INDUSTRY OVERVIEW

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The SAI Report

Strategic Analysis Inc., or SAI, an independent third party consultancy firm, previously published a report on China's industrial gas market with data and information up to the end of 2006. We commissioned SAI to update its existing report to also include data and information for the year of 2008. We paid a total fee of US$76,500 for the updates and purchase of the updated SAI Report. Our directors are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the SAI Report.

Founded in 1977, SAI is a private consultancy firm with its headquarters in Pennsylvania, the United States. It is a leading international business intelligence and strategy consulting firm with operations in all major regions of the world. Services provided by SAI include market assessments, competitive benchmarking, strategic and market planning which serve a variety of industries including chemicals, metals, ceramics and automotive industries.

In updating the SAI Report, employees of SAI who specialize in the industrial gas sector and who are responsible for conducting research on the development of the industry, conducted field interviews, and market analysis on industry trend and development. The research process involved both primary and secondary research.

Primary research required consultants to conduct both face-to-face interviews and telephone interviews with industrial gas suppliers, customers, distributors and relevant associations to obtain data such as capacity, production volume, revenue generated, type of service provided, type of products supplied or consumed.

Secondary research is mainly desktop research of publicly-available data from industry, government, and other published sources. SAI verified the information through its primary market research.

For the industrial gas industry, SAI conducted numerous studies both within and outside China. As there is no reliable data from government statistics, or other published sources, the SAI Report is mainly based on its own primary research.

INDUSTRY OVERVIEW

OVERVIEW OF INDUSTRIAL GASES

Industrial gases and applications

The most commonly used industrial gases can be classified into two categories, as follows:

- air gases such as Oxygen (O_2), Nitrogen (N_2) and Argon (Ar); and
- rare gases such as Helium (He), Krypton (Kr), Xenon (Xe) and Neon (Ne).

Oxygen, nitrogen and argon are the primary ingredients of air, comprising approximately 20.9%, 78.1% and 0.9% of air by volume, respectively.

Industrial gases are commonly used in a variety of industries including metallurgical (iron and steel industries in particular), chemical, welding, electronic, glass, food, heat treatment and other industries. Metallurgical and chemical industries are the two largest industries in terms of variety and volume of industrial gases consumed. Oxygen and nitrogen are the two largest industrial gas products by usage volume.

The following table sets forth different types of industrial gas products used in various industries:

Industry	Iron and Steel	Chemical	Non-ferrous Metals	Electronics
Main industrial gases used	Oxygen	Oxygen	Oxygen	Nitrogen
	Nitrogen	Nitrogen	Nitrogen	Argon
	Argon	Hydrogen		Ultra High Purity Electronics Specialty Gases
	Hydrogen	Carbon Monoxide		
		Fuel Gases		

