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## Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at (<http://www.hkgem.com>) in order to obtain up-to-date information on GEM-listed issuers.

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the “Directors”) of Enric Energy Equipment Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## BOARD OF DIRECTORS

### Executive Directors

Wang Yusuo (*Chairman*)  
Cai Hongqiu  
Zhao Xiaowen  
Zhou Kexing  
Yu Jianchao

### Non-executive Director

Zhao Baoju

### Independent Non-executive Directors

Wong Chun Ho  
Gao Zhengping  
Shou Binan

## QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Cheong Siu Fai CPA

## MEMBERS OF AUDIT COMMITTEE

Wong Chun Ho  
Gao Zhengping  
Shou Binan

## REMUNERATION COMMITTEE

Cai Hongqiu  
Gao Zhengping  
Shou Binan

## AUTHORISED REPRESENTATIVES

Cai Hongqiu  
Cheong Siu Fai

## COMPLIANCE OFFICER

Cai Hongqiu

## REGISTERED OFFICE

Century Yard, Cricket Square  
Hutchins Drive, P. O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE IN THE PRC

30 Hongrun Road  
Langfang Economic and Technical Development Zone  
Hebei Province  
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3101-03, 31st Floor  
Tower One, Lippo Centre  
No. 89 Queensway  
Hong Kong

## COMPLIANCE ADVISOR

China Everbright Capital Limited  
40th Floor, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

## AUDITORS

KPMG  
Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

## LEGAL ADVISOR

Woo, Kwan, Lee & Lo  
27th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

## PRINCIPAL BANKERS

Agricultural Bank of China  
China Construction Bank  
Bank of China (Hong Kong) Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P. O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Rooms 1712-16, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## STOCK CODE

8289

## COMPANY WEBSITE

[www.enricgroup.com](http://www.enricgroup.com)

# Chairman's Statement

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**Wang Yusuo**  
*Chairman*

On behalf of Enric Energy Equipment Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present to shareholders the annual results of the Group for the year ended 31 December 2005.

2005 was a remarkable and memorable year for us. On 18 October 2005 (the "Listing Date"), the Company successfully listed its shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of placing (the "Listing"). Not only did the Listing represent an important milestone for the Group but also open a door to the international capital market and strengthen our shareholder base.

Net proceeds from the Listing amounted to approximately HKD175,000,000. Together with the funds injected by institutional investors before the Listing, the net funds raised after deduction of listing and issuance expenses during the year 2005 reached approximately HKD227,000,000, which laid a solid financial foundation for the Group to implement its development plans in forthcoming years.

## RESULTS OF THE YEAR

Benefited from the blooming natural gas industry in the People's Republic of China (the "PRC") and the Group's dedicated efforts to strengthen its specialised gas equipment business, the Group achieved strong growth for the year ended 31 December 2005. Turnover of the Group during the year under review was RMB513,014,000 (2004: RMB252,376,000), representing an increase of 103.3%. Net profit attributable to shareholders reached a record high of RMB68,706,000 (2004: RMB36,191,000), representing 89.8% increase over the year 2004. Basic and diluted earnings per share were RMB0.225 (2004: RMB0.139) and RMB0.224 (2004: not applicable) respectively.

## FINANCIAL POSITION

As at the end of 2005, the Group recorded cash on hand of RMB339,320,000 (2004: RMB31,611,000) and bank loans of RMB125,000,000 (2004: RMB132,860,000). The Group will continue to cautiously implement its development plan and invest wisely in capital expenditures. Accordingly, we will review and maintain an optimal gearing level for the Group from time to time.

## SHARE PRICE PERFORMANCE

The placing price of the Company's shares at the Listing Date was HKD1.50 per share and the placing shares were overwhelmingly over-subscribed. As at 22 March 2006, the share price closed at HKD4.125, 175% above the placing price and the market capitalisation grew from approximately HKD667,800,000 to approximately HKD1,836,450,000. The outperforming share price reflects investors' support and trust to the Group as well as their confidence in the future of the energy equipment industry.

## BUSINESS OPPORTUNITIES

The Group is an integrated business solutions provider in the gas energy industry and one of the leading specialised gas equipment manufacturers in the PRC. The Group designs, manufactures and sells specialised gas equipment including seamless pressure cylinders, compressed natural gas ("CNG") trailers, natural gas refueling station system, liquefied natural gas ("LNG") storage tanks, LNG trailers and gas compressors. In anticipation of market's needs, the Group also offers integrated business solutions, a beyond-the-equipment package of one-stop services from the design and manufacture of gas equipment system and on-site installation to staff training and other after-sales services. Products of the Group are essential for the transportation, storage and distribution of natural gas.

Under the 11th Five-Year Plan of the PRC central government on the state's energy structure, a series of favourable policies is promulgated to promote the utilisation of natural gas – a green and efficient energy. In February 2005, the State Council issued "Opinions on encouraging the development of non-state-owned economy", which explicitly encourages private and foreign investors to enter the urban public utilities sector. Incentives are offered by local governments to promote the conversion of oil-powered or diesel-powered vehicles to natural-gas-fuelled. These favourable policies secure a healthy and sustainable growth of the gas equipment industry in the long run.

Substantial investment in natural gas infrastructure enlarges the natural gas's share in the nation's energy market. In the next decade, the natural gas equipment market will experience an enormous growth. The International Energy Agency (the "IEA") forecasted that the annual investment in the PRC natural gas equipment market would rocket over five times from USD0.6 billion in 2000 to USD3.2 billion in 2020.

The West-East Pipeline Project is the landmark natural gas infrastructure project in the PRC. Under this project, long distance gas pipelines were completed in 2004 and more branch pipelines are to be built in coming years. The Zhong-Wu Pipeline and the Shaanxi-Beijing Pipeline have also commenced operation in 2005. Other large-scale natural gas infrastructure projects in progress include the exploration of undersea natural gas, the importation of LNG as well as the construction of LNG terminals in southern cities such as Shenzhen, Shanghai, Zhuhai, Ningbo and Quanzhou. All of these projects imply that more and more cities and provinces in the PRC will be able to use natural gas as a major energy.

The prevalence of natural gas in turn accelerates the implementation of city gas projects and the construction of CNG refueling stations for vehicles, nurturing a vast and ever-growing natural gas storage, transportation and distribution equipment market in the PRC.

In addition to domestic and industrial use, natural gas has long been used as a vehicle fuel in South America, Europe and Canada due to its advantages over gasoline and diesel - lower cost, fewer exhaust emissions and safer. A research by the International Association for Natural Gas Vehicles shows that Argentina and Brazil are the two largest natural gas vehicle ("NGV") users in the world. The numbers of NGV per 1,000 people in the two countries are 40 and 6 respectively which are hundred folds higher than China's figure of 0.07. Combined with the abundant gas reserve in the region, it is expected that there is a large room for the development of NGVs in the PRC, which sets a growth engine of the Group's business in natural gas refueling stations and associated products.

Envisaging the burning needs for energy under the rapid growth of global economy, the Group strives to become a world leader in the gas equipment industry, and ultimately, the energy equipment industry.



## PROSPECTS

Under the rapid development of global economy, energy shortage and environmental pollutions are the most concerned topics around the world. In China, one of the fastest-growing countries, the government is actively looking for renewable and environmental-friendly alternatives to alleviate the nation's heavy reliance on traditional energy sources like oil and coal. Natural gas, being a green and efficient energy and more price competitive than oil and liquefied petroleum gas is thus being actively promoted by the PRC government and has become an important energy in the PRC. The thriving natural gas industry, combined with favourable policies and substantial investment in natural gas infrastructure by the PRC government, without doubts, generates a huge demand for specialised gas equipment for the storage, transportation and distribution of natural gas and brings enormous business opportunities to the Group.

The gas equipment industry is subject to stringent statutory requirements, which pose entry barriers to new players. The Group, equipped with professional certificates from both local and international authorities, has become one of the leaders in the industry in terms of qualification and will constantly strive to secure and enhance this leading position.

In compliance with its commitment to providing high quality products and services, the Group will emphasise more on analysing consumer pattern and developing tailor-made products. We will also keep pace with the latest technology and upgrade manufacturing facilities to boost productivity and feed market needs.

In order to satisfy the increasing demand for the Group's specialised gas equipment in the PRC, the Group will enhance its production capacity by establishing a new production line for seamless pressure cylinders. Capital expenditures will also be spent on upgrading the production facilities for CNG hydraulic daughter refueling station system and gas compressors.

Well-positioned at the blooming gas equipment industry, we are confident that through careful financial planning, industry expertise and effective marketing strategies, we will take full advantage of every business opportunity ahead and bring excellent returns to our shareholders.

To further increase the public profile and recognition of the Company, we are preparing an application for listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction (the "Proposed Listing"). However, no listing application has been submitted to the Stock Exchange to date and the Proposed Listing may or may not proceed. The Board will keep our shareholders and investors posted of the progress.

## APPRECIATION

I would like to take this opportunity to thank our shareholders, business partners and customers for their on-going support and our Board and all our employees for their dedication and contribution in generating a brilliant year.

**Wang Yusuo**

*Chairman*

Hong Kong, 22 March 2006

# Financial Summary

	For the year ended 31 December		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	<u>513,014</u>	<u>252,376</u>	<u>68,943</u>
Profit from operations	<u>78,402</u>	46,461	15,051
Finance costs	<u>(7,814)</u>	<u>(6,082)</u>	<u>(4,444)</u>
Profit before taxation	<u>70,588</u>	40,379	10,607
Income tax	<u>(1,882)</u>	<u>(1,814)</u>	–
Profit for the year	<u>68,706</u>	<u>38,564</u>	<u>10,607</u>
Attributable to:			
Equity shareholders of the Company	<u>68,706</u>	36,191	10,607
Minority interests	<u>–</u>	<u>2,373</u>	<u>–</u>
	<u>68,706</u>	<u>38,564</u>	<u>10,607</u>
Earnings per share – basic	<u>RMB0.225</u>	<u>RMB 0.139</u>	<u>RMB 0.041</u>
– diluted	<u>RMB0.224</u>	<u>N/A</u>	<u>N/A</u>
		As at 31 December	
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Total assets	<u>722,957</u>	319,787	204,211
Total liabilities	<u>(317,699)</u>	<u>(266,026)</u>	<u>(164,045)</u>
Net assets	<u>405,258</u>	<u>53,761</u>	<u>40,166</u>

# Financial Highlights

	For the year ended 31 December		
	2005 RMB'000	2004 RMB'000	+/-
<b>OPERATING RESULTS</b>			
Turnover	<b>513,014</b>	252,376	103.3%
Earnings before interest and taxation, depreciation and amortisation (EBITDA)	<b>90,215</b>	53,767	67.8%
Earnings before interest and taxation (EBIT)	<b>78,893</b>	46,306	70.4%
Profit attributable to equity shareholders	<b>68,706</b>	36,191	89.8%
<b>FINANCIAL POSITION</b>			
Consolidated total assets	<b>722,957</b>	319,788	126.1%
Shareholders' funds	<b>405,258</b>	53,761	653.8%
Consolidated total debts	<b>125,000</b>	132,860	-5.9%
<b>PER SHARE DATA</b>			
Earnings per share – basic	<b>RMB0.225</b>	RMB0.139	61.9%
Earnings per share – diluted <sup>1</sup>	<b>RMB0.224</b>	N/A	N/A
<b>KEY STATISTICS</b>			
EBITDA margin	<b>17.6%</b>	21.3%	-3.7%
Net profit margin	<b>13.4%</b>	14.3%	-0.9%
Return on Assets	<b>10.9%</b>	14.5%	-3.6%
Gearing ratio <sup>2</sup>	<b>0.3</b>	2.5	-2.2
Net debt-to-equity ratio <sup>3</sup>	<b>0.0</b>	1.9	N/A
Interest coverage – Times	<b>9.5</b>	7.8	1.7

Notes:

1. Diluted earnings per share for the year ended 31 December 2004 is not presented as there were no dilutive potential ordinary shares in existence during 2004.
2. Gearing ratio = Interest bearing debt/Total shareholders' equity
3. Net debt-to-equity ratio = (Interest bearing debt – Net consolidated cash)/Total shareholders' equity



## INDUSTRY OVERVIEW

### Natural Gas Market in the PRC

With the economic uptake in the PRC, the second largest energy consumer in the world, local demand for energy is surging. Currently, oil and coal, environment-polluting fuels, make up a major part of the energy consumption pie of the country. To relieve environmental pollutions and rationalise its uneven energy structure, the country is now actively shifting to environment-friendly alternatives, natural gas is one of them.

Under the 11th Five Year-Plan of the Tenth National People's Congress, the promotion of the utilisation of natural gas is put on one of the top priorities. The government plans to raise the percentage of natural gas in the overall energy mix to 6% by 2010 and 10% by 2020 from the current 2.6%, which is much lower than that of the world average of 30% while the gas output increase to 80 billion cubic metres ("bcm") by 2010 and 120bcm by 2020. The general office of the National Energy Leading Group forecasted that natural gas reserves would record an annual growth of 400bcm to 450bcm. The demand for natural gas is expected to reach 120bcm per year by 2010 and 200bcm by 2020. For the annual investment in natural gas industry, the National Development and Reform Commission estimated that it would reach RMB20 billion to RMB30 billion in the next five years from 2006 to 2010.

The statistics and forecast above clearly reflect the bright prospects of the natural gas market in the PRC.

### The Boom in Gas Equipment Market in the PRC

The rapid proliferation of natural gas in the PRC in recent years directly fuels the gas equipment industry. Gas equipment such as seamless pressure cylinders, CNG trailers, natural gas refueling station system, LNG storage tanks, LNG trailers and gas compressors is essential to the storage, transportation and utilisation of natural gas.

Substantial investment from both public and private sectors is put on natural gas infrastructure. A good example is the West-East Pipeline Project which costs USD5.2 billion. In coming years, an increasing number of LNG terminals will come into operation along the coast, for example, Shenzhen, Shanghai, Zhuhai, Ningbo, Hainan and Quanzhou. Storage tanks and cylinders, gas compressors and pressure-regulating devices are all indispensable in natural gas infrastructure. Along with large-scale infrastructure, CNG trailers and LNG trailers have also become major gas equipment for the transportation and distribution of natural gas in the PRC, especially where gas pipelines are considered uneconomical and inaccessible.

The National Development and Reform Commission predicted that the PRC would require an aggregate of RMB220 billion for the construction of natural gas infrastructure by 2020. Included will be 50,000 kilometres of natural gas pipelines, LNG terminals of 10-million-ton capacity and one-million-ton LNG shipment capacity.

Apart from residential and industrial usage, natural gas can also be used as vehicle fuel. There are more and more natural gas vehicles on the road since the government launched the National Clean Vehicle Campaign in 1999. Local governments in major provinces and cities, like Shanghai, Chongqing and Hainan, coordinate with the central government and promulgate favourable policies for the use of NGVs. According to a statistics released by the International Association of Natural Gas Vehicles in 2005, there are 97,200 NGVs and 355 gas refueling stations in China. The number of NGVs is expected to rise drastically in the future which in turn will give rise to a growing demand for gas refueling stations – another revenue driver of the gas equipment industry.

With government support and billions of investments from both public and private sectors, the future of the gas equipment industry is promising.



## BUSINESS REVIEW

### Business Performance

With years of experience and commitment in the gas equipment industry, the Group has become an integrated business solutions provider and one of the leading specialised gas equipment manufacturers in the PRC. For the year ended 31 December 2005, an encouraging growth in the overall business performance was recorded.

Turnover of the Group for the year 2005 rose by 103.3% to RMB513,014,000 (2004: RMB252,376,000). Profit attributable to shareholders was RMB68,706,000, up 89.8% over RMB36,191,000 for 2004. Basic earnings per share were RMB0.225 (2004: RMB0.139). The significant increase in turnover and profit attributable to shareholders for the year was mainly attributed to the rapid growth of sales in CNG hydraulic daughter refueling station system and pressure vessels resulting from the huge demand for specialised gas equipment for gas refueling stations and for the storage, transportation, and distribution of natural gas.

During the year, the Group's capital expenditures were mainly financed by operating cash flow and proceeds from the Listing. Return on shareholders' equity and total assets were 19.5% and 10.9% respectively. The Group is in a sound financial position with balanced investment return and liabilities.

## Sales and Marketing

The sales and marketing network of the Group is primarily based in the PRC. Specialised gas equipment for the storage, transportation, distribution, compression and pressure-regulating of natural gas is of keen demand across the gas sector from city gas operators and gas refueling station operators to natural gas logistic companies and natural gas infrastructure contractors – forming a diversified customer base for the Group. Some of our renowned customers include branch companies of PetroChina Company Limited (“PetroChina”) and China Petroleum & Chemical Corporation (“Sinopec”), Shengli Oil Field, Liaohe Oil Field, Xinao Gas Holdings Limited (“Xinao Gas”) and The Hong Kong and China Gas Company Limited’s subsidiaries in the PRC. In addition, the Group has customers from industrial and chemical sectors which require the Group’s equipment for production .

The Group has set up nine sales and service centres in the PRC, which are found in major cities such as Shanghai, Guangzhou, Chongqing, Xi’an, Urumqi, Wuhan and Bengbu.

Exhibition is another means to widen sales and marketing network. During the year, the Group participated in several major exhibitions in the PRC, and the Group’s products gained much appreciation, especially the CNG hydraulic daughter refueling station, which is exclusive in China.

The Group implemented proactive strategies in expanding export sales and attained encouraging results for the year. The export sales for the year increased to RMB22,526,000 from approximately RMB10,390,000 in 2004. The Group’s seamless pressure cylinders were exported to Korea and gas compressors and special-purpose compressors, through its dealers, to others, such as Pakistan and Thailand.



