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. On 20 July 2006, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of introduction on the Main Board of the Stock Exchange.

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes in the Group's accounting policies applied in these financial statements for the two years presented. The Group has not early adopted any new and revised HKFRSs that are available for early adoption for the current accounting period.

(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 throughout the year ended 31 December 2005, rather than from 26 September 2005. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2005 include the financial statements of the Company and its subsidiaries with effect from 1 January 2005 or where their respective dates of establishment are at a date later than 1 January 2005, from the respective dates of establishment, as if the current group structure had been in existence throughout the year ended 31 December 2005. 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 37.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 are taken into account.

An investment in a subsidiary is consolidated into 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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

Loans from holder of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(m), (n) or (o) depending on the nature of the liability.

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

(d) 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 (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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

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 (note 2(j)).

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

(f) Property, plant and equipment

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

Gains or losses arsing 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	20 to 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 (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)*

(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 and borrowing costs, where applicable (note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (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 definite) and impairment losses (note 2(j)).

Amortisation of intangible assets with finite useful lives 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 People's Republic of China ("PRC") authorities. Land use rights are stated in the balance sheet at cost less accumulated amortisation and impairment losses (note 2(j)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(i) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

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

(j) Impairment of assets

(i) Impairment of investments 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 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 equity securities are not reversed.

– For trade and other current receivables and other 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), where the effect of discounting is material.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– intangible assets;

– investments in subsidiaries; and

– goodwill.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 (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 (note 2(j)).

(m) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

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

If the note is converted, the capital reserve, together with the carrying amount 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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, 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 options, the total estimated fair value of the 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 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 options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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

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

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

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

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

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

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition

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

(i) Sale of goods

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

(ii) Dividends

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

(iii) Interest income

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

(iv) Government grants

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

(u) Translation of foreign currencies

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

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

(v) Borrowing costs

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

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

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties *(Continued)*

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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 energy equipment 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

		2006 **RMB**	2005 RMB
Government grants	(i)	**487,714**	1,183,726
Other operating revenue	(ii)	**988,963**	720,363
Interest income from bank deposits		**3,673,892**	1,633,775
		5,150,569	3,537,864

Notes:

(i) Government grants represent various forms of incentives and subsidies given to subsidiaries by the local PRC government.

(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):

(a) Other net expense

	2006 RMB	2005 RMB
Loss on disposal of property, plant and equipment	**4,684,412**	119,318
Charitable donations	**1,640,000**	500,000
Other net income	**(55,702)**	(15,394)
	6,268,710	603,924

(b) Finance costs

	2006 RMB	2005 RMB
Interest on bank loans	**5,888,154**	8,165,598
Interest on convertible redeemable bonds	**–**	138,870
Total borrowing costs	**5,888,154**	8,304,468
Less: borrowing costs capitalised*	**(814,525)**	–
	5,073,629	8,304,468
Foreign exchange loss/(gain)	**2,774,727**	(713,771)
Finance charges	**828,890**	223,262
	8,677,246	7,813,959

* *The borrowing costs have been capitalised at annual rates of interest ranging from 5.7% to 6.7% for the year ended 31 December 2006 (2005: Nil).*

(c) Staff costs

	2006 RMB	2005 RMB
Salaries, wages and allowances	**47,276,345**	31,712,960
Contributions to retirement schemes (note 29)	**3,789,307**	2,713,140
Equity-settled share-based payment expenses	**3,762,871**	1,830,928
	54,828,523	36,257,028

5. PROFIT BEFORE TAXATION *(Continued)*

(d) Other items

	2006 RMB	2005 RMB
Cost of inventories #	**549,994,345**	362,953,734
Auditors' remuneration	**2,745,652**	1,574,000
Depreciation of property, plant and equipment #	**10,767,086**	9,719,262
Amortisation of intangible assets	**924,861**	908,860
Amortisation of lease prepayments	**664,192**	694,103
Impairment losses for:		
– Trade receivables	**187,515**	462,318
– Other receivables	**748,291**	373,357
Write-back of impairment losses for trade receivables	**(521,601)**	–
(Reversal)/write-down of inventories	**(451,506)**	2,138,722
Research and development costs	**7,433,103**	6,171,711
Operating lease charges for property rental	**2,162,147**	1,082,701
Provision for product warranties	**6,748,284**	2,889,288

