayments to related parties of approximately RMB4.0 million, RMB262.2 million and RMB0.4 million, respectively. During the six months ended 30 June 2005, except for the amount due to XGII of RMB48.3 million, being the major shareholder of the Group, the Group repaid all outstanding non-trade advances as at 31 December 2004 amounting to approximately RMB6.4 million.

Therefore, the Group received net cash advances from related parties of approximately RMB30.5 million, RMB8.5 million and RMB76.3 million for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 respectively, and repaid RMB6.4 million to related parties for the outstanding balances as at 31 December 2004 during the six months ended 30 June 2005.

For the year ended 31 December 2003, the cash advances from related parties mainly consisted of (i) cash advances from XGII of approximately RMB6.1 million, for the investment in Enric Compressor and short term financing purpose; and (ii) advances from XGCL of approximately RMB25.1 million for short term financing purpose.

For the year ended 31 December 2004, the cash advances from related parties mainly consisted of (i) cash advances from XGII of RMB47.3 million for the investment in Enric Gas Equipment and short term financing purpose; and (ii) advances from Xinao Shijiazhuang of approximately RMB216.9 million for short term financing purpose during the year and repayment of RMB215.7 million during the year.

For the six months ended 30 June 2004, the cash advances from related parties mainly consisted of (i) cash advances from XGII of RMB16.1 million for the investment in Enric Gas Equipment and short term financing purpose; and (ii) advances from Xinao Shijiazhuang of approximately RMB59.9 million for short term financing purpose.

Non-trade cash advances to related parties

During each of the two years ended 31 December 2004 and the six months ended 30 June 2004, the Group had made approximately RMB7.5 million, RMB54.5 million and RMB43.2 million cash advances to related parties, and during the same periods, the Group had received repayments from related parties amounting to approximately RMB16.2 million, RMB59.3 million and RMB5.0 million respectively.

Therefore, the Group received net repayments of the advances from related parties of approximately RMB8.7 million and RMB4.8 million for each of the two years ended 31 December 2004 respectively and the Group made net cash advances to related parties of approximately RMB38.2 million during the six months ended 30 June 2004. No cash advances were made to related parties during the six months ended 30 June 2005.

The cash advances to related parties mainly represented cash advances to XGCL and Xinao Shijiazhuang for their funding needs. At the time of making cash advances to related parties, the Group, being a part of the private group of companies controlled by Mr. Wang, was under the macro strategic planning of XGCL. For better utilisation of funds among the companies directly or indirectly controlled by Mr. Wang, funds were advanced to related parties for their funding needs. Prior to making the cash advances to related parties by the Group, the management of the Group will review the cash position of the Group to ensure such advances will not affect the normal operation of the business of the Group.

The Directors confirmed that there have been no cash advances from or to related parties since 1 January 2005.

Amounts due from and due to related parties as at 31 December 2004 and 30 June 2005

The following tables set out the amounts due from and due to related parties as at 31 December 2004 and 30 June 2005:

Amounts due from related parties

Name of related parties	*Notes*	Amounts due from related parties as at 31 December 2004 *RMB'000*	Amounts due from related parties as at 30 June 2005 *RMB'000*
Beihai Xinao Gas Company Limited (北海新奧燃氣有限公司)	*(i)*	3,128	1,781
Bengbu Xinao Gas Development Company Limited (蚌埠新奧燃氣發展有限公司)	*(i)*	557	394
Changsha Xinao Gas Company Limited (長沙新奧燃氣有限公司)	*(i)*	–	80
Dongguan Xinao Gas Company Limited (東莞新奧燃氣有限公司)	*(i)*	278	284
Guilin Xinao Gas Company Limited (桂林新奧燃氣有限公司)	*(i)*	108	108
Haining Xinao Gas Company Limited (海寧新奧燃氣有限公司)	*(i)*	–	395
Hebei Finance Leasing Company Limited (河北金融租賃有限公司)	*(i)*	–	204
Hebei Veyong Biochemical Joint Stock Company Limited (河北威遠生物化工股份有限公司)	*(i)*	235	–
Inner Mongolia New Veyong Biochemical Company Limited (內蒙古新威遠生物化工有限公司)	*(i)*	167	167
Lianyungong Xinao Gas Company Limited (連雲港新奧燃氣有限公司)	*(i)*	–	6
Luquan Fuxin Gas Company Limited (鹿泉富新燃氣有限公司)	*(i)*	3,500	2
Qingdao Xinao Jiaonan Gas Company Limited (青島新奧膠南燃气有限公司)	*(i)*	210	210
Shijiazhuang Xinao Gas Company Limited (石家莊新奧燃氣有限公司)	*(i)*	33	–
Xiangtan Xinao Gas Company Limited (湘潭新奧燃氣有限公司)	*(i)*	–	394
Xinao Gas Development Company Limited (新奧燃氣發展有限公司)	*(i)*	–	10,960
Xinao Gas Development Company Limited Weifang Branch Company (新奧燃氣發展有限公司濰坊分公司)	*(i)*	9	71