Realising that a corporate website is an excellent platform to publicise itself and maintain stable relationship with investors and customers worldwide, the Group re-designed its official website last year to be more user-friendly and to disseminate the latest information on, for example, products, corporate governance and investor relations.

## Research and Development

To safeguard its leading position in the gas equipment industry, the Group exerts continual efforts in product innovation. For the year 2005, a total of RMB6,172,000 (2004: RMB4,242,000) was devoted to the research and development of new products and upgrade of existing products.

Enhancement of manufacturing technology is another area the Group focuses on. The Group has successfully enhanced the technology in the patented CNG dispensing system used in CNG hydraulic daughter refueling stations and CNG daughter refueling station trailers. These exclusive products have been put into full production and contributed a significant portion of the revenue for the year.

The Group is also in the process of developing a liquefied-compressed natural gas (“LCNG”) refueling station system which uses LNG as a feedstock to deliver CNG to vehicles. The management believes that with advantages like increased safety, higher refueling efficiency, larger storage capacity and reduced size, the LCNG product will be very competitive and unique, once it is launched in the market.



### Productivity

To fulfill the appetite of the emerging gas equipment market, the Group always strives to enhance its productivity. During the year, production capacity has been enhanced gradually as scheduled. As at 31 December 2005, the annual production capacities of pressure vessels and compressors were approximately 3,000 and approximately 1,000 standard units respectively, which were sufficient to cope with the increasing market demand throughout the year 2005.

In the years ahead, the Group will strengthen its production capacity by establishing a new production line for seamless pressure cylinders. Capital expenditure will also be spent on upgrading the production facilities for CNG hydraulic daughter refueling station system and gas compressors in order to further broaden the Group's product spectrum and revenue sources.

### Qualifications

The gas equipment industry adheres to stringent statutory regulations. Industry players must obtain relevant qualifications. Apart from the prerequisite manufacturing and design licences from the PRC government, the Group has also been granted qualifications from international bodies. In addition to the Certificate of Registration for Manufacturing of Seamless Pressure Cylinder from the Ministry of Commerce, Industry and Energy of Korea obtained in 2004, the Group has, during the year, obtained the Manufacturing License for Pressure Vessel from the American Society of Mechanical Engineers and a manufacturing certificate from the United States Department of Transportation, which allows the Group to sell its products, in particular gas transportation products, to the United States. These professional and authoritative qualifications have not only sharpened the Group's competitive edge, but have also laid a solid foundation for the Group's future business development.

Aiming to secure its intellectual property rights, the Group has registered several patents in the PRC in March 2005. Currently, the Group is applying for the European Union's CE certification to secure its forefront position in the industry and prepare for market penetration overseas.



### Customer Service

Quality service is a prerequisite of an organisation's success. In view of this, the Group is determined to provide customers with the best service in support of its superior products.

In addition to a 24-hour hotline that offers round-the-clock consultative service to customers, a service pledge has been implemented to ensure timely delivery of after-sales service to customers across the nation.

Our dedication to quality customer service did not go unnoticed. During the year, the Group was awarded "Chinese Customers Quality and Service Satisfaction Entity" jointly by the Chinese Association for Quality, the China Quality Service Science Association and the China Product Safety Evaluating and Monitoring Centre.

### Human Resources

As at 31 December 2005, the Group had a total of over 1,400 employees in Mainland China and Hong Kong. Total staff costs (including directors' emoluments and retirement benefits schemes contributions) were approximately RMB36,257,000 for the year 2005 (2004: RMB23,582,000). As an equal opportunity employer, the Group's remuneration and bonus policies are determined with reference to the performance, qualifications and experience of individual employee and respective market rate. Other benefits include contributions to statutory mandatory provident fund scheme to the Group's employees in Hong Kong and contributions to government pension schemes to the employees in Mainland China.

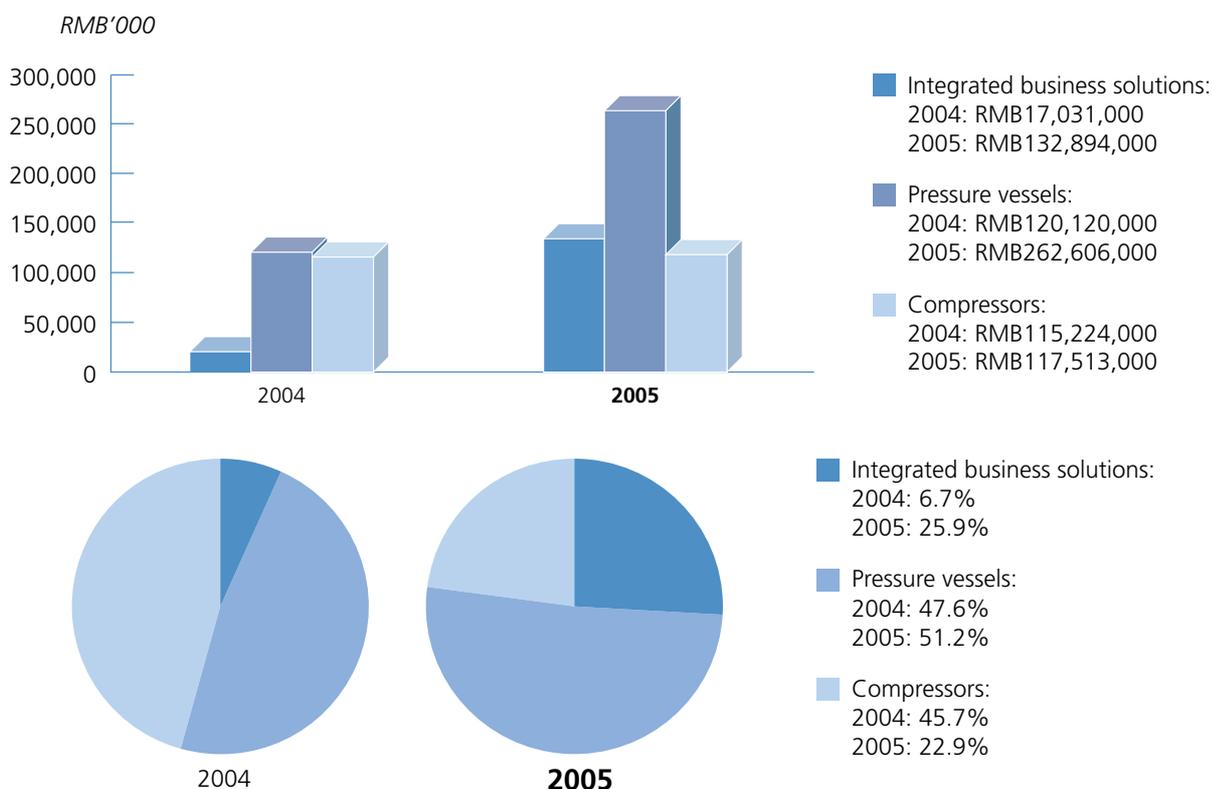
Understanding human resources is the most important asset of the Group, benefits and rewards are offered to outstanding employees. The Group may grant options as incentives to employees who demonstrate that they have made significant contributions to the Group. It also encourages lifelong learning by way of sponsorship and offers on-the-job training for staff to keep abreast of the latest knowledge and technologies.

## FINANCIAL ANALYSIS

### Turnover

Increase in turnover for the year 2005 mainly came from the provision of integrated business solutions and sale of pressure vessels. Turnover of integrated business solutions was RMB132,894,000 (2004: RMB17,031,000), rose by 680.3%, turnover of pressure vessels was RMB262,606,000 (2004: RMB120,120,000), representing an increase of 118.6%, and turnover of compressors was RMB117,513,000 (2004: RMB115,224,000), grew by 2.0%.

### Segment Turnover



### Integrated Business Solutions

The Group specialises in the provision of integrated business solutions to operators of gas refueling stations and city gas projects. The service covers the entire project cycle from the design and manufacture of gas equipment system and on-site installation to staff training and other after-sales services. During the year, this segment accounted for 25.9% (2004: 6.7%) of the overall turnover. This segment has grown drastically due to the rising popularity of NGVs in the PRC, which has generated strong demand for gas equipment for the operation of gas refueling stations.

*Pressure Vessels*

As a core business segment, the Group manufactures and sells an array of pressure vessels for the storage, transportation and distribution of natural gas: for CNG, there are seamless pressure cylinders, storage cylinder groups and trailers; and for LNG, there are storage tanks, containers and trailers. During the year, this segment contributed 51.2% (2004: 47.6%) to the overall turnover.

*Compressors*

The Group first started its gas equipment business from the manufacturing and sale of compressors. Gas compressors are key equipment for the operation of natural gas standard refueling stations and mother refueling stations. Using gas compressors, natural gas can be injected into CNG trailers and NGVs. During the year, this segment made up 22.9% (2004: 45.7%) of the overall turnover.

**Gross Profit Margin and Net Profit Margin**

Over the past two years, the Group's overall gross profit margin and net profit margin have been stable. Overall gross profit margin for 2005 was 29.3% (2004: 29.6%), and net profit margin was 13.4% (2004: 14.3%).

Mainly due to the increase in unit price and change in product mix within the pressure vessels products, the gross profit margin ("GP margin") increased to 24.0% in 2005 from 20.4% in 2004. However, due to the increase in cost of production for compressors, the GP margin for compressors decreased to 29.6% in 2005 from 36.6% in 2004. The Group's integration business solutions business was launched in 2004 and has significant growth in 2005. During the year, 36 units of CNG hydraulic daughter refueling station with GP margin of 64.5% (2004: 5 units with GP margin of 61.3%) and 68 units of CNG daughter refueling station trailer with GP margin of 27.6% (2004: 8 units with GP margin of 28.9%) were sold. Mainly because of the change in the sales proportion between the said products, the gross profit margin for the integration business solutions decreased by 6.6% to 39.4% in 2005.

**Cost of sales**

Cost of sales grew by 104.1% to RMB362,954,000 during the year (2004: RMB177,791,000). Within the cost of sales, 89.9% (2004: 88.4%), 2.7% (2004: 6.5%), 1.8% (2004: 1.1%) and 5.6% (2004: 4.0%) were attributable to cost of raw materials, wages, depreciation and factory overheads respectively. The cost structure has been stable over the past two years.

**Other revenue**

Other revenue of RMB3,538,000 for 2005 (2004: RMB5,109,000) comprised government grants of RMB1,184,000 (2004: RMB730,000), bank interest 1,634,000 (2004: RMB70,000) and sale of steel materials left-over from production of RMB720,000 (2004: RMB1,086,000). Since 2005, no loans were made to related parties and therefore there was no interest income from loans to related parties for 2005 (2004: RMB3,223,000).

**Cost analysis (expressed as percentage of turnover)**

	2005	2004
Percentage of:		
Cost of sales	<b>70.7%</b>	70.4%
Selling expenses	<b>4.5%</b>	5.1%
Administrative expenses	<b>10.0%</b>	9.2%
Finance costs	<b>1.5%</b>	2.4%

### Selling expenses

Selling expenses increased by 80.8% over 2004. Selling expenses comprised transportation expenses, provision for product warranty, royalty fee, human resources, commission and other expenses directly attributable to selling activities. Selling expenses increased as the Group experienced rapid business growth in 2005.

### Administrative expenses

Administrative expenses rose by 122.6% over 2004. During the year, human resources, professional fees, share option, research and development and directors' remuneration cost increased as the Group continued to grow and underwent new development.

### Finance costs

During the year, finance costs increased by 28.5% to RMB7,814,000 (2004: RMB6,082,000). Finance costs mainly comprised bank loans interest of RMB8,166,000 (2004: RMB5,928,000) and exchange gain of RMB714,000 (2004: exchange loss of RMB81,000). The rise in finance costs was mainly caused by the increase in the Group's average loan interest rate from approximately 5.6% to 6.2%.

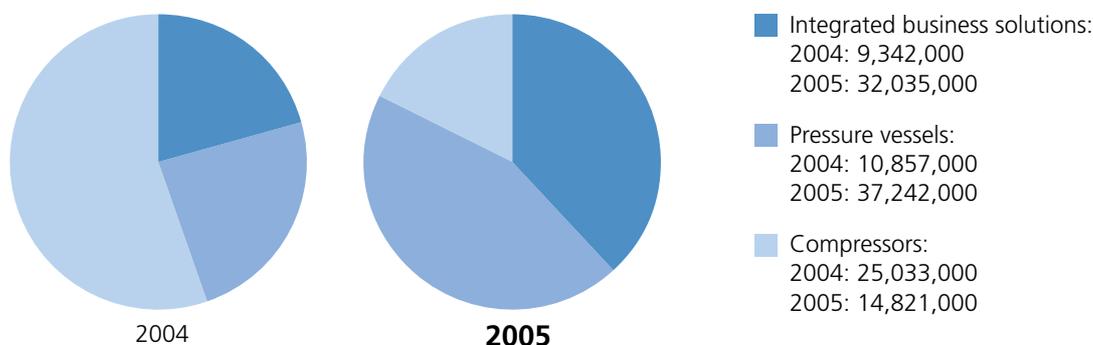
### Taxation

Aggregate tax expenses in the year 2005 amounted to RMB1,882,000 (2004: RMB1,814,000), slightly reflecting the increase in profit before taxation. Enric (Bengbu) Compressor Company Limited was the only subsidiary of the Group which was subject to income tax with tax rate of 15% during the year 2005 while Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration") and Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment") were enjoying income tax holiday in the same year. As profit contribution from Enric Integration and Enric Gas Equipment increased significantly in 2005, the effective tax rate for the Group decreased to approximately 2.7% (2004: 4.5%).

### Segment results

	2005 RMB	2004 RMB
Integrated business solutions	<b>32,035,000</b>	9,342,000
Pressure vessels	<b>37,242,000</b>	10,857,000
Compressors	<b>14,821,000</b>	25,033,000
Inter segment elimination	<b>(551,000)</b>	(734,000)
<b>Total segment result</b>	<b>83,547,000</b>	44,498,000

Total segment result = profit before unallocated operating income and expenses, finance costs, taxation and minority interests



## FINANCIAL RESOURCES REVIEW

### Liquidity and Financial Resources

Cash inflows of the Group came from diversified sources. During the year, net cash from operating activities amounted to RMB90,977,000 (2004: net cash used in operating activities was RMB2,416,000). The Group drew bank loans of RMB140,000,000 (2004: RMB79,260,000) and repaid RMB147,860,000 during the year 2005 (2004: RMB109,040,000).

Shares of the Company were listed on the GEM of the Stock Exchange on 18 October 2005. The Listing raised funds with net proceeds of approximately HKD175,000,000 (equivalent to RMB182,000,000). Together with the funds injected by institutional investors before the Listing, the total funds raised after deduction of listing and issuance expenses during 2005 was approximately HKD227,000,000 (equivalent to RMB236,000,000). As at 31 December 2005, the number of shares issued by the Company was 445,200,000. Apart from providing capital required for the Group's development, the Listing has also enlarged the Group's shareholder base and capital base.

During the year, advances from a substantial shareholder of RMB45,000,000 was capitalised pursuant to the Capitalisation Issue as defined in the prospectus dated 10 October 2005 issued by the Company (the "Prospectus"), which also showed substantial shareholder's commitment to the Group.

As at 31 December 2005, the Group's bank loans totalled RMB125,000,000 (2004: RMB132,860,000) and cash on hand was RMB339,320,000 (2004: RMB31,611,000), which was sufficient for repayment of loans and meeting capital commitments due in 2006.

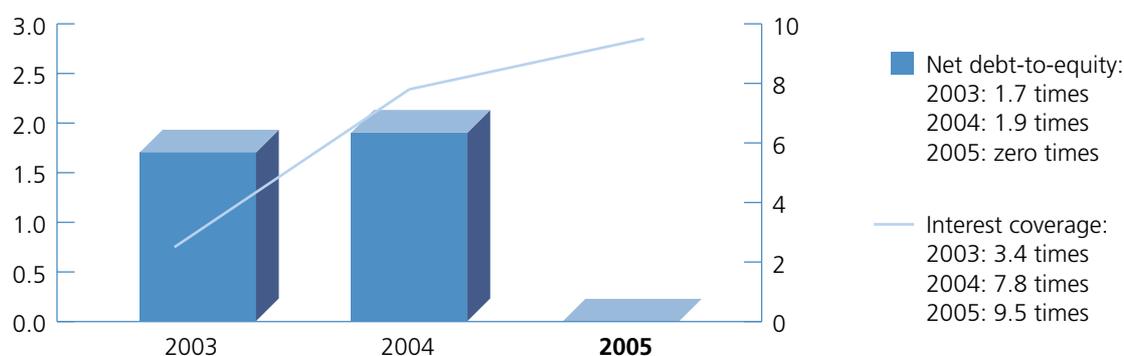
### Assets and liabilities

As at 31 December 2005, the total assets of the Group was RMB722,957,000 (2004: RMB319,787,000). The total liabilities amounted to RMB317,699,000 (2004: RMB266,026,000). The net assets value increased to RMB405,258,000 (2004: RMB53,761,000), mainly due to the net proceeds from the Listing, pre-listing funds injected by institutional investors and the increase in retained profits. The net assets value per share was RMB0.91 as at 31 December 2005.

As at 31 December 2005, the net debt-to-equity ratio was zero times (2004: 1.9 times) as the Group retained a net cash balance of RMB214,320,000 and the interest coverage was 9.5 times (2004: 7.8 times). Those of the Group's bank deposits of RMB26,253,000 (2004: RMB84,000) were restricted for securing letters of credit and bills payable.