CHINA INDUSTRIAL GAS MARKET

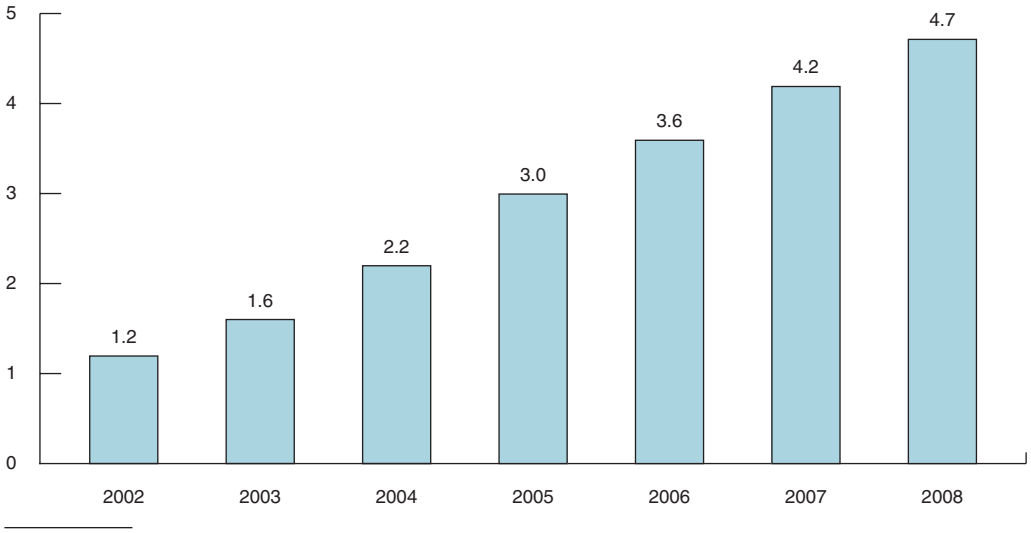
Economic growth of China

Since the introduction of economic reforms by the PRC government in the late 1970's, the PRC economy has grown significantly. According to the National Bureau of Statistics of China, from 2002 to 2008, the PRC's nominal GDP grew from RMB12.0 trillion to RMB30.1 trillion, representing a CAGR of 16.5%. During the same period, the PRC's gross industrial output value also increased from RMB4.7 trillion to RMB12.9 trillion, representing a CAGR of 18.2%.

China's industrial gas market

The strong performance of the PRC economy has boosted the growth of the industrial sector in the PRC and as a result, significantly increased the consumption of industrial gases. According to the SAI Report, China's industrial gas market has grown from approximately US$1.2 billion in 2002 to approximately US$4.7 billion in 2008, representing a CAGR of approximately 25.6%. The following chart sets forth the size of China's industrial gas market in terms of sales revenue from 2002 to 2008:

Total Sales Revenue of China's Industrial Gas Market 2002-2008 (US$ billion)

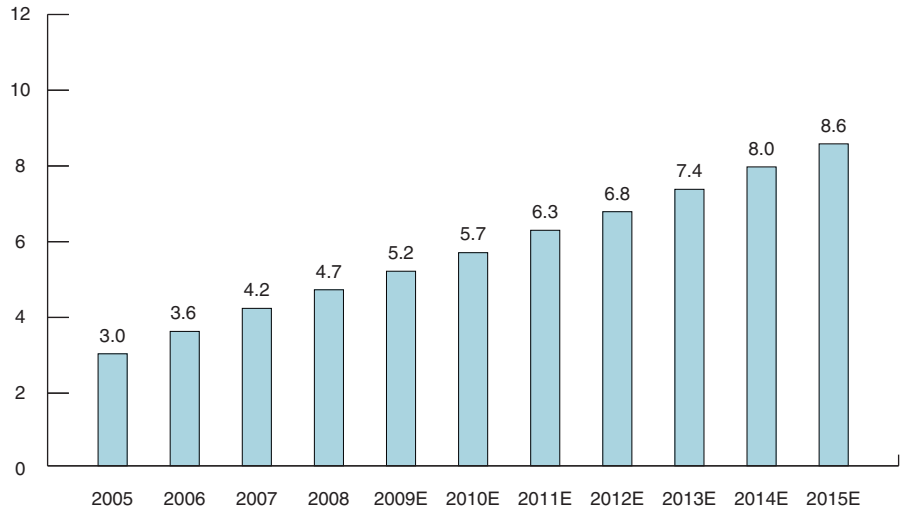


Source: SAI Report

Despite the recent economic downturn, China's industrial gas market is projected to continue its rapid growth driven by the strong growth of major end user markets. The SAI Report forecasts that the China's industrial gas market is expected to grow from US$4.7 billion in 2008 to US$5.7 billion in 2010 and US$8.6 billion in 2015, representing a CAGR of approximately 10.1% and 9.0%, respectively, which are significantly higher than those of the overall global industrial gas market. As a result, China's industrial gas market's share as a percentage of the total global market by sales revenue is expected to increase from approximately 9.2% in 2008 to approximately 10.0% in 2010, and approximately 11.4% in 2015.