Name of related parties	Notes	Amounts due from related parties as at 31 December 2004 RMB'000	Amounts due from related parties as at 30 June 2005 RMB'000
Zhuzhou Xinao Gas Company Limited (株洲新奧燃氣有限公司)	(i)	–	614
Langfang City Natural Gas Company Limited (廊坊市天然氣有限公司)	(ii)	8	8
XGCL	(iii)	814	–
Total		9,047	15,678

Notes:

(i) These companies are directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). These balances represented sales of the Group's products to these related companies.

(ii) This company is directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). This balance was transferred by Xinao Shijiazhuang to Enric Gas Equipment on 31 March 2004 upon the completion of capital contribution pursuant to the Shijiazhuang JV Agreement.

(iii) This represented interest receivable on loans to XGCL, which carried interest at annual rates ranging from 5.1% to 6.1% during the Track Record Period. The interest receivables were settled on 7 March 2005.

Amounts due to related parties

Name of related parties	Notes	Amounts due to related parties as at 31 December 2004 RMB'000	Amounts due to related parties as at 30 June 2005 RMB'000
Bengbu Xinao Gas Development Company Limited (蚌埠新奧燃氣發展有限公司)	(i)	170	340
Shijiazhuang Veyong High-voltage Switchgear Manufacturing Company Limited (石家莊威遠高壓開關製造有限公司)	(ii)	1,007	175
Xinao Group International Economic Development Company Limited (新奧集團國際經濟發展有限公司)	(ii)	674	–
Langfang Xinao Construction Installation Engineering Company Limited (廊坊新奧建築安裝工程有限公司)	(ii)	1,264	–

Name of related parties	Notes	Amounts due to related parties as at 31 December 2004 RMB'000	Amounts due to related parties as at 30 June 2005 RMB'000
Shijiazhuang Xinao Gas Company Limited (石家莊新奧燃氣有限公司)	*(iii)*	2,300	2,304
Hebei Veyong Biochemical Joint Stock Company Limited (河北威遠生物化工股份有限公司)	*(iv)*	–	15
Langfang Xinao Gas Company Limited (廊坊新奧燃氣有限公司)	*(iv)*	306	178
Liaocheng Xinao Gas Company Limited (聊城新奧燃氣有限公司)	*(iv)*	468	468
Xinao Gas Development Company Limited (新奧燃氣發展有限公司)	*(iv)*	4,038	2,224
Yancheng Xinao Compressed Natural Gas Company Limited (鹽城新奧壓縮天然氣有限公司)	*(iv)*	21	306
Xinao Group Solar Energy Company Limited (新奧太陽能有限公司)	*(v)*	272	–
XGII	*(vi)*	53,393	48,300
Xinao Shijiazhuang	*(vii)*	1,286	–
		65,199	54,310

Notes:

(i) This company is directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). The balance represented purchase of gas for production.

(ii) These companies are directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). The balances represented outstanding balances on the purchase of raw materials and accessories for production.

(iii) This company is directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). The balances represented outstanding gas connection fee payable in connection with the provision of gas connection services for a factory of the Group in Shijiazhuang in 2004 and receipt in advance for sales of accessories.

(iv) These companies are directly or indirectly controlled by Mr. Wang, controlling Shareholder and an executive Director (particulars of which are set out in the section headed "Relationship with the controlling Shareholders" in this prospectus). These balances represented receipt in advance in connection with the products to be sold by the Group to these related companies.

(v) Out of the total balance, RMB130,000 represented rental payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited, during the year ended 31 December 2004. The remaining balance of approximately RMB142,000 represented directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004. The total balance has been fully settled on 3 March 2005 and 7 March 2005 respectively.

(vi) The balance represented cash advances from XGII. The balance taking into account subsequent settlement, if any, will be capitalised pursuant to the Capitalisation Issue. The balance is unsecured and interest-free.

(vii) The balance represented cash advances from Xinao Shijiazhuang. The balance was unsecured, interest-free and was fully settled by March 2005.

PROPERTY INTERESTS

Property interest rented and occupied by the Group in Hong Kong

The Group rents and occupies a portion of office of Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong as its office in Hong Kong. The Group rents its Hong Kong Office from Xinao Gas Investment Group, a connected person of the Company under the GEM Listing Rules at a rent of approximately HK$456,000 per annum for the three years commencing on 1 February 2005. Details of this lease are further set out in the section headed "Connected transactions" in this prospectus. This property has a saleable area of approximately 964.46 sq.ft.