As at 31 December 2005, all bank loans of the Group were guaranteed, interest bearing and repayable within one year.

Net debt-to-equity ratio & interest coverage



### **Contingent Liabilities**

As at 31 December 2005, the Group did not have any significant contingent liabilities.

### **Capital Commitments**

As at 31 December 2005, the Group had contracted but not provided for capital commitments of RMB920,000 (2004: RMB486,000), and authorised but not contracted for capital commitments of RMB40,000,000 (2004: nil).

### **Foreign Exchange Exposure**

The Group earns revenue and incurs cost mainly in Renminbi ("RMB") and Hong Kong dollars ("HK dollars"). On 21 July 2005, the central bank of the PRC announced that RMB was unpegged from US dollars and would be subject to a managed float against an unspecified basket of currencies. However, the exchange rate between HK dollars and RMB has generally been stable in recent years. The Group controls its exchange rate risks by raising funds in the denominations of its principal operating assets and revenue. Borrowings are also denominated in RMB. Thus the Directors consider that the impact of foreign exchange exposure on the Group is minimal.

### **Future Plans for Material Investments and Expected Source of Funding**

Details for the Group's future plans for material investments and expected source of funding have been set out in the Prospectus under the section headed "Statement of Business Objectives and Strategies".

Save as disclosed therein and under sections headed "Comparison of Actual Business Progress to Business Objectives" of the Annual Report, the Group did not have any other plans for significant investments, acquisitions or capital assets as at the date of the Annual Report. However, the Group will constantly look for investment opportunities for the best interests of its shareholders.

### **Intention to list the Company's shares on the Main Board of the Stock Exchange**

To further increase the public profile and recognition of the Company, we are preparing an application for listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction (the "Proposed Listing"). However, no listing application has been submitted to the Stock Exchange to date and the Proposed Listing may or may not proceed. The Board will keep our shareholders and investors posted of the progress. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

## Comparison of Business Objectives with Actual Business Progress

The following is a summary of the comparison of the Group's actual business progress with the business objectives as set out in the Prospectus for the period from 6 October 2005 to 31 December 2005 (the "Period"):

### Summary of business objectives as stated in the Prospectus

### Actual business progress as at 31 December 2005

#### **Productivity enhancement**

Construct additional factory and invest in facilities for production and inspection in Bengbu; complete the rebuilding of Bengbu's warehouse for raw materials and components

The Group constructed additional factory and invested in facilities for production and inspection in Bengbu. The Group also completed the refitting of Bengbu's warehouse

Construct additional workshops for production to improve the processing of high pressure and cryogenic products in Shijiazhuang

The construction work of additional workshops was in progress but the Group had procured production equipment for improving the processing of high pressure and cryogenic products in Shijiazhuang

Purchase production equipment to raise productivity of Enric Integration in Langfang

The Group purchased production equipment for raising the productivity of Enric Integration in Langfang

#### **Research and development**

Enhance the production facilities of high pressure valves and cryogenic valves

The production facilities of high pressure valves and cryogenic valves were enhanced

Improve the design of gas pressure-regulating products

The Group improved the design of gas pressure-regulating products

Enhance the standard and broaden the scope of usage of CNG products

The Group enhanced and broadened the scope of usage of CNG products

Develop production lines of cryogenic liquid storage and transportation equipment

The Group had commenced the development of production lines of cryogenic liquid storage and transportation equipment

Research on the application of CNG hydraulic daughter refueling stations

The Group commenced to conduct research on the application of CNG hydraulic daughter refueling stations

Continue to develop natural gas compressors with large discharge capacity

The development of natural gas compressors with large discharge capacity was completed

System design of LNG and LCNG stations

The Group had begun the system design of LNG and LCNG stations

**Summary of business objectives as stated in the Prospectus**

**Actual business progress as at 31 December 2005**

**Marketing**

Promotional activities through advertising in magazines within the gas or related industry in the PRC

The Group placed advertisements in magazines within gas and related industry in the PRC

Participate in exhibitions in relation to the gas equipment industry in the PRC and in Europe

The Group participated in exhibitions in relation to the gas equipment industry in the PRC

Produce video compact disc featuring energy equipment and integrated business solutions of the Group; and produce marketing and promotional materials regarding gas refueling stations and environmental protection

The Group produced video compact disc and marketing and promotional materials for the promotion of the Group and brand name and products such as seamless pressure cylinders, CNG hydraulic daughter refueling station system and gas compressors

In order to enhance the brand name awareness of the Group, a series of promotional activities were held, such as launching of big scale out-door advertisements and corporate anniversary celebration reception and banquet

**Business qualifications**

Obtain DOT certification

The Group obtained the DOT certification

Obtain licences for conversion of vehicles for carrying high pressure vessels

The Group obtained licences for conversion of vehicles for carrying high pressure vessels

Obtain European Union's CE certificate

The Group submitted the application for the CE certificate to the relevant authority and the application was being processed

Enric Integration to obtain ISO9000 certification

Enric Integration obtained the ISO9001:2000 certification

Obtain manufacturing certificate for LNG containers

The Group submitted the application for manufacturing certificate for LNG containers to the relevant authority and the application was being processed

## NET PROCEEDS FROM THE PLACING

The shares of the Company were listed on GEM by way of placing on 18 October 2005. The net proceeds from the placing after deduction of related listing expenses amounted to approximately HKD175,000,000 (taken into account the proceeds from the issuance of shares pursuant to the exercise of over-allotment option) was intended to be used by the Directors as stated in the Prospectus and the announcement regarding the exercise of over-allotment option of the Company dated 31 October 2005 and out of which approximately HKD17,500,000 was used for general working capital.

As at 31 December 2005, the Group has utilised the net proceeds as follows:

	<b>Proposed use of net proceeds for the Period as stated in the Prospectus</b> HKD million	<b>Actual amount used for the Period</b> HKD million
Productivity enhancement	17.3	13.8
Research and development	4.2	3.6
Marketing	2.1	2.1
Business qualifications	0.8	0.6
Total	<u>24.4</u>	<u>20.1</u>

During the Period, the Group conducted its business in accordance with the business plan and business objectives as stated in the Prospectus. In respect of productivity enhancement, the actual amount used for the Period was less than the proposed amount by HKD3.5 million and the Group will spend such amount to complete the productivity enhancement programme in the first half year of 2006. Moreover, the actual amount applied in research and development for the Period fell short of the proposed amount by HKD0.6 million. The Group will continue to fund the system design of LNG and LCNG stations which shall be completed in the first half year of 2006. Regarding business qualifications, the actual amount employed for the Period was HKD0.2 million less than the estimated figure as the Group is still in the process of obtaining the CE certificate and manufacturing certificate for LNG containers. Certainly, the Group will from time to time review the business plan for the best interests of the shareholders.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. Wang Yusuo**, aged 41, is the co-founder, Chairman and an Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 19 years of experience in the investment in, and management of, the gas business in the PRC. He graduated from the People's University of the PRC in 1994 and has obtained a master's degree in Management from the Tianjin College of Finance and Economics in 2002. Mr. Wang is a member of the Ninth and Tenth National Committee of the Chinese People's Political Consultative Conference and the vice-chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce. He has won various awards including Hebei's Top Ten Young and Successful Persons and Outstanding Entrepreneur in China. Mr. Wang is also the chairman and an executive director of Xinao Gas. Mr. Wang is the spouse of Ms. Zhao Baoju. Mr. Wang and Ms. Zhao jointly own various investment holding companies.

**Mr. Cai Hongqiu**, aged 42, is an Executive Director and the General Manager of the Company and the general manager of Enric Integration. Mr. Cai has joined the Group since 2002 and is responsible for the overall operations of the Group. Mr. Cai graduated from the University of Political Science and Law of the PRC and Tsinghua University's School of Economics and Management and obtained a bachelor's degree in Law in 1985 and a master's degree in Science in 1992. Mr. Cai is a senior economist and obtained qualifications as a lawyer in the PRC in 1989. Mr. Cai has over eight years of experience in the management of industrial enterprises.

**Mr. Zhao Xiaowen**, aged 42, is an Executive Director and the Chief Marketing Officer of the Company. He has joined the Group since 2003 and is responsible for the sales and marketing strategy of the Group. He is experienced in sales and marketing and has over 20 years of experience in corporate management, out of which eight years in the manufacturing industry.

**Mr. Zhou Kexing**, aged 43, is an Executive Director and the Chief Accountant of the Company who is responsible for the Group's accounting and finance operations. Mr. Zhou graduated from the Tianjin College of Finance and Economics and obtained a bachelor's degree in Economics in 1982 and a master's degree in Business Administration in 2001. Prior to joining the Group in 2002, Mr. Zhou lectured at the same college as a deputy research officer. Mr. Zhou specialises in accounting and finance and is experienced in capital operation.

**Mr. Yu Jianchao**, aged 37, is an Executive Director of the Company and is responsible for the Group's investment and financial management. He graduated from the Hebei College of Economics and Finance College in 1993 and has obtained a master's degree in Business Administration from the China Europe International Business School in 2005. Prior to joining the Company in 2002, Mr. Yu had worked as the chief accountant for a number of foreign enterprises including GSK Industry (China) Co., Ltd. and Nissin COFCO Foods Co., Ltd.. He is also an executive director of Xinao Gas. Mr. Yu has over 14 years of experience in accounting and finance and over eight years of experience in the management of industrial enterprises.

### Non-executive Director

**Ms. Zhao Baoju**, aged 40, is the co-founder and a Non-executive Director of the Company. Ms. Zhao graduated from the Hebei Medical College Nursing School in 1987 and Capital Normal University in 1998. Ms. Zhao is the spouse of Mr. Wang Yusuo. Ms. Zhao and Mr. Wang jointly own various investment holding companies.

### Independent Non-executive Directors

**Mr. Wong Chun Ho**, aged 33, is an Independent Non-executive Director of the Company. Mr. Wong holds a bachelor's degree in Business (Accounting) and a bachelor's degree in Computing (Information System) from Monash University, Australia. Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accountant of CPA Australia and a Chartered Financial Analyst. Mr. Wong is working in the investment banking industry and prior to that he was an auditor in KPMG. Mr. Wong has over 10 years of corporate finance and audit experience in the Hong Kong and China region.

**Mr. Gao Zhengping**, aged 51, is an Independent Non-executive Director of the Company. Mr. Gao received a doctorate degree in Management Science from Tianjin University of Finance and Economics in 2002 and is the deputy vice chancellor and a professor of the same university. Mr. Gao is also a standing director of the Financial Talents Committee of Talents Research Association of the PRC, a member of the editorial board of China Financial Publishing House and a member of the professional committee of the Tianjin Venture Investment Promotion Association.

**Mr. Shou Binan**, aged 48, is an Independent Non-executive Director of the Company. Mr. Shou obtained a bachelor's degree in Engineering from Dalian University of Technology in 1982 and a master's degree in Engineering from Tsinghua University in 1995. Mr. Shou is a senior engineer of the Research Institute of China's Petrochemical Industry Economy and Technology. Mr. Shou is appointed by the Management Committee of the Standardisation Administration of China as a member and the chief secretary of the China Standardisation Committee on Boilers and Pressure Vessels. Mr. Shou is a committee member of the Special Equipment Safety Technology Committee of the General Administration Bureau of Quality Supervision, Inspection and Quarantine of the PRC. He is also appointed by the Hefei General Machinery Research Institute as a member of the academic committee of post-doctorate scientific research working station.

## SENIOR MANAGEMENT

**Mr. Liu Zhi'ang**, aged 60, is the chairman of the board of directors of Enric Gas Equipment, responsible for the supervision of its overall operations. Mr. Liu graduated from Tianjin Industrial and Commercial School and obtained a bachelor's degree in 1969. Prior to joining the Group in 2000, Mr. Liu was an engineer at Hebei Xingtai Chemical Engineering and Electronic Machineries Factory, the head of Hebei Xingtai Chemical Engineering and Machineries Factory as well as the chief secretary and the head of the planning development committee of People's Government of Xingtai City, Hebei province.

**Mr. Ren Yingjian**, aged 50, is the general manager of Enric Gas Equipment, responsible for its day-to-day operations. Mr. Ren completed his study in Tsinghua University's School of Economics and Management in 1996 and is an engineer. Prior to joining the Group in 2002, Mr. Ren was the general manager at Mudanjiang Sanxing Knitwear Factory and the managing director of Mudanjiang Gold Peony Knitwear Company. He is experienced in management of industrial enterprises.

**Mr. Yang Weifeng**, aged 34, is the general manager of Enric Compressor, responsible for its day-to-day operations. Mr. Yang received a bachelor's degree in Engineering from Beijing University of Chemical Technology in 1993 and a bachelor's degree in Law and a master's degree in Business Administration from Nankai University in 1998 and 2003 respectively. Mr. Yang has obtained qualifications as a lawyer, and is an accountant, a registered tax agent, an engineer and a certified consultant engineer in the PRC. Mr. Yang is also qualified in undertaking matters relating to securities (securities underwriting, brokerage and investment analysis), funds and futures in the PRC. Prior to joining the Group in 2002, Mr. Yang worked at The First Designing Institute of the Ministry of Chemicals Industry of the PRC and Tianjin Jinbin Development Company Limited where he was responsible for project design, project management, financial consultancy, securities analysis, legal affairs and business administration.

**Mr. Tu Guangzong**, aged 36, is the Chief Engineer of the Group. Mr. Tu obtained a bachelor's degree in Engineering from Tsinghua University in 1993. He has been the researcher of the CNG project, the manager of the CNG workshop and an deputy general manager of Enric Gas Equipment. Prior to joining the Group in 2002, Mr. Tu worked for Langfang Hengyu Machinery Company Limited and was responsible for production management.

**Mr. Cheong Siu Fai**, aged 34, is the Qualified Accountant and Company Secretary of the Company. He holds a bachelor's degree in Business Administration from Thames Valley University in the United Kingdom. Mr. Cheong is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants in the United Kingdom. Prior to joining the Company in 2004, Mr. Cheong worked in an international firm of certified public accountants. Mr. Cheong has more than 10 years of experience in the field of auditing and business advisory.

# Corporate Governance Report

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The Company is committed to upholding good corporate governance practices. The corporate governance principles of the Company emphasise on an effective board, prudent internal and risk control, transparency and quality disclosure, and most importantly, accountability to shareholders.

In the past, the board of directors (the “Board”) and the management of the Company have been continually reviewing and enhancing the quality of corporate governance practices with reference to local and international standards. The Board believes that its continued efforts have, directly and indirectly, contributed to the strong business growth of the Group in the past years. The Group is honoured to have received a number of awards from independent bodies recognising the Group’s achievements in business and management which include the following:

- Chinese Customers Quality and Service Satisfaction Entity in 2005 (2005中國消費者(用戶)質量服務滿意單位)
- Famous Brand Award of Anhui Province in 2004 (2004安徽省名牌產品獎)
- Excellent Technological Private Enterprise of Anhui Province in 2003 (2003安徽省優秀民營科技企業)
- Top 100 Private Enterprises of Anhui Province in 2002 (2002安徽省民營百強企業)

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). In addition, the Company has also further complied with those recommended best practices in the CG Code as set out herein.

For the purpose of listing of the Company’s shares on GEM in October 2005 (the “Listing”), the Company conducted a review on its accounting and management system including, but not limited, to corporate governance policies together with relevant professional parties to its Listing.

We summarise below each of the code provisions set out in the CG Code which the Company has complied with and the recommended best practices that the Company has adopted, along with the corresponding details of compliance.

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

### A. DIRECTORS

#### A.1 The Board

##### *Code Principle*

The board should assume responsibility for leadership and be collectively responsible for directing and supervising the issuer's affairs. Directors should make decision objectively in the interest of the issuer.