Cost of inventories includes RMB26,817,786 (2005: RMB16,374,819) 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(c) for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 RMB	2005 RMB
Current tax		
Provision for the year	**7,171,856**	1,882,093
Deferred tax		
Origination of temporary differences	**(1,884,384)**	–
	5,287,472	1,882,093

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year. Profits of the Company's subsidiaries in the PRC are subject to PRC income taxes.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries in the PRC are entitled to exemption from state income tax for the first two years commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, and thereafter will be entitled to a 50% reduction in state income tax rate for the following three years.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries in the PRC are either entitled to exemption from local income tax for the first five years commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, and thereafter will be entitled to a 50% reduction in local income tax rate for the following five years, or are fully exempted from local income tax.

During the year ended 31 December 2006, the Company's subsidiaries in the PRC were either enjoying the aforesaid tax relief or did not have taxable income and accordingly were subject to state income tax at 0% to 15% (2005: 0% to 15%).

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

	2006 **RMB**	2005 RMB
Profit before taxation	**101,790,991**	70,587,787
Notional tax on profit before taxation, calculated at the applicable rates	**27,443,530**	17,572,992
Tax effect of tax holiday granted	**(21,699,355)**	(15,895,830)
Tax incentive granted	**(1,106,171)**	–
Tax effect of non-deductible expenses	**649,468**	204,931
Actual tax expense	**5,287,472**	1,882,093

7. DIRECTORS' REMUNERATION

Details of Directors' remuneration for the year ended 31 December 2006 are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Sub-Total	Share-based payments (note)	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Chairman:							
Wang Yusuo	–	936,000	–	–	936,000	1,106,898	2,042,898
Executive Directors:							
Jin Yongsheng	–	364,000	3,100	–	367,100	553,448	920,548
Cai Hongqiu	–	624,000	–	–	624,000	387,414	1,011,414
Zhao Xiaowen	–	416,000	3,083	–	419,083	276,724	695,807
Zhou Kexing	–	416,000	–	–	416,000	276,724	692,724
Yu Jianchao	–	312,000	–	–	312,000	276,724	588,724
Non-executive Director:							
Zhao Baoju	62,400	–	–	–	62,400	–	62,400
Independent Non-executive Directors:							
Wong Chun Ho	62,400	–	–	–	62,400	–	62,400
Gao Zhengping	62,400	–	–	–	62,400	–	62,400
Shou Binan	62,400	–	–	–	62,400	–	62,400
	249,600	3,068,000	6,183	–	3,323,783	2,877,932	6,201,715

Notes to the Financial Statements

7. DIRECTORS' REMUNERATION *(Continued)*

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

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Sub-Total	Share-based payments (note)	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Chairman:							
Wang Yusuo	–	234,000	–	–	234,000	530,704	764,704
Executive Directors:							
Cai Hongqiu	–	264,956	–	–	264,956	185,746	450,702
Zhao Xiaowen	–	171,543	7,029	–	178,572	132,676	311,248
Zhou Kexing	–	182,182	–	–	182,182	132,676	314,858
Yu Jianchao	–	78,000	–	–	78,000	132,676	210,676
Non-executive Director:							
Zhao Baoju	15,600	–	–	–	15,600	–	15,600
Independent Non-executive Directors:							
Wong Chun Ho	57,200	–	–	–	57,200	–	57,200
Gao Zhengping	57,200	–	–	–	57,200	–	57,200
Shou Binan	57,200	–	–	–	57,200	–	57,200
	187,200	930,681	7,029	–	1,124,910	1,114,478	2,239,388

Note:

These represent the estimated value of share options granted to the Directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the section headed "Share Options" in the Directors' Report on pages 53 to 55 and note 24.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: four) are Directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individual are as follows:

	2006 **RMB**	2005 RMB
Salaries, allowances and benefits in kind	**665,600**	499,200
Retirement scheme contributions	**12,480**	12,480
Share-based payments	**193,707**	92,873
	871,787	604,553

The emoluments of the one (2005: one) individual with the highest emoluments is within the following band:

	2006 **Number of individuals**	2005 Number of individuals
HKD Nil – HKD1,000,000	**1**	1

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB4,447,169 (2005: RMB1,785,873) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

No dividend has been paid or declared by the Company during the year ended 31 December 2006 (2005: Nil).

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to ordinary equity shareholders of the Company of RMB96,503,519 and the weighted average number of 445,200,000 ordinary shares of the Company outstanding during the year ended 31 December 2006.