Property interest held and occupied by the Group in the PRC

Enric Gas Equipment is located at Gaoji Da Street, Zhaolingpu Village, Xinhua District, Shijiazhuang city, Hebei province, the PRC with a site area of approximately 68,156.00 sq.m. Enric Gas Equipment owns the land use rights of this property. 30 buildings, including various workshops and offices with a total gross floor area of approximately 32,897.69 sq.m. and various ancillary structures are erected thereon.

Enric Compressor is located at No. 187 Yanshan Road, Bengbu city, Anhui province, the PRC with a total site area of approximately 118,779.60 sq.m. Enric Compressor owns the land use rights of this property. 48 buildings, including various workshops offices and various residential units with a total gross floor area of approximately 49,638.61 sq.m. and various ancillary structures are erected thereon.

In addition, Enric Compressor also owns eight other residential units and a commercial unit as staff quarters and office in Bengbu city, Anhui province. These staff quarters and office occupy a total gross floor area of approximately 520.45 sq.m.

Property interest rented and occupied by the Group in the PRC

The Group rented several floors of an office building located at Hongrun Road, Langfang Economic and Technical Development Zone, Langfang city, Hebei province, the PRC as its head office in the PRC from a connected person of the Company. The property has a gross floor area of approximately 1,620.47 sq.m. The Group leases its head office from Xinao Group Solar Energy Company Limited, a connected person of the Company under the GEM Listing Rules, at a rent of RMB520,000 per annum for a term of three years commencing on 30 September 2004. Details of this lease are further set out in the section headed "Connected transactions" in this prospectus.

Enric Gas Equipment leases an office unit located at No.166 North Xinshi Road, Shijiazhuang city, Hebei province, the PRC, from Hebei Veyong Group Company Limited, a connected person of the Company under the GEM Listing Rules. Enric Gas Equipment leases this property at a rent of RMB3,600 per annum for a term of 20 years commencing in September 2003. Details of this lease are further set out in the section headed "Connected transactions" in this prospectus. This property has a gross floor area of approximately 25 sq.m.

Enric Integration currently rents the premises in Langsen Vehicle Industrial Zone (朗森汽車產業園生產廠房), Langfang Economic and Technical Development Zone, Langfang city, Hebei province, the PRC from an Independent Third Party with a gross floor area of approximately 2,366.93 sq.m., using it as the workshop for the processing, assembly, commissioning, painting and storing of CNG hydraulic daughter refueling stations and as an administrative office. Pursuant to a renewal tenancy agreement dated on 26 April 2005, the Group leases the said premises for an annual rental cost equivalent to approximately RMB388,768.25 plus an annual management fee of RMB56,806.32 and for a term expiring on 31 October 2006. The Directors consider that as the business activities engaged by Enric Integration mainly comprise marketing, provision of professional service to the customers of the natural gas industry, together with assembling the critical equipment of CNG refueling station, work load of such assembly activities can also be processed at the production facilities in either Enric Compressor and Enric Gas Equipment. Further, taking into account that assembly sites or plants are in ample supply in Langfang, the Directors expect that the short term lease will not create any significant negative impact to the Group's operations. XGII, Mr. Wang and Ms. Zhao have agreed to provide indemnities in respect of any losses, damages and liability which may be suffered by any members of the Group as a result of losing the said premises if the Group fails to renew the tenancy agreement upon its expiry.

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

Property valuation

Sallmanns (Far East) Limited, an independent valuer, has undertaken a valuation for the Group with regard to the valuation of its property interests as at 31 August 2005. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix V to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2005

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix IV to this prospectus, the Group's forecast combined profit after taxation attributable to equity holders of the Company for the year ending 31 December 2005 is unlikely to be less than RMB65,000,000 (approximately HK$62,500,000). The profit forecast has been prepared by the Directors based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results of the Group based on the Group's management accounts for the two months ended 31 August 2005 and a forecast of the combined results of the Group for the remaining four months ending 31 December 2005. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2005.

The following sets forth certain forecast data of the Group for the year ending 31 December 2005.

Unaudited forecast combined profit after taxation attributable to equity holders of the Company *(Note 1)*	Not less than RMB65,000,000 (approximately HK$62,500,000) *(Note 5)*
Unaudited pro forma forecast earnings per Share – weighted average *(Note 2)*	Not less than RMB0.22 (approximately HK$0.21) *(Note 5)*
– fully diluted (without the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 3)*	Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*
– fully diluted (with the exercise of the options granted under the Pre-IPO Share Option Plan) *(Note 4)*	Not less than RMB0.15 (approximately HK$0.14) *(Note 5)*

Notes:

1. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix IV to this prospectus.

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

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

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

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

The text of the letters from KPMG and from the Sponsor regarding the profit forecast is set out in Appendix IV to this prospectus.