Code Provisions	Compliance	Details of Compliance																																
<ul style="list-style-type: none"> <li>At least four regular board meetings a year.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>In 2005, six Board meetings were held. Since the Listing in October 2005, the Board has met at least quarterly. Details of Directors' attendance record of Board meetings and Board committees meetings in 2005 are as follows:           <table border="1"> <thead> <tr> <th colspan="2">Board meeting</th> </tr> <tr> <th>Director</th> <th>Attendance</th> </tr> </thead> <tbody> <tr> <td>Mr. Wang Yusuo</td> <td>6/6</td> </tr> <tr> <td>Mr. Cai Hongqiu</td> <td>6/6</td> </tr> <tr> <td>Mr. Zhao Xiaowen</td> <td>4/6</td> </tr> <tr> <td>Mr. Zhou Kexing</td> <td>6/6</td> </tr> <tr> <td>Mr. Yu Jianchao</td> <td>5/6</td> </tr> <tr> <td>Ms. Zhao Baoju</td> <td>2/6</td> </tr> <tr> <td>Mr. Wong Chun Ho</td> <td>3/5</td> </tr> <tr> <td>Mr. Gao Zhengping</td> <td>1/5</td> </tr> <tr> <td>Mr. Shou Binan</td> <td>0/5</td> </tr> </tbody> </table>   <table border="1"> <thead> <tr> <th colspan="2">Audit Committee meeting</th> </tr> <tr> <th>Committee member</th> <th>Attendance</th> </tr> </thead> <tbody> <tr> <td>Mr. Wong Chun Ho</td> <td>2/2</td> </tr> <tr> <td>Mr. Gao Zhengping</td> <td>2/2</td> </tr> <tr> <td>Mr. Shou Binan</td> <td>2/2</td> </tr> </tbody> </table> </li> <li>The Remuneration Committee was established on 26 September 2005. The first meeting of the Remuneration Committee is scheduled to be held in the second quarter of 2006.</li> </ul>	Board meeting		Director	Attendance	Mr. Wang Yusuo	6/6	Mr. Cai Hongqiu	6/6	Mr. Zhao Xiaowen	4/6	Mr. Zhou Kexing	6/6	Mr. Yu Jianchao	5/6	Ms. Zhao Baoju	2/6	Mr. Wong Chun Ho	3/5	Mr. Gao Zhengping	1/5	Mr. Shou Binan	0/5	Audit Committee meeting		Committee member	Attendance	Mr. Wong Chun Ho	2/2	Mr. Gao Zhengping	2/2	Mr. Shou Binan	2/2
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Mr. Shou Binan	2/2																																	

Code Provisions	Compliance	Details of Compliance
<ul style="list-style-type: none"> <li>Opportunity to all directors to include matters in the agenda for regular board meetings.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Directors are consulted as to items to be included and items which the Directors may wish to include in the agenda for regular Board meetings before the relevant agenda is dispatched to the Directors.</li> </ul>
<ul style="list-style-type: none"> <li>At least 14 days notice given to all directors prior to a regular board meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Notice and agenda of a regular Board meeting are given to all Directors not less than 14 days prior to such meeting. The relevant papers and documents for a regular Board meeting are given to all Directors not less than three days prior to such meeting.</li> </ul>
<ul style="list-style-type: none"> <li>Access to advice and services of the company secretary.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The company secretary of the Company (the "Company Secretary") is responsible for company secretarial matters of the Group, including Board procedures and corporate governance practices compliance.</li> <li>In addition, the Company retains legal advisers and company secretarial consultants to provide legal advice and secretarial services to the Company.</li> <li>All Directors have access to the services and advice of the Company Secretary.</li> </ul>
<ul style="list-style-type: none"> <li>Minutes of meetings kept by company secretary and available for inspection.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company Secretary is responsible for taking Board minutes, circulating draft Board minutes to the Directors for review and comment, and keeping of all Board and Board committees minutes and records which are available for inspection.</li> </ul>
<ul style="list-style-type: none"> <li>Draft and final minutes sent to all directors for comments and records, in both cases within a reasonable time.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Draft minutes of a Board meeting will be circulated to all Directors for review and comment. Revised draft of the minutes will be circulated to the Directors for review and comment until no further comment is received. Final version of the Board minutes signed by Directors who have attended the relevant Board meeting will be sent to all Directors for record, in both cases, within 14 days if not as soon as practicable after the relevant Board meeting.</li> </ul>

Code Provisions	Compliance	Details of Compliance
<ul style="list-style-type: none"> <li>Agreed procedure for directors to seek independent professional advice at the company's expense.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board has adopted a written procedure for the Directors to seek independent professional advice at the Company's expense.</li> </ul>
<ul style="list-style-type: none"> <li>If a substantial shareholder or a director (or any of his/her associates) has a conflict of interest in a material matter, board meeting should be held. The director having interest in the matter must abstain from voting and not be counted in quorum. Independent non-executive directors who, and whose associate, have no material interest in the transaction should be present at such board meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The articles of association of the Company stipulate that subject to certain exceptions contained therein, a Director shall not be entitled to vote on (nor shall be counted in the quorum) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he/she has any material interest, and if he/she shall do so his/her vote shall not be counted (nor is he/she to be counted in the quorum for the resolution).</li> <li>It is the practice of the Board to hold a meeting to decide on any matter in which a substantial shareholder or a Director (or any of its/his/her associates) has a material interest and to request for presence of independent non-executive Directors.</li> </ul>
Recommended Best Practice	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Insurance cover in respect of legal action against directors.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>There is in place a directors and officers liabilities insurance covering the Directors and officers of the Group.</li> </ul>
<ul style="list-style-type: none"> <li>Board committees should adopt broadly the same principles and procedures.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Currently, there are two Board committees, namely, the Audit Committee and the Remuneration Committee. All Board committees adopt broadly the same principles and procedures applicable to the Board as stated in this Section A.1 hereinabove.</li> </ul>

## A.2 Chairman and chief executive officer

### *Code Principle*

The management of the board and the day-to-day management of the issuer's business should be clearly divided and separately undertaken by different officers to ensure a balance of power and authority.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Roles and responsibilities of chairman and chief executive officer should be separate and clearly established and set out in writing.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The roles and responsibilities of the chairman (the "Chairman") and the chief executive officer (the "CEO") of the Company are separate and clearly set out in writing.</li> <li>Mr. Wang Yusuo, the Chairman, is responsible for setting the Group's strategies and direction, identifying business goals and the related business development plans, monitoring the performance of the senior management, and establishing good corporate governance practices and procedures.</li> <li>Mr. Cai Hongqiu, the General Manager of the Company (the "General Manager") who has assumed the responsibilities of the CEO, is responsible for leading the senior management of the Group to execute the strategies and plans set out by the Board, and reporting to the Board on the Group's operation from time to time to ensure proper discharge of the duties delegated by the Board.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman should ensure all directors be briefed on issues arising at board meetings.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Currently, the Chairman is responsible for provision of the necessary information, either through himself or other members of the management, to all Directors on issues arising at the Board meeting.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman should ensure that directors receive adequate information.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board has established procedures regarding supply of and access to information (see Section A.6 below). Further, the Chairman will upon request provide the necessary information, either through himself or other members of the management, to all Directors for discharging their duties.</li> </ul>

Recommended Best Practice	Compliance	Details of compliance
Various recommended roles for chairman including:		
<ul style="list-style-type: none"> <li>Drawing up and approving board agenda.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Preparation of the agenda of Board meeting is supervised and finalised by the Chairman. Agenda is drawn up with the assistance of the Company Secretary with prior consultation with the Directors.</li> </ul>
<ul style="list-style-type: none"> <li>Encourage directors to make a full and active contribution to board affairs.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Chairman plays a key role in ensuring good corporate governance practices and encouraging active participation and constructive contribution and relations of the Directors.</li> </ul>
<ul style="list-style-type: none"> <li>Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.</li> </ul>	Yes	
<ul style="list-style-type: none"> <li>Ensuring establishment of good corporate governance practices and procedures.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>In 2005, the Board took the following measures in relation to corporate governance practices:               <ol style="list-style-type: none"> <li>the Board adopted the CG Code as the guidelines in relation to the Company's corporate governance practices and procedures;</li> <li>the Board established guidelines regarding:                   <ol style="list-style-type: none"> <li>the roles and responsibilities of the Board and the senior management;</li> <li>the procedure for Directors to seek independent professional advice at the Company's expenses;</li> <li>the division of responsibilities between the Chairman and the CEO; and</li> <li>dealing in securities of the Company by employees of the Group; and</li> </ol> </li> <li>the Company arranged training programmes and seminars relating to various topics including corporate governance, business management and PRC laws for the Directors.</li> </ol> </li> </ul>

### A.3 Board composition

#### *Code Principle*

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should also include a balanced composition of executive and non-executive directors (including independent non-executive directors) to ensure that independent judgement can be made effectively.

#### *The Company's Board*

The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors. As at 31 December 2005, the Board members were as follows:

Mr. Wang Yusuo	<i>(Executive Director and Chairman)</i>
Mr. Cai Hongqiu	<i>(Executive Director and General Manager)</i>
Mr. Zhao Xiaowen	<i>(Executive Director)</i>
Mr. Zhou Kexing	<i>(Executive Director)</i>
Mr. Yu Jianchao	<i>(Executive Director)</i>
Ms. Zhao Baoju	<i>(Non-executive Director)</i>
Mr. Wong Chun Ho	<i>(Independent Non-executive Director)</i>
Mr. Gao Zhengping	<i>(Independent Non-executive Director)</i>
Mr. Shou Binan	<i>(Independent Non-executive Director)</i>

For the qualifications, experience, expertise and relationships (if any) of the Board members, please refer to the biographies of the Directors on pages 22 to 23 of the Annual Report.

#### *Roles and functions*

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group. Such arrangements are reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the decisions of the Board can be carried out effectively.

For the year ended 31 December 2005, the Board:

1. reviewed the performance and formulated business strategy of the Group;
2. set and approved budgets, as well as compared and analysed them with actual results on a quarterly basis;
3. reviewed and approved the prospectus for its Listing;
4. reviewed effective internal controls taken by the Group;
5. reviewed connected transactions of the Group;
6. reviewed and approved the issue of convertible bonds and/or shares of the Company to two institutional investors - Investec Bank (UK) Limited and Symbiospartners Private Equity Limited;
7. reviewed and approved the 3rd quarterly results of the Group for the 3 months and 9 months ended 30 September 2005; and
8. reviewed and refined the corporate governance practices of the Group.

*Board committees*

Currently, the Board has established the following committees with defined terms of reference:–

1. Audit Committee; and
2. Remuneration Committee.

Further details of the Remuneration Committee and the Audit Committee are set out in sections B.1 and C.3 below respectively.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>• Identify the independent non-executive directors in all corporate communications that disclose the names of directors of the issuer.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>• The names of all Directors and their titles (including Chairman, executive Directors, non-executive Director and independent non-executive Directors) are disclosed in all corporate communications that disclose the names of the Directors, including annual reports, announcements, circulars to shareholders, notices of general meetings and on the Company's website: <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</li> </ul>

Recommended Best Practice	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>• Independent non-executive directors should represent at least one-third of the board.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>• Currently, the Board consists of nine Directors and three of them are independent non-executive Directors representing one-third of the Board.</li> </ul>
<ul style="list-style-type: none"> <li>• Maintain on the website an updated list of directors identifying their roles, functions and (where applicable) whether they are independent non-executive directors.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>• Biographies of the Directors, including their titles, roles and responsibilities, are maintained on the Company's website: <a href="http://www.enricgroup.com">www.enricgroup.com</a> and updated from time to time.</li> </ul>

**A.4 Appointment, re-election and removal***Code Principle*

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. All directors should be subject to re-election at regular intervals.

Currently, the Company does not have a nomination committee of the Board. The responsibilities of identifying and selecting suitably qualified individuals to become members of the Board are undertaken by the Board collectively. Where the Board considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board.

In selecting a suitable candidate to become a member of the Board, the Board considers various criteria such as education, qualification, and experience of such candidate. A Board meeting was held on 7 February 2005 to consider and approve the appointment of the existing three independent non-executive Directors pursuant to which all the then Directors attended the said Board meeting.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Non-executive directors should be appointed for a specific term, subject to re-election.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Currently, the term of appointment of all non-executive Directors (including independent non-executive Directors) are three years subject to retirement by rotation in accordance with the articles of association of the Company.</li> </ul>
<ul style="list-style-type: none"> <li>Every director should be subject to retirement by rotation at least once every three years.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company's articles of association stipulate that every Director will be subject to retirement by rotation at least once every three years.</li> </ul>
<ul style="list-style-type: none"> <li>All directors appointed to fill a casual vacancy should be subject to election at the first general meeting after appointment.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Currently, no Director has been appointed to fill a casual vacancy.</li> <li>Currently, the Company's articles of association specify that a Director appointed to fill a casual vacancy will be subject to election at the next annual general meeting after appointment. The Board will propose amendment to the Company's articles of association to ensure the relevant article is consistent with this code provision in the forthcoming annual general meeting for shareholders' approval.</li> </ul>

Recommended Best Practice	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Further appointment of an independent non-executive director serving more than nine years requires (i) separate shareholders approval and (ii) explanatory statement to shareholders to provide information on his continual independence.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Currently, none of the independent non-executive Directors has served the Company for more than nine years. The Company will comply with this recommended best practice as and when the situation occurs.</li> <li>It is the practice of the Company that a separate resolution will be proposed at the general meeting for shareholders' approval in respect of each Director nominated for election or re-election.</li> </ul>
<ul style="list-style-type: none"> <li>Information to shareholders regarding the independence of the independent non-executive director proposed to be appointed.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Where Directors are subject to election or re-election at a general meeting, a circular will be issued in which detailed biographies, interests and (where appropriate) independence of such Directors will be disclosed.</li> </ul>

## A.5 Responsibilities of directors

### *Code Principle*

All directors (including non-executive directors) shall keep abreast of their responsibilities as a director of an issuer, and of the conduct, business activities and development of such issuer.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Every newly appointed director should receive a comprehensive, formal induction to ensure that he/she has proper understanding of the business and his/her responsibilities under regulatory requirements, business and governance policies of the issuer.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board will provide an information memorandum on director's duties and obligations under Cayman Islands law, Hong Kong law and the GEM Listing Rules to a newly appointed Director to assist him/her to understand his/her responsibilities.</li> <li>The Board will also arrange for a meeting between the Company's legal advisers and a newly appointed Director in which the Company's legal advisers will explain to such Director his/her responsibilities under the relevant legal and regulatory requirements.</li> <li>In addition, the Chairman will give a newly appointed Director a general briefing on the Group and the Company will provide relevant information and organise various activities, including site visits, etc. to ensure a newly appointed Director properly understands the business and governance policies of the Company. A newly appointed Director will be given opportunities to raise questions and give comments.</li> </ul>
<ul style="list-style-type: none"> <li>Functions of non-executive directors include:               <ul style="list-style-type: none"> <li>– bringing an independent judgement at board meetings.</li> <li>– taking the lead where potential conflicts of interests arise.</li> <li>– serving on committees if invited.</li> <li>– scrutinising the issuer's performance.</li> </ul> </li> </ul>	Yes	<ul style="list-style-type: none"> <li>Non-executive Directors are consulted as to the matters to be included for discussion at the Board meeting and are provided with opportunities to raise questions or comments at Board meetings.</li> <li>In relation to each connected transaction or continuing connected transaction of the Company that requires shareholders' approval, an independent Board committee comprising the independent non-executive Directors will be formed to give independent opinion on the transaction.</li> <li>All the independent non-executive Directors are members of the Audit Committee and two independent non-executive Directors are also members of the Remuneration Committee, both committees serve the function of scrutinising the Company.</li> </ul>

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>There have been satisfactory attendances in general for Board meetings and Board committees meetings. Please refer to Directors' attendance record of Board meetings and Board committees meetings (see Section A.1.)</li> </ul>
<ul style="list-style-type: none"> <li>Directors must comply with their obligations under the required standard dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding their securities transactions (the "Required Standard").</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has adopted the Required Standard as the code of conduct regarding securities transaction by the Directors. Each Director is specifically required to confirm with the Company that he/she has complied with the Required Standard at least twice each year and there has not been any non-compliance by any Director in this respect.</li> <li>In addition, the Company has issued a written guideline to employees of the Group, which provides, inter alia, that employees whose names are put in the dealing restrictions list of the Group must obtain prior written approval from the Board before they deal in the securities of the Company.</li> </ul>
Recommended Best Practice	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Directors should participate in a programme of continuous professional development.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Directors attend various internal training programmes arranged by the Company on a regular basis. In 2005, the Company organised 11 internal training programmes for the Directors covering different topics including corporate governance, assets, financial and human resources management, and PRC laws. There have been satisfactory attendances in general and programme materials will be sent to all the Directors.</li> </ul>
<ul style="list-style-type: none"> <li>Directors should disclose to the issuer at the time of his appointment (and on periodic basis) offices held in other organisations and other significant commitments.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Details of a Director, including the offices held by such Director in other organisations and other significant commitments are kept by the Company Secretary, and updated at least once a year. Biography of each Director is updated from time to time and confirmed by such Director before being published in the Company's annual report and circular.</li> </ul>
<ul style="list-style-type: none"> <li>Non-executive directors should ensure regular attendance of and active participation in board committees, board meetings and general meetings.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>During the year under review, the non-executive Directors have actively participated in Board meetings and Board committees meetings in general (see Section A.1) and no general meeting of the Company has been held.</li> </ul>

Recommended Best Practice	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>During the year under review, the non-executive Directors have satisfactorily discharged their duties.</li> </ul>

## A.6 Supply of and access to information

### Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Board and committees papers should be sent in full to all directors at least three days before the date of board or a board committee meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Board and committees papers are currently sent in full to all Directors at least three days before the date of a regular Board or Board committees meeting.</li> </ul>
<ul style="list-style-type: none"> <li>Each director should have separate and independent access to senior management.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Senior management will meet, formally and informally, with the Directors from time to time.</li> </ul>
<ul style="list-style-type: none"> <li>Directors are entitled to have access to board and committees papers and steps must be taken to respond promptly and fully to directors' queries.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Papers relating to Board and committees meeting will be circulated to the Directors who may request for further information. Draft minutes of Board and committees meetings are circulated to all the Directors for review and comment. Revised draft of the minutes will be circulated to the Directors until no further comment is received. Finalised and signed Board and committees minutes will be sent to all Directors for record after the meeting.</li> <li>Board and committees minutes and papers are available for inspection by Directors and Board committee members.</li> <li>Each Director will be given the opportunity to raise questions or provide comments at Board meetings or Board committees meetings and his/her questions will be answered at the meeting or promptly thereafter. Comments will be noted and relevant action will be taken (if appropriate) after discussion.</li> </ul>

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### B.1 The level and make-up of remuneration and disclosure

#### *Code Principle*

An issuer should establish a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration package for all directors. No director should be involved in deciding his own remuneration.

Remuneration Committee

The Remuneration Committee was established on 26 September 2005 and currently consists of the following members:

Mr. Cai Hongqiu (Executive Director and chairman of the Remuneration Committee)

Mr. Gao Zhengping (Independent non-executive Director)

Mr. Shou Binan (Independent non-executive Director)

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remunerations packages of all executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for non-executive Directors;
7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman about their proposals relating to the remuneration of executive Directors and have access to professional advice if considered necessary;
9. to make recommendation to the shareholders of the Company relating to any Director service contract that requires shareholders' approval pursuant the GEM Listing Rules; and
10. to report to the Board.