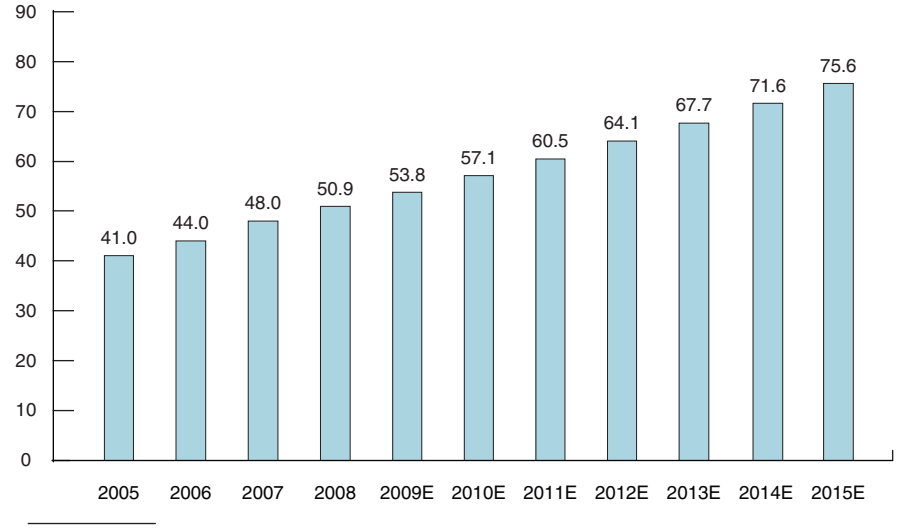
The following charts set out the estimated growth in the sales revenue in the industrial gas market in China and the world for the periods indicated:

Total Sales Revenue of China's Industrial Gas Market (US$ billion)



Source: SAI Report

Total Sales Revenue of the Global Industrial Gas Market (US$ billion)



Source: SAI Report

Major customers

According to the SAI Report, the steel and chemical industries are the two largest end user markets for industrial gas in China, accounting for approximately 56.0% of the total consumption in China in 2008, and these industries are expected to account for approximately 47.6% of total sales revenue in China in 2015. Among all end user markets, the medical, food and non-ferrous industries are expected to enjoy the highest growth, however, their proportion of percentage usage is expected to remain small compared to that of the steel and chemical industries. The rapid growth of these end user markets and increasing consumption of industrial gases in their manufacturing process have been and will continue to be the major growth drivers for China's industrial gas market. An analysis of the growth of the respective end user markets is set forth below:

- The Chinese steel industry's output reached 489.3 million metric tons in 2007 and increased by 2.4% to 500.9 million metric tons in 2008. It is estimated to reach approximately 550 million metric tons by 2010 with a CAGR of 4.8% from 2008 to 2010.

- The petrochemical and coal chemical sectors are the two major sectors in the chemical industry. Oil refining output reached 342 million metric tons in 2008 and is expected to reach approximately 378 million metric tons in 2010; the coal chemical sector is expected to expand as a result of a number of government-driven investments valued at over US$100 billion by 2020; China's ethylene production capacity is expected to rise to approximately 18.3 million metric tons per year by 2010 from 11.0 million metric tons in 2008 and fertilizer output is expected to increase to 64.4 million metric tons by 2010 from 58.4 million metric tons in 2008.
- The non-ferrous metals industry comprises the exploring, mining, ore processing, smelting, refining and manufacturing of non-ferrous metals, which include the ten major non-ferrous metals: copper, aluminium, lead, zinc, nickel, tin, antimony, mercury, magnesium and titanium. Driven by China's rapid growth in economic development and urban construction, this industry has experienced rapid growth in recent years. The total non-ferrous metals production output volume in China has increased from 12.3 million metric tons in 2003 to 25.2 million metric tons in 2008 at a CAGR of 15.5%. It is expected that the non-ferrous metals industry in China will grow at more than 10% annually in the next few years in terms of production output volume and the total production output volume of the ten major non-ferrous metals in China will reach approximately 30 million metric tons in 2010 according to the State Information Center.