DIVIDEND POLICY

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

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

DISTRIBUTABLE RESERVES

As at 30 June 2005, the Company did not have any reserves available for distribution to the Shareholders, as the Company was incorporated on 28 September 2004 and has not carried out any business since its incorporation other than transactions related to the Reorganisation.

EXEMPTION OF INCLUSION OF CERTAIN INFORMATION UNDER THE COMPANIES ORDINANCE

Under section 342(1)(b) of the Companies Ordinance and paragraph 27 of the third schedule to the Companies Ordinance (the "Third Schedule"), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Company during the three preceding years. Under paragraph 31 of the Third Schedule, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 5(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) (the "Notice"), where it is proposed to offer any shares of a company incorporated outside Hong Kong by a prospectus issued generally and the shares have been approved by the recognised exchange company that operates GEM for listing on GEM, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraphs 27 and 31 of the Third Schedule if it complies with the requirements of those paragraphs as modified by section 5(3) of the Notice.

In compliance with section 5(3) of the Notice which modifies the requirements in paragraphs 27 and 31 of the Third Schedule and in reliance of the exemption of section 5(2) of the Notice, the Company has included in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the two preceding years, and a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the two financial years immediately preceding the issue of this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group which has been prepared for the purpose of illustrating the effect of the Placing as if it had been taken place on 30 June 2005 and based on the audited combined net assets of the Group as at 30 June 2005 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Audited combined net assets of the Group as at 30 June 2005	Intangible assets as at 30 June 2005	Estimated net proceeds from the Placing	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
			(Note 1)		*(Notes 2)*
Based on the Placing Price of HK$1.12 per Share	97,878	(6,981)	111,927	202,824	0.47
Based on the Placing Price of HK$1.68 per Share	97,878	(6,981)	176,431	267,328	0.62

Notes:

1. The estimated net proceeds from the Placing is based on the Placing Price of HK$1.12 per Share (being the lower limit of the stated Placing Price range) and HK$1.68 per Share (being the upper limit of the Placing Price range), after deduction of the estimated underwriting fees and related expenses to be paid by the Company. The estimated net proceeds from the Placing have not taken into account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme.

2. The unaudited pro forma adjusted net tangible assets per Share is based on 432,000,000 Shares in issue immediately following the completion of the Capitalisation Issue, the Conversion and the Placing as if the Shares had been in issue on 30 June 2005, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which have been granted under the Pre-IPO Share Option Plan or which may be granted under the Share Option Scheme. The adjusted net tangible asset value per Share is based on an exchange rate of RMB1.04 to HK$1.00.

3. On 26 September 2005, a capitalisation agreement was entered into between the Company and XGII pursuant to which, conditional upon the Listing, the Company will allot and issue a total of 260,159,120 Shares, as to 234,143,208 to XGII and 26,015,912 Shares to Symbiospartners (as nominated by XGII), all credited as fully paid, on capitalisation of a sum of RMB45.0 million owed by the Company to XGII. The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share as shown in the above do not take into account such Capitalisation Issue of RMB45.0 million (equivalent to approximately HK$43.3 million) as it has not taken place at the moment. After taking into account the proceeds from the Capitalisation Issue, the unaudited pro forma adjusted net tangible assets per Share would have been increased to HK$0.57 (based on the Placing Price of HK$1.12 per Share) and HK$0.72 (based on the Placing Price of HK$1.68 per Share). The RMB figure is translated at an exchange rate of RMB1.04 to HK$1.00.

4. Pursuant to the Convertible Bond Subscription Agreement, EIGL issued to Investec, an Independent Third Party, convertible redeemable bonds in the aggregate principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000). The Redeemable Convertible Bonds will be mandatorily converted to Shares in full upon (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Plan, the Share Option Scheme and the Over-allotment Option; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case at or before 8:00 a.m. on the Listing Date. Upon the Conversion, Investec will be allotted and issued such number of Shares which represents 12% of the enlarged issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised) and accordingly, 51,840,000 Shares are expected to be allotted and issued to Investec, which is equivalent to a conversion price of approximately HK$0.75 per Share.

5. For the purpose of the Listing, the properties of the Group were revalued as at 31 August 2005 by an independent firm of surveyors, Sallmanns (Far East) Limited. A surplus of approximately RMB35 million arising as a result of the revaluation of the Group's properties as at 31 August 2005 will not be incorporated in the Group's financial statements. It is the Group's policy to state its property, plant and equipment at cost less accumulated depreciation and impairment losses in accordance with Hong Kong Accounting Standard 16 "Property, plant and equipment" issued by the Hong Kong Institute of Certified Public Accountants. If such revaluation surplus were to be included in the Group's financial statements, additional annual depreciation charges of approximately RMB2 million would be incurred.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 June 2005, being the date to which the latest audited financial statements of the Company were made up, there has been no material adverse change in the financial or trading position or prospects of the Company.