The Remuneration Committee was established on 26 September 2005 and will meet at least twice each year and the first meeting is scheduled to be held in the second quarter of 2006. Prior to the establishment of the Remuneration Committee, a Board meeting was held on 26 September 2005 to review and approve the service agreements of each of the executive Directors and the appointment letters of each of the non-executive Director and the independent non-executive Directors.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Remuneration committee should be established with specific written terms of reference (containing the minimum prescribed duties) and should be available on request and on the issuer's website.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has established a Remuneration Committee with written terms of reference substantially the same as those contained in paragraph B.1.3 of Appendix 15 to the GEM Listing Rules.</li> <li>The terms of reference of the Remuneration Committee are available on request and on the Company's website: <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</li> </ul>
<ul style="list-style-type: none"> <li>The remuneration committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice if necessary.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Remuneration Committee will consult the Chairman regarding proposed remuneration of other executive Directors and will seek independent professional advice as and when necessary.</li> </ul>
<ul style="list-style-type: none"> <li>The remuneration committee should be provided with sufficient resources to discharge its duties.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The terms of reference of the Remuneration Committee provide that members of the committee may seek outside legal and independent professional advice as and when necessary at the costs of the Company.</li> <li>In addition, the Board and the senior management will give full support to the Remuneration Committee.</li> </ul>

## C. ACCOUNTABILITY AND AUDIT

### C.1 Financial reporting

#### *Code Principle*

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Management should provide explanation on financial and other information to enable the board to make informed assessment.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Directors are provided with financial and other information and analytical review of the Group on a monthly basis. Moreover, the management also regularly meets with Directors to present the quarterly results and discuss any variance between the budget and the actual results.</li> </ul>
<ul style="list-style-type: none"> <li>Acknowledgement of directors' responsibility for preparing the accounts and a statement by the auditors regarding reporting responsibilities in auditors' report.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>A statement of Directors' responsibility for financial statements is set out in the Report of the Directors.</li> <li>Auditors' reporting responsibilities statement is set out in the Auditors' Report.</li> </ul>
<ul style="list-style-type: none"> <li>Board's responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/reports under regulatory requirements.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board is collectively responsible for ensuring clear and understandable assessment in annual/interim reports, price-sensitive announcement and other financial disclosures/reports under regulatory requirements. In addition, the Audit Committee was established on 26 September 2005 to monitor the integrity of financial statements of the Group.</li> </ul>

### C.2 Internal controls

#### *Code Principle*

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>The directors should at least annually conduct a review of the effectiveness of the system of internal control.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Directors conducted reviews of the effectiveness of the system of internal control of the Group from time to time. During the year (in particular, for the purpose of its Listing), the Board reviewed the internal control of the Group which covered, inter alia, financial, internal and compliance controls, and risk management procedures.</li> </ul>

### C.3 Audit committee

#### *Code Principle*

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established should have a clear terms of reference.

#### Composition of the Audit Committee

The Audit Committee was established on 26 September 2005 and currently consists of the following members:

Mr. Wong Chun Ho (Independent non-executive Director and chairman of the Audit Committee)

Mr. Gao Zhengping (Independent non-executive Director)

Mr. Shou Binan (Independent non-executive Director)

The Audit Committee is primarily responsible for the following duties:

1. to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services; and
4. to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports and to review significant financial reporting judgements contained in them.

Since its establishment on 26 September 2005, the Audit Committee met twice during the year 2005 to consider the third quarterly results of the Group and to discuss with the auditors on internal control, auditor's independence, auditor's remuneration and the scope of work in relation to the annual audit. Attendance record of the Audit Committee members is set out in Section A.1 above.

## Auditor's remuneration

The Company engaged KPMG, the external auditors of the Group, (i) to prepare the Accountants' Report for the two financial years ended 31 December 2004 and the six months ended 30 June 2005 in relation to its Listing during the year for RMB4,432,000, and (ii) to audit the financial statements of the Group for the year ended 31 December 2005 for RMB1,500,000. Save as disclosed above, the Company did not engage KPMG for any other non-audit services during the year under review.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Minutes should be kept by a duly appointed secretary and should be sent to all committee members within a reasonable time.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Audit Committee minutes and papers are kept by the Company Secretary. Draft Audit Committee minutes is circulated to all the committee members for review and comment and final version of the minutes signed by its chairman will be sent to all the committee members for record, in both cases, as soon as practicable after the relevant meeting.</li> </ul>
<ul style="list-style-type: none"> <li>A former partner of the existing auditors should not sit on the Audit Committee.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>None of the Audit Committee members is a former partner of the external auditors of the Group.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference of audit committee should contain the minimum prescribed details in paragraph C.3.3 of Appendix 15 to the GEM Listing Rules and should be made available on request and on the issuer's website.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has established an Audit Committee with terms of reference substantially the same as those contained in paragraph C.3.3 of Appendix 15 to the GEM Listing Rules.</li> <li>The terms of reference of the Audit Committee are available on request and on the Company's website: <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</li> </ul>
<ul style="list-style-type: none"> <li>Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditor's, the issuer should include in the Corporate Governance Report the audit committee's recommendation and the board's view.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board has not had any disagreement with the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. Should there be such a disagreement, the Board will include the relevant details in its Corporate Governance Report.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee should be provided with sufficient resources to discharge its duties.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The terms of reference of the Audit Committee has provided that the members of the Audit Committee may seek outside legal or other independent professional advice as and when necessary at the costs of the Company.</li> <li>In addition, the Board and the senior management will give full support to the Audit Committee.</li> </ul>

**D. DELEGATION BY THE BOARD****D.1 Management functions***Code Principle*

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>The board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board.</li> <li>Formalise the functions reserved to the board and those delegated to management.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board has set out in writing clear division of the responsibilities of the Board and the senior management. In general, the Board is responsible for establishing the strategies and direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management, and ensuring good corporate governance. The senior management, which is led by the General Manager who has assumed the responsibility of the CEO, is responsible for executing the strategies and plans set by the Board, and reporting to the Board periodically to ensure proper execution.</li> </ul>

Recommended Best Practice	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Formal letters of appointment for directors setting out the key terms and conditions relative to their appointment so that directors understand the delegation arrangements.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>It is the practice of the Company to enter into a (i) written service contract with each executive Director setting out the rights, obligations, duties, responsibilities and other terms and conditions of his/her appointment; and (ii) a letter of appointment with each non-executive Director confirming the terms of his/her employment.</li> </ul>

**D.2 Board committees***Code Principle*

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Clear terms of reference to enable proper discharge of committees' functions.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company currently has two Board committees, including the Audit Committee and the Remuneration Committee, each of which has adopted clear written terms of reference setting out details of the authorities and duties of such committee.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference should require committees to report back to the board their decisions.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The terms of reference of the abovementioned Board committees are available on request and on the Company's website: <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</li> <li>The terms of reference of each of the Board committees contain provisions which require such Board committee to report back to the Board any decision made by it.</li> </ul>

## E. COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective communication

#### *Code Principle*

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>A separate resolution should be proposed by the chairman for each substantially separate issue.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Separate resolutions are proposed at general meeting on each substantially separate issue. For example, a separate resolution will be proposed for each director nominated for election or re-election.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>No general meeting has been held by the Company during the year under review.</li> <li>The Chairman of the Board will attend the annual general meeting of the Company and will arrange for the chairman of each of the Audit Committee and the Remuneration Committee or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company will arrange for the chairman of an independent Board committee to attend the relevant general meeting for approving such transactions of the Company.</li> </ul>

**E.2 Voting by poll***Code Principle*

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the GEM Listing Rules and the constitutional documents of the issuer.

Code Provisions	Compliance	Details of compliance
<ul style="list-style-type: none"> <li>Disclosure in general meeting circulars of procedures for and rights of shareholders to demand a poll.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The rights and the procedure for demanding a poll will be set out in the circular accompanying the notice of general meeting dispatched to shareholders. The procedures for demanding a poll are also explained to shareholders at the general meeting.</li> </ul>
<ul style="list-style-type: none"> <li>Ensure that votes cast are properly counted and recorded.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>It is the current practice of the Company to appoint representatives of the share registrar of the Company as scrutineer for the voting procedure.</li> </ul>
<ul style="list-style-type: none"> <li>Chairman of meeting should adequately explain the procedure for demanding a poll by shareholders and the procedures for conducting a poll at the commencement of meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>In the year under view, no general meeting has been held. Where a general meeting of the Company is to be held in the future, the chairman of the general meeting will fully explain the procedure for demanding a poll by shareholders and the procedures for conducting a poll at the commencement of the meeting whenever voting by a poll is required.</li> </ul>

**ADDITIONAL CORPORATE GOVERNANCE INFORMATION****I. Shareholders' rights**

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including general meetings, annual, half-year and quarterly reports, notices of general meetings and circulars sent to shareholders, announcements on the website of the Stock Exchange, and press releases and other corporate communications available on the Company's website.

Registered shareholders are notified by post for the shareholders' meetings. Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the register of members of the Company.

Pursuant to article 58 of the articles of association of the Company, any one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor relations".

## II. Investor relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Company and collecting views and feedbacks from such investors. The Company has established an investor relations department which is responsible for the investor relation affairs. In the year under review, the Directors and senior management of the Company had numerous meetings with fund managers and analysts and participated in several road shows covering the People's Republic of China (Shanghai, Shenzhen), Hong Kong, Singapore and the United Kingdom. In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Investors, shareholders and the media can make enquiries to the Company through the following means:

- By phone: (852) 2528 9386
- By fax: (852) 2865 9877
- By post: Rooms 3101-3103  
31/F, Tower One, Lippo Centre  
89 Queensway, Hong Kong  
Attention: Mr. Cheong Siu Fai
- By email: [enric@enricgroup.com](mailto:enric@enricgroup.com)

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

## REORGANISATION

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of integrated business solutions in the gas energy industry and the design, manufacture and sale of specialised gas equipment. Particulars of the Company's subsidiaries are set out in note 15 to the financial statements.

## FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's profit or loss for the year then ended. In preparation of the financial statements, the Directors are required to:

- (a) select appropriate accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;
- (b) explain any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for employing reasonable procedures to prevent and detect fraud and other irregularities.

The profit of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 57 to 104.

## DIVIDENDS AND RESERVES

The Directors do not recommend the payment of any dividend for the year ended 31 December 2005 (2004: nil).

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2005 is as follows:

	Percentage of the Group's total	
	sales	purchases
The largest customer	19%	
Five largest customers in aggregate	39%	
The largest supplier		28%
Five largest suppliers in aggregate		46%

The largest customer of the Group is Xinao Gas Holdings Limited ("Xinao Gas") (representing itself and as trustee of its subsidiaries), in which Mr. Wang Yusuo ("Mr. Wang"), an Executive Director and the Chairman of the Company and Ms. Zhao Baoju ("Ms. Zhao"), a Non-executive Director of the Company, have substantial interests through Xinao Group International Investment Limited ("XGII"), a controlled corporation. Further details are set out in the section headed "Directors' Interests in Contracts and Connected Transactions" in this report.

Save as disclosed above, at no time during the year have the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in any of the five largest suppliers or customers of the Group.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 11 to the financial statements.

## RETIREMENT SCHEMES

The Group participates in government pension schemes for its employees in Mainland China and operates a Mandatory Provident Fund scheme for its employees in Hong Kong. Particulars of these retirement schemes are set out in note 28 to the financial statements.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB500,000 (2004: RMB69,000).

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

## CONVERTIBLE REDEEMABLE BONDS

Details of the convertible redeemable bonds are set out in note 26 to the financial statements.

## BANK LOANS

Details of bank loans of the Group as at 31 December 2005 are set out in note 20 to the financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 7 of the Annual Report.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors

Wang Yusuo (*Chairman*)

Cai Hongqiu

Zhao Xiaowen

Zhou Kexing

Yu Jianchao

### Non-executive Director

Zhao Baoju

### Independent Non-executive Directors

Wong Chun Ho

Gao Zhengping

Shou Binan

In accordance with Article 86 of the Company's Articles of Association, Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen, Zhou Kexing, Yu Jianchao, Wong Chun Ho, Gao Zhengping, Shou Binan and Ms. Zhao Baoju will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company. Each service agreement is of an initial term of three years commencing on 1 October 2005. The initial term of each service agreement expires on 30 September 2008, and each service agreement shall continue thereafter until terminated by either party serving to the other not less than six months' prior notice in writing.

Ms. Zhao Baoju has been appointed for an initial term of three years, commencing from the Listing Date and expiring on 17 October 2008. The service agreements of Mr. Gao Zhengping, Mr. Shou Binan and Mr. Wong Chun Ho commence from 7 February 2005 for an initial term of three years to 6 February 2008.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DISCLOSURE OF INTERESTS

### Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2005, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) to be recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

(1) *Interests in the shares and underlying shares of the Company*

Name of director	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares	Aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal	Corporate				
Mr. Wang	Interest of controlled corporation and beneficial owner	–	234,144,000 (Note 1)	234,144,000	4,000,000 (Note 2)	238,144,000	53.49%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	234,144,000 (Note 1)	234,144,000	4,000,000 (Note 2)	238,144,000	53.49%
Mr. Cai Hongqiu	Beneficial owner	–	–	–	1,400,000	1,400,000	0.31%
Mr. Yu Jianchao	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Zhao Xiaowen	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Zhou Kexing	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%

Notes:

- The two references to 234,144,000 shares relate to the same block of shares held by XGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

Details of the Directors' interests in the underlying shares subject to share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

(2) *Interests in the shares and underlying shares of associated corporation*

Name of associated corporation	Name of director	Capacity	Interests in shares		Total interests	Shareholding percentage
			Personal	Family		
XGII	Mr. Wang	Beneficial owner and interest of spouse	500	500	1,000	100%
XGII	Ms. Zhao	Beneficial owner and interest of spouse	500	500	1,000	100%

(3) *Directors' rights to acquire shares*

Pursuant to the Pre-IPO Share Option Plan adopted by the Company on 26 September 2005, certain Directors were granted share options to subscribe for shares of the Company, details of which as at 31 December 2005 were as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share	Number of underlying shares subject to share options	Approximate
					percentage of the Company's total issued share capital
			<i>HKD</i>		
Mr. Wang	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000 (Note 2)	0.90%
Ms. Zhao	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000 (Note 2)	0.90%
Mr. Cai Hongqiu	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,400,000	0.31%
Mr. Yu Jianchao	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Zhao Xiaowen	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Zhou Kexing	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%

Notes:

- Subject to certain vesting conditions as stated in the Pre-IPO Share Option Plan, 50% of the options granted to any grantee become exercisable upon the expiry of 6 months after the Listing Date up to 10 years from the date of grant of the options; another 50% of the options granted to any grantee become exercisable upon the expiry of 24 months after the Listing Date up to 10 years from the date of grant of the options. The particulars of the Pre-IPO Share Option Plan are set out on pages 51 to 52 of this report.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares and underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) to be recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, so far as the Directors are aware, the persons or corporations (other than the Directors or chief executives of the Company as disclosed above) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Interests in the shares of the Company

Name of shareholder	Capacity	Number of shares	Approximate percentage of the Company's total issued share capital
XGII	Beneficial owner	234,144,000	52.59%
Investec Bank (UK) Limited	Beneficial owner	51,840,000 (Note)	11.65%
Investec 1 Limited	Interest of controlled corporation	51,840,000 (Note)	11.65%
Investec SA	Interest of controlled corporation	51,840,000 (Note)	11.65%
Investec SARL	Interest of controlled corporation	51,840,000 (Note)	11.65%
Investec Holding Company Limited	Interest of controlled corporation	51,840,000 (Note)	11.65%
Investec Holdings (UK) Limited	Interest of controlled corporation	51,840,000 (Note)	11.65%
Investec PLC	Interest of controlled corporation	51,840,000 (Note)	11.65%
Symbiospartners Private Equity Limited	Beneficial owner	26,016,000	5.84%

Note:

All the references to 51,840,000 shares relate to the same block of shares held by Investec Bank (UK) Limited, which is a directly wholly-owned subsidiary of Investec 1 Limited and in turn an indirectly wholly-owned subsidiary of Investec SA, Investec SARL, Investec Holding Company Limited, Investec Holdings (UK) Limited and Investec PLC.

Save as disclosed above, the Directors are not aware of any persons or corporations (other than Directors or chief executives of the Company) who, as at 31 December 2005, had interests or short positions in the shares or underlying shares of the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and was also, as a practicable matter, able to direct or influence the management of the Company.

## SHARE OPTIONS

Two share option schemes, namely the Share Option Scheme and the Pre-IPO Share Option Plan, were approved by written resolutions passed by the shareholder(s) on 26 September 2005 and 7 October 2005. The principal terms of these two share option schemes are detailed below.

### Share Option Scheme

The purpose of the Share Option Scheme (the "Scheme") is to provide incentives and rewards to employees (including executive and non-executive directors) and eligible persons for their contributions to the Group. Under the Scheme, the Board of Directors (the "Board") is authorised, at its absolute discretion, to invite any directors (including non-executive and independent non-executive directors) or any employees (whether full-time or part-time) of any member of the Group, and any eligible persons to subscribe for shares of the Company.

The Scheme shall be valid and effective for a period of ten years ending on 25 September 2015, after which no further options will be granted. The share options are exercisable for a period to be notified by the Board to each participant, which shall not exceed 10 years from the date of grant. There is no minimum period which an option must be held before it can be exercised, but the Board is authorised to impose at its discretion any such minimum period at the date of grant. The share options granted must be taken up within 14 days from the date of grant and on acceptance of each grant, a consideration of HKD1.00 is payable.