The following table illustrates the historical, current and forecast demand for industrial gases by industry in China in terms of value for the periods indicated:

	Market Size (US$ billion, except percentages)									
	2007		2008		2010E		2008-2010E	2015E		2010E-2015E
End User Industry	Value	Total	Value	Total	Value	Total	CAGR	Value	Total	CAGR
Steel	1.29	30%	1.35	29%	1.49	26%	5%	2.08	24%	7%
Chemical	1.20	29%	1.30	28%	1.50	26%	7%	1.99	23%	6%
Non-ferrous metals	0.04	1%	0.04	1%	0.05	1%	12%	0.07	1%	7%
Other	1.71	40%	2.04	42%	2.64	47%	14%	4.43	52%	11%
Total	4.24	100%	4.73	100%	5.68	100%	10%	8.57	100%	9%

Source: SAI Report

CHINA INDUSTRIAL GAS OUTSOURCING MARKET

Historically, most of the end users in China, particularly the large state-owned steel companies and chemical companies, constructed and installed their own air separation units in order to meet their own internal industrial gas demands. This supply model is referred to as the captive supply model. According to the SAI Report, in 2008 the captive industrial gas market accounted for 58% of the total industrial gas market or US$2.72 billion, while the total outsourcing industrial gas market only accounted for 42% or US$2.01 billion of the total industrial gas market in China in terms of value.

In recent years, however, there has been a growing number of end users in China switching to outsource their industrial gas needs to independent suppliers, including major international industrial gas suppliers and domestic independent industrial gas suppliers. Both are able to supply and provide higher quality products and services at a competitive cost with reliability and professional management. As a result, the industrial outsourcing market is expected to be the fastest growing market segment in China's industrial gas market. According to the SAI Report, this segment is expected to reach US$2.56 billion by 2010 and US$4.31 billion by 2015, representing 45% and 50% of the total industrial gas market by value by 2010 and 2015, respectively.

INDUSTRY OVERVIEW

The following table illustrates the respective current and forecast value and market share (by value) of the captive and outsourcing market segments as a percentage of China's total industrial gas market for the periods indicated:

	Segment Value (US$ billion, except percentages)									
	2007		2008		2010E		2008-2010E	2015E		2010E-2015E
	Value	Market Share	Value	Market Share	Value	Market Share	CAGR	Value	Market Share	CAGR
Captive	2.51	59%	2.72	58%	3.13	55%	7%	4.26	50%	6%
Outsourcing	1.73	41%	2.01	42%	2.56	45%	13%	4.31	50%	11%

Source: SAI Report

Distribution methods

There are four major distribution methods in China for delivering outsourced industrial gases from suppliers to customers, namely, on-site supply, pipeline, merchant and cylinder, which represented 37.3%, 14.4%, 27.4% and 20.9% of the total industrial gas outsourcing market in terms of sales revenues in 2008, respectively.

Each of these distribution methods are described below:

- On-site: Independent industrial gas supply companies build air separation units within the production sites of the customers and supply industrial gases directly to customers. In some cases, the industrial gas supply companies will establish joint ventures with their customers. For the purpose of this document, "independent industrial gas supply companies" refers to companies having 50% or more of the ownership of the industrial gas supply operation.
- Merchant: Industrial gas supply companies either build independent air separation units or use extra capacity from the existing on-site or pipeline facilities to supply industrial gases and liquefied industrial gases in thermal tanks to distributors or end users.
- Pipeline: The air separation units are established by an independent industrial gas supply company and the industrial gases produced are distributed through pipelines to several customers within a specified region, for example, in industrial parks.
- Cylinder: Gases are compressed into cylinders at gas stations which are then transported to customers.

As most of the large-scale customers of industrial gas in China, such as iron and steel, chemical and non-ferrous metals companies, prefer on-site and/or pipeline supply methods, these two distribution methods enjoy a higher growth rate than the other distribution methods.