The exercise price of an option shall be at least the highest of (i) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of offer; (ii) the average price of the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five consecutive trading days immediately preceding the date of offer and (iii) the nominal value of the Company's share.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 43,200,000 shares, which represents 10% of the issued share capital of the Company as at the Listing Date. However, the Board may seek approval of the Shareholders in general meeting for refreshing the 10% limit and/or for granting options beyond the 10% limit. Notwithstanding the refreshed limit and granting of options beyond the limit, the maximum number of shares which may be granted must not exceed 30% of the total number of shares in issue from time to time.

The maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant under the Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be subject to the shareholders' approval in general meeting with such participant and his associates abstaining from voting.

As at the date of this report, no options have been granted under the Scheme.

### **Pre-IPO Share Option Plan**

The principal terms of the Pre-IPO Share Option Plan (the "Plan") are substantially the same as those of the Share Option Scheme, except that:

1. The purpose of the Plan is to recognise the contribution of certain existing and past employees and directors of the Group to the growth of the Group and/or to the Listing.
2. The total number of shares available for issue under the Plan is 13,800,000 which represents 3.1% of the issued share capital as at the date of this report. The maximum entitlement of any participant must not exceed the total number of shares available for issue of 13,800,000 shares.
3. The exercise price of options is set at the Placing Price of HKD1.50.
4. The minimum periods which an option must be held before it is exercisable are: (i) 6 months after the Listing Date for 50% of the options granted; and (ii) 24 months after the Listing Date for the remaining 50% of the options granted.
5. The Plan was valid from 26 September 2005 to 17 October 2005, after which no further options will be granted but its provisions will remain effective until 25 September 2015 so as to give effect to the exercise of any options granted.

As of the date of this report, all options under the Plan has been granted and accepted by the respective participants but none of the options have been exercised due to the abovementioned minimum holding period requirement.

#### *Movement of Options under the Pre-IPO Share Option Plan*

Name of optionee	Date of grant	Exercisable period	Exercise price per share	Number of options		
				Granted during the year	Exercised during the year	Outstanding at the end of year
			<i>HKD</i>			
Mr. Wang	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000	–	4,000,000
Mr. Cai Hongqiu	26.09.2005	18.04.2006 - 25.09.2015	1.50	1,400,000	–	1,400,000
Mr. Yu Jianchao	26.09.2005	18.04.2006 - 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Zhao Xiaowen	26.09.2005	18.04.2006 - 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Zhou Kexing	26.09.2005	18.04.2006 - 25.09.2015	1.50	1,000,000	–	1,000,000
Employees	26.09.2005	18.04.2006 - 25.09.2015	1.50	5,400,000	–	5,400,000
				13,800,000	–	13,800,000

#### Notes:

- Subject to certain vesting conditions as stated in the Pre-IPO Share Option Plan, 50% of the options granted to any grantee become exercisable upon the expiry of six months after the Listing Date up to 10 years from the date of grant of the options; the remaining 50% of the options granted to any grantee become exercisable upon the expiry of 24 months after the Listing Date up to 10 years from the date of grant of the options.
- The market value per share at the date of grant was not available since the Company was still a private company on the date of grant.

Information on the accounting policy for share options granted and the fair value per option is provided in note 2(q) and note 23 to the financial statements respectively.

## DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions and arrangements with persons who are connected for the purposes of Chapter 20 of the GEM Listing Rules:

On 31 January 2005, the Group entered into a product sales agreement with Xinao Gas (representing itself and as trustee of its subsidiaries) under which the Group agreed to sell gas equipment products to Xinao Gas for their own use in the ordinary course of business operation for a term of three years commencing on 1 January 2005. For the year ended 31 December 2005, the Group's sales to Xinao Gas amounted to RMB97,041,000.

During the year, the Group entered into a product sales and finance lease agreement with Hebei Finance Leasing Company Limited ("Hebei Finance") (note 1). The Group agreed to sell gas equipment products to Hebei Finance for the purpose of Hebei Finance leasing these products to customers who require finance lease for a term of three years commencing on 1 January 2005. For the year ended 31 December 2005, the Group's sales to Hebei Finance amounted to RMB4,444,000.

The Independent Non-executive Directors have reviewed the above transactions and confirmed that, in their opinion:

- The transactions have been entered into by the Group in the ordinary and usual course of business of the Group;
- The transactions have been entered into on normal commercial terms, or where there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or from independent third parties; and
- The transactions have been entered into in accordance with the terms of the agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has received from the auditors a letter reporting that the above transactions:

1. have received the approval of the Board of the Company;
2. have been entered into in accordance with the pricing policies of the Company;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the relevant annual caps.

During the year, the Group's sales to Hebei Veyong Biochemical Joint Stock Company Limited (*note 3*) and Inner Mongolia New Veyong Biochemical Company Limited (*note 3*) amounted to RMB376,000 and RMB4,000 respectively.

During the year, piped gas was supplied to the Group by Bengbu Xinao Gas Development Company Limited (*note 2*) for the Group's own consumption. Gas usage charge for the year was RMB93,000.

On 1 September 2003, the Group entered into a tenancy agreement with Hebei Veyong Group Company Limited ("Hebei Veyong") (*note 3*) under which the Group leases certain property located in Shijiazhuang in the PRC from Hebei Veyong for office purpose. The contract term is 20 years commencing on 1 September 2003 with an annual rental of RMB 3,600. The rental incurred for the year was RMB3,600.

On 30 September 2004, the Group leased two floors (including the ancillary facilities and office equipment therein) in a building in Langfang in the PRC from Xinao Group Solar Energy Company Limited (*note 3*) for office purpose. The contract term is 3 years commencing on 30 September 2004 with an annual rental of RMB520,000. The rental incurred for the year was RMB520,000.

On 30 September 2004, Langfang Xinao Property Management Company Limited (*note 3*) provided property management services to the rented properties of the Group as mentioned in the preceding paragraph above under a property management services. The contract term is three years commencing on 1 October 2004 with an annual service charge of RMB180,000. The service charge incurred for the year was RMB180,000.

On 7 February 2005, the Group entered into a tenancy agreement with Xinao Gas Investment Group Limited ("XGIGL") (*note 2*) under which the Group leases certain properties in a building in Hong Kong from XGIGL for office purpose. The contract term is three years commencing on 1 February 2005 with an annual rental of HKD455,544. During the year, the rental expenses incurred was RMB384,000.

During the year, the Group received interest of RMB814,000 from Xinao Group Company Limited (*note 3*).

During the year, the Group prepaid RMB479,000 for the purchase of properties from Bengbu Xinao Property Company Limited (*note 3*).

During the year, the Group made a donation of RMB500,000 to the Xinao Charity Fund (*note 4*).

During the year, the Group repaid RMB1,286,000 to Xinao Group Shijiazhuang Chemical Machinery Company Limited (*note 3*) for the settlement of advances from the same company.

During the year, the Group repaid RMB8,393,000 to XGII for settlement of advances from the same company.

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

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

Save as disclosed above, no other contracts of significance to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Notes:

1. Mr. Wang has substantial interests in Hebei Finance.
2. Bengbu Xinao Gas Development Company Limited and XGIGL are subsidiaries of Xinao Gas in which Mr. Wang and Ms. Zhao have substantial interests through XGII.
3. Hebei Veyong, Xinao Group Solar Energy Company Limited, Langfang Xinao Property Management Company Limited, Xinao Group Company Limited, Bengbu Xinao Property Company Limited, Hebei Veyong Biochemical Joint Stock Company Limited, Inner Mongolia New Veyong Biochemical Company Limited and Xinao Group Shijiazhuang Chemical Machinery Company Limited are companies controlled by Mr. Wang.
4. Xinao Charity Fund is a non-profit-making organisation of which Mr. Wang is a legal representative.
5. Save as XGIGL, all of the subsidiaries of Xinao Gas, Hebei Finance, Xinao Charity Fund and the companies controlled by Mr. Wang in the PRC mentioned above have names in Chinese only, and the corresponding English names used in this report are merely for reference.

## COMPETING INTERESTS

None of the directors or the management shareholders or the substantial shareholders of the Company, or any of their respective associates (as defined under the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence and considers each of the Independent Non-executive Directors is independent to the Company pursuant to Rule 5.09 of the GEM Listing Rules.

## COMPLIANCE ADVISOR'S INTERESTS

As updated and notified by the Company's compliance advisor, China Everbright Capital Limited (the "Compliance Advisor"), neither the Compliance Advisor, nor its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2005 pursuant to Rule 6.36 of the GEM Listing Rules.

## CORPORATE GOVERNANCE

During the year, the Company has adopted the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules. The Company's Corporate Governance Report is set out on pages 24 to 44 of the Annual Report.

## AUDIT COMMITTEE

The Company has established an Audit Committee on 26 September 2005 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise over the financial reporting procedures and internal control system of the Group. Members of the Audit Committee are Mr. Wong Chun Ho, Mr. Gao Zhengping and Mr. Shou Binan, who are all Independent Non-executive Directors. The Audit Committee met regularly with the management and auditors and reviewed and discussed with the management and auditors the financial reporting matters and internal controls of the Group, including the unaudited quarterly results for the quarter ended 30 September 2005 and the audited financial statements for the year ended 31 December 2005.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## AUDITORS

KPMG were first appointed as auditors of the Company since its incorporation on 28 September 2004.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board

**Wang Yusuo**  
*Chairman*

Hong Kong, 22 March 2006

# Auditors' Report

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## **Auditors' report to the shareholders of Enric Energy Equipment Holdings Limited**

安瑞科能源裝備控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 57 to 104 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

## **KPMG**

*Certified Public Accountants*

Hong Kong, 22 March 2006

# Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 RMB	2004 RMB
<b>Turnover</b>	3	<b>513,013,890</b>	252,375,698
Cost of sales		<b>(362,953,734)</b>	(177,790,799)
<b>Gross profit</b>		<b>150,060,156</b>	74,584,899
Other revenue	4	<b>3,537,864</b>	5,109,203
Selling expenses		<b>(23,150,938)</b>	(12,803,532)
Administrative expenses		<b>(51,441,412)</b>	(23,110,803)
Other net (expense)/income		<b>(603,924)</b>	2,681,210
<b>Profit from operations</b>		<b>78,401,746</b>	46,460,977
Finance costs	5(i)	<b>(7,813,959)</b>	(6,082,089)
<b>Profit before taxation</b>		<b>70,587,787</b>	40,378,888
Income tax	6	<b>(1,882,093)</b>	(1,814,458)
<b>Profit for the year</b>		<b>68,705,694</b>	38,564,430
Attributable to:			
Equity shareholders of the Company		<b>68,705,694</b>	36,191,118
Minority interests		–	2,373,312
<b>Profit for the year</b>		<b>68,705,694</b>	38,564,430
<b>Earnings per share</b>	10		
– Basic		<b>0.225</b>	0.139
– Diluted		<b>0.224</b>	N/A

The notes on pages 64 to 104 form part of these financial statements.

# Consolidated Balance Sheet

At 31 December 2005

	Note	2005 RMB	2004 RMB
<b>Non-current assets</b>			
Property, plant and equipment	11	<b>89,496,679</b>	85,520,041
Construction in progress	12	<b>12,333,721</b>	4,355,382
Lease prepayments	13	<b>30,566,484</b>	31,260,587
Intangible assets	14	<b>6,806,125</b>	7,714,985
		<b>139,203,009</b>	128,850,995
<b>Current assets</b>			
Inventories	16	<b>124,998,815</b>	79,651,766
Trade and bills receivable	17	<b>72,407,090</b>	48,796,630
Deposits, other receivables and prepayments	18	<b>26,731,532</b>	21,830,654
Amounts due from related parties	30(b)(I)	<b>20,297,299</b>	9,047,159
Cash at bank and in hand	19	<b>339,319,669</b>	31,610,556
		<b>583,754,405</b>	190,936,765
<b>Current liabilities</b>			
Bank loans	20	<b>125,000,000</b>	132,860,000
Trade and bills payable	21	<b>95,167,162</b>	41,748,715
Other payables and accrued expenses	22	<b>86,174,220</b>	24,779,850
Amounts due to related parties	30(b)(II)	<b>9,147,663</b>	65,198,732
Provisions	24	<b>1,281,780</b>	912,619
Income tax payable		<b>928,539</b>	526,409
		<b>317,699,364</b>	266,026,325
<b>Net current assets/(liabilities)</b>		<b>266,055,041</b>	(75,089,560)
<b>Total assets less current liabilities</b>		<b>405,258,050</b>	53,761,435
<b>NET ASSETS</b>		<b>405,258,050</b>	53,761,435
<b>CAPITAL AND RESERVES</b>			
Share capital	25	<b>4,630,080</b>	8
Reserves	25	<b>400,627,970</b>	53,761,427
<b>TOTAL EQUITY</b>		<b>405,258,050</b>	53,761,435

Approved and authorised for issue by the board of directors on 22 March 2006.

**Wang Yusuo**  
Director

**Zhou Kexing**  
Director

The notes on pages 64 to 104 form part of these financial statements.

# Balance Sheet

At 31 December 2005

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

Approved and authorised for issue by the board of directors on 22 March 2006.

**Wang Yusuo**  
Director

**Zhou Kexing**  
Director

The notes on pages 64 to 104 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

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

The notes on pages 64 to 104 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 RMB	2004 RMB
<b>Operating activities</b>			
Profit before taxation		<b>70,587,787</b>	40,378,888
Adjustments for:			
Depreciation		<b>9,719,262</b>	6,130,239
Amortisation of intangible assets		<b>908,860</b>	768,147
Amortisation of lease prepayments		<b>694,103</b>	562,750
Interest income		<b>(1,633,775)</b>	(3,292,870)
Interest charges		<b>8,304,468</b>	5,928,222
Loss/(gain) on disposal of property, plant and equipment		<b>119,318</b>	(13,172)
Equity-settled share-based payment expenses		<b>1,830,928</b>	–
Foreign exchange loss		<b>208,874</b>	–
Excess of interest in the fair value of net assets acquired over cost of acquisition	27	–	(2,373,312)
<b>Operating profit before changes in working capital</b>		<b>90,739,825</b>	48,088,892
Increase in inventories		<b>(45,347,049)</b>	(52,035,910)
Increase in trade and bills receivable		<b>(23,610,460)</b>	(25,422,435)
(Increase)/decrease in deposits, other receivables and prepayments		<b>(4,900,878)</b>	435,750
(Increase)/decrease in amounts due from related parties		<b>(12,064,331)</b>	32,301,856
(Increase)/decrease in restricted bank deposits for letters of credit and bills payable		<b>(26,169,922)</b>	3,954,385
Increase/(decrease) in trade and bills payable		<b>53,418,447</b>	(7,014,390)
Increase in other payables and accrued expenses		<b>61,394,370</b>	8,877,459
Decrease in amounts due to related parties		<b>(1,372,081)</b>	(10,645,657)
Increase in provision for product warranties		<b>369,161</b>	331,976
<b>Cash generated from/(used in) operations</b>		<b>92,457,082</b>	(1,128,074)
Income tax paid		<b>(1,479,963)</b>	(1,288,049)
<b>Net cash from/(used in) operating activities</b>		<b>90,977,119</b>	(2,416,123)
<b>Investing activities</b>			
Payment for acquisition of property, plant and equipment and construction in progress		<b>(21,798,556)</b>	(31,210,926)
Payment for lease prepayments		–	(1,000,320)
Proceeds from disposal of investment in a related party	30(a)(II)	–	26,190,000
Proceeds from disposal of property, plant and equipment		<b>4,999</b>	1,593,201
Loan repayments from a related party	30(a)(II)	–	78,600,000
Interest received		<b>2,447,966</b>	8,718,336
Payment for interests in subsidiaries (note (ii))		–	(36,830,606)
Advances made to related parties	30(a)(II)	–	(54,541,891)
Repayments of advances made to related parties	30(a)(II)	–	59,285,850
<b>Net cash (used in)/from investing activities</b>		<b>(19,345,591)</b>	50,803,644

For the year ended 31 December 2005

	Note	2005 RMB	2004 RMB
<b>Financing activities</b>			
Capital contributions from a related party (note (i))		–	92,853
Proceeds from issuance of shares:			
– Conversion of convertible redeemable bonds	25(a)	<b>40,320,800</b>	–
– By placing	25(a)	<b>207,792,000</b>	–
– Others	25(a)	<b>15,709,936</b>	–
Proceeds from new bank loans		<b>140,000,000</b>	79,260,000
Repayment of bank loans		<b>(147,860,000)</b>	(109,040,000)
Interest paid		<b>(8,304,468)</b>	(5,928,222)
Advances received from related parties	30(a)(II)	–	270,613,489
Repayments of advances received from related parties	30(a)(II)	<b>(9,678,988)</b>	(262,160,297)
Share issue expenses	25(a)	<b>(27,862,743)</b>	–
<b>Net cash from/(used in) financing activities</b>		<b>210,116,537</b>	(27,162,177)
<b>Net increase in cash and cash equivalents</b>		<b>281,748,065</b>	21,225,344
<b>Cash and cash equivalents at 1 January</b>		<b>31,527,056</b>	10,301,712
<b>Effect of foreign exchange rate changes</b>		<b>(208,874)</b>	–
<b>Cash and cash equivalents at 31 December</b>	19	<b>313,066,247</b>	31,527,056

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

## (i) Capital contributions from a related party

Capital contributions from a related party represent cash received from Xinao Group Shijiazhuang Chemical Machinery Company Limited ("Xinao Shijiazhuang") of RMB92,853 as part of the net assets contributed to Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment"), details of which are described below.

Enric Gas Equipment was established by Xinao Shijiazhuang, a related party controlled by Mr. Wang Yusuo ("Mr. Wang"), who is the Chairman and an Executive Director of the Company, and Shijiazhuang BVI as a Sino-foreign equity joint venture enterprise in September 2003 in the People's Republic of China ("PRC"). Pursuant to the joint venture agreement and related supplementary agreements, Xinao Shijiazhuang transferred the following assets and liabilities to Enric Gas Equipment as capital contribution on 31 March 2004:

	RMB
Cash and cash equivalents	92,853
Trade and bills receivable	5,301,220
Other receivables and prepayments	19,373,937
Amounts due from related parties	39,669,124
Property, plant and equipment	43,228,743
Construction in progress	9,878,561
Lease prepayments	22,293,824
Intangible assets	5,628,632
<b>Total assets</b>	<b>145,466,894</b>
Bank loans	78,600,000
Trade and bills payable	31,915,716
Other payables and accrued expenses	4,949,924
Amounts due to related parties	15,766,754
<b>Total liabilities</b>	<b>131,232,394</b>
<b>Net assets injected as capital contributions</b>	<b>14,234,500</b>

- (ii) These represent the acquisition of the additional interests in Enric Gas Equipment of RMB14,234,500 (see note 27) and the purchase of equity interests in Enric (Bengbu) Compressor Company Limited ("Enric Compressor") of RMB22,596,106 (see note 30 (a)).

The notes on pages 64 to 104 form part of these financial statements.

# Notes to the Financial Statements

## 1. REORGANISATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of preparation of the financial statements

The Group is regarded as a continuing entity resulting from the Reorganisation and the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 26 September 2005. Accordingly, the consolidated financial statements of the Group for the years ended 31 December 2004 and 2005 include the financial statements of the Company and its subsidiaries with effect from 1 January 2004 or where their respective dates of incorporation/establishment, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2004, from the respective dates of incorporation/establishment and acquisition of the additional interests in Enric Gas Equipment, as if the current group structure had been in existence throughout the two years presented. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

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

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

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

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

### (c) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Subsidiaries (Continued)

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)).

### (d) Property, plant and equipment

- (i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

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

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

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

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

- (iii) Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less impairment losses (see note 2(j)). Cost comprises direct and indirect costs, related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(j)).

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

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

### (f) Investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(j)).

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

### (g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 2(j)).

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

Both the period and method of amortisation are reviewed annually.

### (h) Lease prepayments

Lease prepayments represent payments for land use rights to the PRC authorities. Land use rights are carried at cost and are charged to profit or loss on a straight-line basis over the respective periods of the rights.

### (i) Operating lease charges

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Impairment of assets

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

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

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

#### (ii) *Impairment of other assets*

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

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

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

#### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Impairment of assets (Continued)

#### (ii) Impairment of other assets (Continued)

- Recognition of impairment losses  
An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.
- Reversals of impairment losses  
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

### (k) Inventories

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

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

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

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

### (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(j)).

### (m) Convertible notes

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Convertible notes (Continued)

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

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

### (n) Interest-bearing borrowings

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

### (o) Trade and other payables

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

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (q) Employee benefits

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

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

#### (ii) Share based payments

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Income tax (Continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (t) Revenue recognition

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

#### (i) Sale of goods

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

#### (ii) Dividends

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

#### (iii) Interest income

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

#### (iv) Government grants

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

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (w) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

### (x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purposes of these financial statements. As the Group's operations are predominantly in the PRC, no geographical segment information is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

## 3. TURNOVER

The Group is principally engaged in the provision of integrated business solutions in the gas energy industry and the design, manufacture and sale of specialised gas equipment. Turnover represents the sales value of goods sold after allowances for returns of goods, excludes value added or other sales taxes and is after the deduction of any trade discounts.

The Group's core products are pressure vessels, compressors and integrated business solutions for gas equipment.

## 4. OTHER REVENUE

	2005 RMB	2004 RMB
Government grants (see note (i))	1,183,726	730,029
Other operating revenue (see note (ii))	720,363	1,086,304
Interest income from loans to related parties	–	3,222,895
Interest income from bank deposits	1,633,775	69,975
	<u>3,537,864</u>	<u>5,109,203</u>

Notes:

- (i) Government grants represent various forms of incentives and subsidies given to Enric Compressor by the local PRC government. These grants were for the purposes of promoting certain industries in the PRC, encouraging domestic enterprises to focus more on technological advancement as well as a subsidy arising from the purchase of assets from a state-owned enterprise.
- (ii) Other operating revenue consists mainly of income earned from the sale of steel materials left-over from production.

## 5. PROFIT BEFORE TAXATION

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

### (i) Finance costs

	2005 RMB	2004 RMB
Interest on bank loans	8,165,598	6,186,985
Interest on convertible redeemable bonds	138,870	–
Total borrowing costs	8,304,468	6,186,985
Less: borrowing costs capitalised*	–	(258,763)
	<u>8,304,468</u>	<u>5,928,222</u>
Foreign exchange (gain)/loss	(713,771)	80,509
Finance charges	223,262	73,358
	<u>7,813,959</u>	<u>6,082,089</u>

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

## 5. PROFIT BEFORE TAXATION (CONTINUED)

### (ii) Staff costs #

	2005 RMB	2004 RMB
Salaries, wages and allowances	31,712,960	20,767,235
Contributions to retirement schemes (note 28)	2,713,140	2,814,898
Equity-settled share-based payment expenses	1,830,928	–
	<u>36,257,028</u>	<u>23,582,133</u>

### (iii) Other items

	2005 RMB	2004 RMB
Cost of inventories#	362,953,734	177,790,799
Auditors' remuneration – audit services	1,574,000	30,000
Depreciation of property, plant and equipment#	9,719,262	6,130,239
Amortisation of intangible assets	908,860	768,147
Amortisation of lease prepayments	694,103	562,750
Loss/(gain) on disposal of property, plant and equipment	119,318	(13,172)
Impairment losses for:		
– Trade receivables	462,318	1,711,309
– Other receivables	373,357	477,782
Write-down of inventories	2,138,722	–
Research and development costs	6,171,711	4,241,777
Operating lease charges for property rental	1,082,701	238,518
Provision for product warranties	2,889,288	1,761,556

# Cost of inventories includes RMB16,374,819 (2004: RMB12,804,608) relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 5(ii) for each of these types of expenses.

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

- (i) Taxation in the consolidated income statement represents:

	2005 RMB	2004 RMB
Current taxation for the year	<u>1,882,093</u>	<u>1,814,458</u>

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

Profits of the Group's operating subsidiaries in the PRC, namely Enric Compressor, Enric Gas Equipment and Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration"), are subject to PRC income taxes.

The statutory state income tax rates applicable to Enric Compressor, Enric Gas Equipment and Enric Integration are 30%, 15% and 30% respectively (2004: 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 is subject to PRC state income tax at 15% for the year ended 31 December 2005 (2004: 15%).

Based on Notice [2004] No. 247 dated 13 October 2004 and Notice [2005] No.16 dated 17 January 2005 issued by the Anhui State Tax Bureau, Enric Compressor is entitled to state income tax reduction amounting to RMB2,035,384 for the year ended 31 December 2004 as an incentive for purchase of domestically manufactured equipment.

No provision for PRC income tax has been made by Enric Gas Equipment and Enric Integration as they are in the tax holiday of a tax-free period in respect of PRC income tax for the period from the respective dates of their establishment to 31 December 2005.

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

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

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

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

## 7. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year ended 31 December 2005 are as follows:

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

Details of directors' remuneration for the year ended 31 December 2004 are as follows:

	Directors' fees RMB	Salaries, allowances and benefits in kind RMB	Retirement scheme contributions RMB	Discretionary bonuses RMB	Share-based payments RMB	Total RMB
Executive directors:						
Wang Yusuo	–	–	–	–	–	–
Cai Hongqiu	–	51,362	–	–	–	51,362
Yu Jianchao	–	–	–	–	–	–
Zhao Xiaowen	–	51,232	1,684	–	–	52,916
Zhou Kexing	–	37,833	–	–	–	37,833
Non-executive director:						
Zhao Baoju	–	–	–	–	–	–
Independent non-executive directors:						
Gao Zhengping	–	–	–	–	–	–
Shou Binan	–	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–	–
<b>Total</b>	<b>–</b>	<b>140,427</b>	<b>1,684</b>	<b>–</b>	<b>–</b>	<b>142,111</b>

## 7. DIRECTORS' REMUNERATION (CONTINUED)

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

## 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2004: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other individuals are as follows:

	<b>2005</b>	2004
	<b>RMB</b>	RMB
Salaries, allowances and benefits in kind	<b>499,200</b>	208,208
Retirement scheme contributions	<b>12,480</b>	2,203
Share-based payments	<b>92,873</b>	–
	<b><u>604,553</u></b>	<u>210,411</u>

The emoluments of the one (2004: three) individual with the highest emoluments is within the following band:

	<b>2005</b>	2004
	<b>RMB</b>	RMB
HKD Nil – HKD1,000,000	<b><u>1</u></b>	<u>3</u>

## 9. DIVIDENDS

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

## 10. EARNINGS PER SHARE

### (i) Basic earnings per share

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

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

Weighted average number of ordinary shares

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

### (ii) Diluted earnings per share

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

Weighted average number of ordinary shares (diluted)

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

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

## 11. PROPERTY, PLANT AND EQUIPMENT

### The Group

	Buildings RMB	Leasehold improvements RMB	Machinery RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
<b>Cost</b>						
Balance at 1 January 2004	4,549,900	–	828,172	1,596,846	2,510,004	9,484,922
Additions						
– capital contributions	18,521,681	–	24,087,652	–	619,410	43,228,743
– others	2,687,974	–	4,876,963	1,264,497	681,762	9,511,196
Disposals	(1,029,246)	–	(550,120)	(432,000)	(3,702)	(2,015,068)
Transfers from construction in progress	12,179,380	–	20,939,528	–	–	33,118,908
Balance at 31 December 2004	<u>36,909,689</u>	<u>–</u>	<u>50,182,195</u>	<u>2,429,343</u>	<u>3,807,474</u>	<u>93,328,701</u>
Balance at 1 January 2005	36,909,689	–	50,182,195	2,429,343	3,807,474	93,328,701
Additions	625,529	1,875,438	5,230,368	2,029,798	1,497,032	11,258,165
Disposals	(20,093)	–	(205,230)	–	–	(225,323)
Reclassification	3,600,000	–	(3,600,000)	–	–	–
Transfers from construction in progress	1,907,437	–	654,615	–	–	2,562,052
Balance at 31 December 2005	<u>43,022,562</u>	<u>1,875,438</u>	<u>52,261,948</u>	<u>4,459,141</u>	<u>5,304,506</u>	<u>106,923,595</u>
<b>Accumulated depreciation</b>						
Balance at 1 January 2004	(948,154)	–	(327,167)	(425,483)	(412,656)	(2,113,460)
Charge for the year	(1,702,852)	–	(3,727,274)	(273,994)	(426,119)	(6,130,239)
Written back on disposal	23,525	–	197	410,400	917	435,039
Balance at 31 December 2004	<u>(2,627,481)</u>	<u>–</u>	<u>(4,054,244)</u>	<u>(289,077)</u>	<u>(837,858)</u>	<u>(7,808,660)</u>
Balance at 1 January 2005	(2,627,481)	–	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Charge for the year	(3,064,621)	(38,777)	(5,372,710)	(605,574)	(637,580)	(9,719,262)
Written back on disposal	3,783	–	97,223	–	–	101,006
Reclassification	(105,600)	–	105,600	–	–	–
Balance at 31 December 2005	<u>(5,793,919)</u>	<u>(38,777)</u>	<u>(9,224,131)</u>	<u>(894,651)</u>	<u>(1,475,438)</u>	<u>(17,426,916)</u>
<b>Net book value</b>						
At 31 December 2005	<u>37,228,643</u>	<u>1,836,661</u>	<u>43,037,817</u>	<u>3,564,490</u>	<u>3,829,068</u>	<u>89,496,679</u>
At 31 December 2004	<u>34,282,208</u>	<u>–</u>	<u>46,127,951</u>	<u>2,140,266</u>	<u>2,969,616</u>	<u>85,520,041</u>

## 12. CONSTRUCTION IN PROGRESS

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

## 13. LEASE PREPAYMENTS

	The Group	
	2005 RMB	2004 RMB
<b>Cost</b>		
At 1 January	32,128,999	8,834,855
Additions	–	1,000,320
Capital contributions	–	22,293,824
At 31 December	32,128,999	32,128,999
<b>Accumulated amortisation</b>		
At 1 January	(868,412)	(305,662)
Charge for the year	(694,103)	(562,750)
At 31 December	(1,562,515)	(868,412)
<b>Net book value</b>		
At end of the year	30,566,484	31,260,587

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

## 14. INTANGIBLE ASSETS

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

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

The amortisation charge for the year is included in “administrative expenses” in the consolidated income statement.

## 15. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>RMB</b>	RMB
Unlisted shares, at cost	<b>119,825,371</b>	–

## 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries at 31 December 2005 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of establishment/ incorporation and operation	Authorised/ registered/ paid-in capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Enric Compressor	PRC 14 March 2002	Registered and paid-in capital of HKD21,320,000	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited ("Anhui BVI")	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited ("Shijiazhuang BVI")	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Gas Equipment	PRC 30 September 2003	Registered and paid-in capital of USD7,000,000	–	100%	Manufacture and sale of pressure vessels and provision of integrated business solutions for gas equipment
Enric Langfang Investment Limited ("Langfang BVI")	British Virgin Islands 14 September 2004	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Integration	PRC 28 December 2004	Registered and paid-in capital of HKD50,000,000	–	100%	Provision of integrated business solutions for gas equipment
Beijing Enric Energy Technologies Limited ("Enric Beijing")#	PRC 16 December 2005	Registered capital of HKD40,000,000 and paid-in capital of HKD Nil	–	100%	Inactive

## 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

- # Enric Beijing is a wholly foreign-owned enterprise established in Beijing in the PRC by Langfang BVI. Enric Beijing obtained an approval certificate (shang wai zi jing zi zi [2005] No. 18067) from the People's Government of Beijing on 15 December 2005, and a provisional business licence (No. 027918) on 16 December 2005 issued by Beijing Administration of Industry and Commerce of the PRC. Enric Beijing has not carried out any business since the date of its establishment, and the Group made the required capital contribution amounting to HKD40,000,000 into Enric Beijing on 10 March 2006.

## 16. INVENTORIES

	The Group	
	2005 RMB	2004 RMB
Raw materials	40,909,809	39,168,216
Work in progress	31,681,844	17,220,324
Finished goods	52,407,162	23,263,226
	<u>124,998,815</u>	<u>79,651,766</u>

## 17. TRADE AND BILLS RECEIVABLE

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

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

	The Group	
	2005 RMB	2004 RMB
Aged within 3 months	32,898,075	30,528,685
Aged between 3 to 6 months	24,977,183	9,526,028
Aged between 6 months to 1 year	11,701,865	8,741,917
Aged over 1 year	2,829,967	–
	<u>72,407,090</u>	<u>48,796,630</u>

In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of three to twelve months are available for certain customers with well-established trading and payment records on a case-by-case basis.

## 18. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	The Group	
	2005 RMB	2004 RMB
Advances to suppliers	<b>20,430,932</b>	16,145,236
Listing expenses	–	2,382,865
Deposits for bidding, construction work and equipment purchase	<b>4,598,203</b>	1,898,323
Staff advances	<b>941,274</b>	555,408
Others	<b>761,123</b>	848,822
	<b><u>26,731,532</u></b>	<u>21,830,654</u>

## 19. CASH AT BANK AND IN HAND

	The Group		The Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
Cash and cash equivalents				
– Cash in hand and demand deposits	<b>288,502,470</b>	28,327,056	<b>14,222,026</b>	–
– Restricted bank deposits for letters of credit and bills payable within three months of maturity	<b>24,563,777</b>	3,200,000	–	–
	<b>313,066,247</b>	31,527,056	<b>14,222,026</b>	–
Restricted bank deposits for letters of credit and bills payable with maturity of more than three months	<b>26,253,422</b>	83,500	–	–
	<b><u>339,319,669</u></b>	<u>31,610,556</u>	<b><u>14,222,026</u></b>	–

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

## 19. CASH AT BANK AND IN HAND (CONTINUED)

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

	The Group		The Company	
	2005 RMB equivalent	2004 RMB equivalent	2005 RMB equivalent	2004 RMB equivalent
– Hong Kong Dollars	155,060,499	9,451,282	14,222,026	–
– United States Dollars	313,116	9,680	–	–

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

## 20. BANK LOANS

	The Group	
	2005 RMB	2004 RMB
Bank loans – guaranteed	125,000,000	132,860,000

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

The annual rate of interest charged on the bank loans ranged from 5.6% to 6.8% for year ended 31 December 2005 (2004: 5.1% to 6.1%).