The following table sets forth the respective current and forecasted value and market share (by value) of the four distribution methods in China's industrial gas market:

	Supply Mode Value (US$ billion, except percentages)									
	2007		2008		2010E		2008-2010E	2015E		2010E-2015E
Supply Mode	Value	Market Share	Value	Market Share	Value	Market Share	CAGR	Value	Market Share	CAGR
On-site	0.62	15%	0.75	16%	1.01	18%	16%	1.94	23%	14%
Merchant	0.50	12%	0.55	12%	0.68	12%	11%	0.99	12%	8%
Pipeline	0.21	5%	0.29	6%	0.40	7%	18%	0.76	9%	14%
Cylinder	0.40	9%	0.42	9%	0.47	8%	6%	0.62	7%	6%
Total	1.73	41%	2.01	42%	2.56	45%	13%	4.31	50%	11%

Source: SAI Report

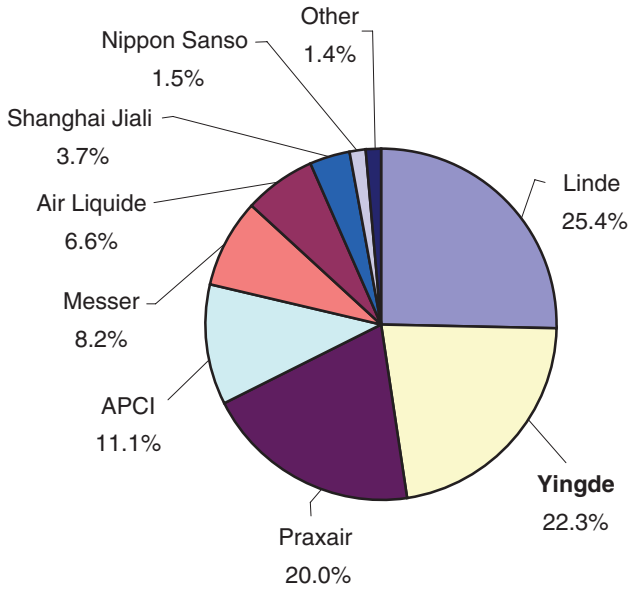
Competitive landscape

The outsourcing industrial gas market in China is highly fragmented with approximately one-third of the market share dominated by the top nine industrial gas suppliers in terms of total revenue in 2008. There are over 1,000 industrial gas suppliers in China, but only a few large-scale international and independent domestic industrial gas suppliers are capable of independently producing and supplying industrial gases to large-scale customers. Most of the industrial gas suppliers are either small-scale producers or effectively distributors who merely purchase liquefied industrial gases from other industrial gas producers, which they then sell to customers.

We believe that the large international industrial gas suppliers have certain advantages in competing for large-scale projects in China. Their advantages include advanced equipment, a wide variety of product offerings, established brand history and global networks. We believe domestic industrial gas suppliers have advantages in establishing local customer connections. Our main competitors are large-scale international industrial gas suppliers against whom we compete on price and supply lead-time. In addition, other important competitive advantages that the leading players in this market enjoy are high quality and a stable customer base. Major on-site customers tend to source their industrial gas supply needs from the same supplier when they expand their operations.

The following chart sets forth the market share of the leading independent industrial gas suppliers in China's on-site industrial gas market in 2008:

Market Share in China's On-site Industrial Gas Outsourcing Market by Revenue in 2008(1)



Source: SAI Report

Note:

(1) According to the SAI Report, all of the companies identified in the above chart are independent industrial gas suppliers with independent air separation units that are not owned by their customers. Linde, Praxair, APCI, Messer, Air Liquide and Nippon Sanso are international industrial gas suppliers. Our Company and Shanghai Jiali are domestic industrial gas suppliers. The information in the above chart has been collected through interviews with independent industrial gas suppliers who are active in China using the primary search method as described under the paragraphs headed "The SAI Report" in this section.