## 21. TRADE AND BILLS PAYABLE

	The Group	
	2005 RMB	2004 RMB
Trade creditors	<b>53,717,162</b>	33,748,715
Bills payable	<b>41,450,000</b>	8,000,000
	<b>95,167,162</b>	41,748,715

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

	The Group	
	2005 RMB	2004 RMB
Due within 3 months or on demand	<b>74,713,030</b>	18,399,781
Due after 3 months but within 6 months	<b>19,250,000</b>	17,461,894
Due after 6 months but within 1 year	<b>1,204,132</b>	3,879,545
Due over 1 year	–	2,007,495
	<b>95,167,162</b>	41,748,715

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

## 22. OTHER PAYABLES AND ACCRUED EXPENSES

	The Group	
	2005 RMB	2004 RMB
Advances from customers	<b>68,029,379</b>	15,804,267
Other taxes payable	<b>5,259,968</b>	1,555,257
Accrued expenses	<b>4,212,563</b>	133,417
Employees' bonus and welfare	<b>3,406,031</b>	3,907,781
Other surcharges payable	<b>1,973,107</b>	427,150
Payable for construction work	<b>1,135,349</b>	2,144,820
Directors' remuneration	<b>761,714</b>	–
Others	<b>1,396,109</b>	807,158
	<b>86,174,220</b>	24,779,850

## 22. OTHER PAYABLES AND ACCRUED EXPENSES (CONTINUED)

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

	The Group	
	2005 RMB or RMB equivalent	2004 RMB or RMB equivalent
Hong Kong Dollars	<u>1,724,065</u>	<u>125,865</u>

## 23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the written resolutions of the Company's shareholders passed on 26 September 2005 and 7 October 2005, the Company has adopted the Pre-IPO Share Option Plan whereby the Company invited certain directors and employees of the Group to take up options at HKD1.00 consideration to subscribe for 13,800,000 ordinary shares of the Company. The exercise price of the Pre-IPO share options was determined based on the new issue price of the Company's shares on 18 October 2005. Half of the options vest after 6 months from the date of the listing on 18 October 2005 and are then exercisable within a period of 10 years from the date of grant, and the remaining options vest after 2 years from the date of the listing and are then exercisable within a period of 10 years from the date of grant.

- (a) The terms and conditions of the grants that existed during the year are as follows, whereby all options will be settled by physical delivery of shares:

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

No options were exercised during the year.

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

## 23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

### (b) Fair value of share options and assumptions

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

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

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

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

## 24. PROVISION FOR PRODUCT WARRANTIES

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>RMB</b>	RMB
At 1 January	<b>912,619</b>	580,643
Provisions made	<b>2,889,288</b>	1,761,556
Provisions utilised	<b>(2,520,127)</b>	(1,429,580)
At 31 December	<b>1,281,780</b>	912,619

Under the normal terms of the Group's sales agreements, the Group will rectify any product defects arising within one year of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the one year prior to the balance sheet date.

## 25. CAPITAL AND RESERVES

## (a) The Group

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

## 25. CAPITAL AND RESERVES (CONTINUED)

## (b) The Company

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

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

## 25. CAPITAL AND RESERVES (CONTINUED)

## (c) Share capital

	2005		2004	
	Number of shares	RMB equivalent	Number of shares	RMB equivalent
<b>Authorised:</b>				
Ordinary shares of the Company of HKD0.01 each (note (ii))	<u>10,000,000,000</u>	<u>104,000,000</u>	<u>39,000,000</u>	<u>413,400</u>
<b>Ordinary shares of the Company, issued and fully paid:</b>				
At 1 January	1	–	–	–
Issuance of subscriber share (note (ii))	–	–	1	–
Issuance of shares:				
– Pursuant to the Reorganisation (note (iv))	879	9	–	–
– Capitalisation issue (note (v))	260,159,120	2,705,655	–	–
– Conversion of convertible redeemable bonds (notes (vi) and note 26)	51,840,000	539,136	–	–
– By placing (note (vii))	<u>133,200,000</u>	<u>1,385,280</u>	–	–
At 31 December	<u>445,200,000</u>	<u>4,630,080</u>	<u>1</u>	<u>–</u>

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

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

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

Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, the authorised share capital of the Company was increased from HKD390,000 to HKD100,000,000 by the creation of additional 9,961,000,000 shares of HKD0.01 each.

## 25. CAPITAL AND RESERVES (CONTINUED)

- (iii) On 21 January 2005, a share subscription agreement was entered into between Symbiospartners Private Equity Limited ("Symbiospartners") as subscriber, EIGL, and XGII as warrantor, pursuant to which 10 shares of USD1 each, representing 10% of the enlarged issued share capital of EIGL, were allotted and issued on 31 January 2005 to Symbiospartners at a total subscription price of USD1,900,000. In addition, 89 shares of EIGL were issued to XGII at par value. Accordingly, the share premium arising from the share subscription was USD1,899,990 (equivalent to RMB15,709,117).
- (iv) On 26 September 2005, pursuant to the deed for sale and purchase of the entire share capital of EIGL, XGII and Symbiospartners transferred 90 and 10 shares respectively in EIGL to the Company in consideration for which the Company allotted and issued 791 and 88 shares, credited as fully paid, to XGII and Symbiospartners respectively. The issuance of shares resulted in the Company becoming the holding company of the Group.
- (v) Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, 260,159,120 ordinary shares of HKD0.01 each were allotted and issued, as to 234,143,208 shares to XGII and 26,015,912 shares to Symbiospartners (as nominated by XGII), all credited and fully paid, on capitalisation of a sum of RMB45,000,000 owed by the Group to XGII.
- (vi) Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, an aggregate of 51,840,000 shares of HKD0.01 each were allotted and issued, credited as fully paid, upon conversion of the convertible redeemable bonds on 18 October 2005 (see note 26), which was issued by EIGL in the aggregate principal amount of USD5,000,000. The proceeds of RMB539,136, representing the par value, were credited to the Company's share capital and the remaining proceeds of RMB39,781,664 were credited to the share premium account.
- (vii) On 18 October 2005, 133,200,000 ordinary shares of HKD0.01 each were issued and offered for subscription at a price of HKD1.50 per share upon the listing of the Company's shares on the GEM of the Stock Exchange. The proceeds of HKD1,332,000 (equivalent to RMB1,385,280), representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD198,468,000 (equivalent to RMB206,406,720) before the share issue expenses of HKD26,691,724 (equivalent to RMB27,862,743), comprising listing expenses of HKD24,775,683 (equivalent to RMB25,870,060) and expenses for issuance and conversion of the convertible redeemable bonds of HKD1,916,041 (equivalent to RMB1,992,683), were credited to the share premium account.
- (viii) *Share premium*  
The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.
- (ix) *Contributed surplus*  
The contributed surplus of the Group represents the difference between (a) the nominal value of the share capital and the existing balance on the share premium account of a subsidiary acquired; and (b) the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year.

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

## 25. CAPITAL AND RESERVES (CONTINUED)

(x) *Capital reserve*

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 2(q)(ii).

(xi) *General reserve fund*

The Group's wholly owned subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with PRC accounting rules and regulations, to the general reserve fund until the balance reaches 50% of the registered capital.

The general reserve fund can be used for the subsidiaries' working capital purposes and to make up for previous years' losses, if any. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

(xii) *Enterprise expansion fund*

The Group's wholly owned subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with PRC rules and regulations, to the enterprise expansion fund. The percentage of this appropriation is decided by the directors of the subsidiaries. No appropriation to the enterprise expansion fund was made for the year ended 31 December 2005.

The enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

(xiii) *Distributability of reserves*

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

At 31 December 2005, the Company had RMB378,659,475 available for distribution to equity shareholders of the Company (2004: Nil).

## 26. CONVERTIBLE REDEEMABLE BONDS

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

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

## 27. ACQUISITION OF ADDITIONAL INTERESTS IN A SUBSIDIARY

The Group had 30% equity interests in Enric Gas Equipment since its establishment until the Group acquired the 70% additional interests in Enric Gas Equipment on 16 July 2004 for a cash consideration of RMB14,234,500. The fair value of the net assets acquired was as follows:

	RMB
<b>Net assets acquired</b>	
Property, plant and equipment	32,632,429
Construction in progress	10,413,000
Lease prepayments	15,738,666
Intangible assets	3,546,039
Inventories	25,321,059
Trade and other receivables	10,813,338
Amounts due from related parties	48,212,613
Cash at bank and in hand	404,128
Bank loans	(44,520,000)
Trade and other payables	(14,876,668)
Amounts due to related parties	<u>(71,076,792)</u>
Net identifiable assets and liabilities	16,607,812
Excess of interest in the fair value of net assets acquired over cost of acquisition	<u>(2,373,312)</u>
Total purchase price paid, satisfied in cash	<u>14,234,500</u>

## 28. RETIREMENT BENEFITS

The operating subsidiaries in the PRC, namely Enric Compressor, Enric Gas Equipment and Enric Integration, participate in government pension schemes whereby Enric Compressor, Enric Gas Equipment and Enric Integration are required to pay annual contributions at the rates of 24%, 20% and 20% respectively, of the basic salaries of their PRC employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

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

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

## 29. COMMITMENTS

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

	The Group		The Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
Contracted for	<b>920,154</b>	486,000	–	–
Authorised but not contracted for	<b>40,000,000</b>	–	–	–
	<b>40,920,154</b>	486,000	–	–

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

- (b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
Within 1 year	<b>1,301,215</b>	1,495,082	–	–
After 1 year but within 5 years	<b>1,035,967</b>	910,000	–	–
	<b>2,337,182</b>	2,405,082	–	–

The Group leases a number of properties and office equipment under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

## 30. MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions

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

#### Notes:

- (i) Sales to related parties mainly represent the sale of compressors, pressure vessels and integrated business solutions for gas equipment.
- (ii) Purchases from related parties mainly represent purchases of raw materials and accessories for production.
- (iii) These relate to:
- the lease of property and office equipment by the Group from Xinao Group Solar Energy Company Limited, a related party controlled by Mr. Wang, for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rental of RMB520,000;
  - property management services provided by Langfang Xinao Property Management Company Limited, a related party controlled by Mr. Wang, to the Group for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rate of RMB180,000; and
  - the lease of property and office equipment by the Group from Xinao Gas Investment Group Limited, a related party in which Mr. Wang and Ms. Zhao Baoju (a Non-Executive Director of the Company) have substantive interests through XGII, for a term of 3 years from 1 February 2005 to 31 January 2008, at an annual rental of HKD455,544.
- (iv) These relate to loans to Xinao Group Company Limited. These loans carried interest at rates ranging from 5.1% to 6.1% per annum, and the principal amounts of these loans were settled on 9 December 2004.
- (v) This represents disposal of the investment in Xinao Group Company Limited by Enric Compressor to Langfang Guofu Investment Limited, a related party controlled by Mr. Wang, during the year ended 31 December 2004.
- (vi) This represents the transfer of certain assets and liabilities by Xinao Shijiazhuang, to Enric Gas Equipment as capital contribution on 31 March 2004.

### 30. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (a) Transactions (Continued)

- (vii) This represents purchase of equity interests in Enric Compressor amounting to RMB22,596,106 from Mr. Wang during the year ended 31 December 2004, and the Group's acquisition of the additional interests in Enric Gas Equipment amounting to RMB14,234,500.
- (viii) This represents the directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited, a related party controlled by Mr. Wang, during the year ended 31 December 2004.
- (ix) This represents prepayments for the purchase of properties from Bengbu Xinao Property Company Limited, a related party controlled by Mr. Wang, during the year ended 31 December 2005.
- (x) This represents a donation made to the Xinao Charity Fund, a non-profit making organisation of which Mr. Wang is the legal representative.
- (xi) Cash advances to related parties for the year ended 31 December 2004 and the maximum amount outstanding during 2004 were as follows:

	Year ended 31 December 2004 RMB	Maximum amount outstanding during 2004 RMB
Xinao Group Company Limited	13,074,400	13,074,400
Xinao Group Solar Energy Company Limited	4,496,327	4,496,327
Shijiazhuang Radiation Equipment Company Limited	2,992,053	2,992,053
Xinao Shijiazhuang	33,423,600	33,423,600
Mr. Wang	555,511	555,511
Bengbu Xinao Property Company Limited	–	748,858
XGII	–	3,995,101
<b>Total</b>	<b>54,541,891</b>	

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

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

- (xii) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment, and the amounts were fully settled as at 31 December 2005.
- (xiii) Pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005, 260,159,120 ordinary shares of HKD0.01 each were allotted and issued, as to 234,143,208 shares to XGII and 26,015,912 shares to Symbiospartners, all credited and fully paid, on capitalisation of a sum of RMB45,000,000 owed by the Company to XGII.
- (xiv) At 31 December 2005, the Group had bank loans of RMB40,000,000 (2004: RMB132,860,000) guaranteed by Xinao Group Company Limited (see note 20).
- (xv) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and the highest paid employees as disclosed in note 8, is as follows:

	2005 RMB	2004 RMB
Short-term employee benefits	1,606,037	352,522
Equity compensation benefits	1,631,914	–
	<b>3,237,951</b>	<b>352,522</b>

Total remuneration is included in "staff costs" (see note 5(ii)).

The Directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

### 30. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (b) Balances with related parties

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

	Notes	The Group	
		2005 RMB	2004 RMB
(A) Trade balances	(i)	<b>19,818,718</b>	8,232,968
(B) Non-trade balances			
• Interest receivables from loans	(ii)	–	814,191
• Prepayments for purchase of properties	(iii)	<b>478,581</b>	–
Total		<b>20,297,299</b>	9,047,159

Notes:

- (i) This represents the sales of compressors, pressure vessels and integrated business solutions to related parties.
- (ii) These relate to loans to Xinao Group Company Limited. These loans carried interest at annual rates ranging from 5.1% to 6.1% for the year ended 31 December 2004. The maximum balance of the loans to this related party, which is controlled by Mr. Wang, and the related interest receivables were in aggregate RMB88,062,552 and RMB814,191 for the years ended 31 December 2004 and 2005 respectively. The principal amounts of these loans were settled on 9 December 2004.
- (iii) This represents prepayments for the purchase of properties from Bengbu Xinao Property Company Limited, a related party controlled by Mr. Wang, during the year ended 31 December 2005.

(II) Amounts due to related parties are as follows:

	Notes	The Group	
		2005 RMB	2004 RMB
(A) Trade balances	(i)	<b>8,967,663</b>	10,247,633
(B) Non-trade balances			
• Rental and property management fee payable	(ii)	<b>180,000</b>	130,000
• Directors' remuneration and expenses	(iii)	–	142,111
• Cash advances	(iv)	–	54,678,988
Total		<b>9,147,663</b>	65,198,732

Notes:

- (i) This represents purchases of raw materials and accessories for production and receipts in advance for sale of goods.
- (ii) This represents rental and property management fee payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited.
- (iii) This represents the directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.
- (iv) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment. The balance as at 31 December 2004, taking into account settlements of RMB9,678,988, has been capitalised upon the capitalisation issue pursuant to the written resolutions of the shareholders of the Company passed on 26 September 2005 and 7 October 2005.

### 31. AMOUNTS DUE FROM A SUBSIDIARY

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

### 32. FINANCIAL INSTRUMENTS

The Group's financial assets include cash and cash equivalents, trade and bills receivable, other receivables and amounts due from related parties. The Group's financial liabilities include bank loans, trade and bills payable, other payables and amounts due to related parties.

The Group does not hold nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

#### (a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

#### (b) Liquidity risk

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

#### (c) Interest rate risk

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

#### (d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

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

## 32. FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Fair value

The carrying amounts of the significant financial assets and liabilities are not materially different from their fair values as at 31 December 2005.

- (i) Cash and cash equivalents, trade and bills receivable, other receivables, trade and bills payable, other payables and amounts due from/to related parties

The carrying values are not materially different from their fair values because of the short maturities of these items.

- (ii) *Bank loans*

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

## 33. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group mainly operates in the PRC, no geographical segment information is presented.

The business segment of the Group comprises:

- (i) the design, manufacture and sale of compressors;
- (ii) the design, manufacture and sale of pressure vessels; and
- (iii) the provision of integrated business solutions, from the design and manufacture of gas equipment system to on-site installation.

### 33. SEGMENT REPORTING (CONTINUED)

	Year ended 31 December 2005					Year ended 31 December 2004				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated
Revenue from external customers	119,301,227	262,933,736	132,894,189	(2,115,262)	513,013,890	116,079,063	120,547,681	22,270,778	(6,521,824)	252,375,698
Segment result	14,821,172	37,242,183	32,035,373	(551,118)	83,547,610	25,032,716	10,856,575	9,342,429	(733,969)	44,497,751
Unallocated operating income and expenses					(5,145,864)					1,963,226
Profit from operations					78,401,746					46,460,977
Finance costs					(7,813,959)					(6,082,089)
Taxation					(1,882,093)					(1,814,458)
Profit for the year					68,705,694					38,564,430
Depreciation and amortisation for the year	3,489,803	5,674,755	2,157,667			2,168,352	4,932,679	360,105		
Segment assets	215,233,160	197,995,962	102,718,061	(70,935,728)	445,011,455	162,604,728	146,767,706	28,207,573	(48,536,577)	289,043,430
Unallocated assets					277,945,959					30,744,330
Total assets					722,957,414					319,787,760
Segment liabilities	146,832,681	132,119,347	47,266,086	(70,384,610)	255,833,504	103,350,952	15,923,051	226,898	(47,802,608)	71,698,293
Unallocated liabilities					61,865,860					194,328,032
Total liabilities					317,699,364					266,026,325
Capital expenditure incurred during the year	7,521,470	10,686,582	3,590,504			10,779,926	19,450,891	1,980,429		

### 34. PARENT AND ULTIMATE HOLDING COMPANY

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

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

### 35. ACCOUNTING ESTIMATES AND JUDGEMENTS

#### Key sources of estimation uncertainty

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

### 36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

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

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	1 January 2006
– HKAS 27, Consolidated and separate financial statements	1 January 2006
– HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

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

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.



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