11. EARNINGS PER SHARE *(Continued)*

(a) Basic earnings per share *(Continued)*

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 on 10 October 2005 in relation to the listing on the GEM, 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 weighted average number of ordinary shares is calculated as follows:

	2006	2005
Issued and issuable ordinary shares at 1 January	**445,200,000**	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	**445,200,000**	305,283,288

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB96,503,519 (2005: RMB68,705,694) and the weighted average number of ordinary shares of 454,406,023 (2005: 306,681,163), calculated as follows:

	2006	2005
Weighted average number of ordinary shares used in calculating basic earnings per share at 31 December	**445,200,000**	305,283,288
Effect of dilutive potential ordinary shares in respect of the Company's share options scheme (note 24)	**9,206,023**	1,397,875
Weighted average number of ordinary shares used in calculating diluted earnings per share at 31 December	**454,406,023**	306,681,163

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB	Leasehold improvements RMB	Machinery RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
Cost						
Balance at 1 January 2005	36,909,689	–	50,182,195	2,429,343	3,807,474	93,328,701
Additions	625,529	1,875,438	5,230,368	2,029,798	1,497,032	11,258,165
Disposals	(20,093)	–	(205,230)	–	–	(225,323)
Reclassification	3,600,000	–	(3,600,000)	–	–	–
Transfers from construction in progress	1,907,437	–	654,615	–	–	2,562,052
Balance at 31 December 2005	43,022,562	1,875,438	52,261,948	4,459,141	5,304,506	106,923,595
Balance at 1 January 2006	43,022,562	1,875,438	52,261,948	4,459,141	5,304,506	106,923,595
Additions	6,273,616	278,654	7,110,482	5,355,786	3,308,776	22,327,314
Disposals	(5,773,761)	–	(484,877)	(23,320)	(66,951)	(6,348,909)
Transfers from construction in progress	46,873,618	–	31,062,538	–	–	77,936,156
Balance at 31 December 2006	**90,396,035**	**2,154,092**	**89,950,091**	**9,791,607**	**8,546,331**	**200,838,156**
Accumulated depreciation						
Balance at 1 January 2005	(2,627,481)	–	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Charge for the year	(3,064,621)	(38,777)	(5,372,710)	(605,574)	(637,580)	(9,719,262)
Written back on disposal	3,783	–	97,223	–	–	101,006
Reclassification	(105,600)	–	105,600	–	–	–
Balance at 31 December 2005	(5,793,919)	(38,777)	(9,224,131)	(894,651)	(1,475,438)	(17,426,916)
Balance at 1 January 2006	(5,793,919)	(38,777)	(9,224,131)	(894,651)	(1,475,438)	(17,426,916)
Charge for the year	(2,155,081)	(418,216)	(5,973,457)	(1,213,453)	(1,006,879)	(10,767,086)
Written back on disposal	544,034	–	327,792	21,200	26,260	919,286
Balance at 31 December 2006	**(7,404,966)**	**(456,993)**	**(14,869,796)**	**(2,086,904)**	**(2,456,057)**	**(27,274,716)**
Net book value						
At 31 December 2006	**82,991,069**	**1,697,099**	**75,080,295**	**7,704,703**	**6,090,274**	**173,563,440**
At 31 December 2005	37,228,643	1,836,661	43,037,817	3,564,490	3,829,068	89,496,679

Notes to the Financial Statements

13. CONSTRUCTION IN PROGRESS

	The Group	
	2006	2005
	RMB	RMB
At 1 January	**12,333,721**	4,355,382
Additions	**105,104,235**	10,540,391
Transfers to property, plant and equipment	**(77,936,156)**	(2,562,052)
At 31 December	**39,501,800**	12,333,721

14. LEASE PREPAYMENTS

	The Group	
	2006	2005
	RMB	RMB
Cost		
At 1 January and 31 December	**32,128,999**	32,128,999
Accumulated amortisation		
At 1 January	**(1,562,515)**	(868,412)
Charge for the year	**(664,192)**	(694,103)
At 31 December	**(2,226,707)**	(1,562,515)
Net book value		
At 31 December	**29,902,292**	30,566,484

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights have remaining terms ranging from 42 to 47 years as at 31 December 2006.

15. INTANGIBLE ASSETS

	The Group	
	2006	2005
	RMB	RMB
Cost		
At 1 January	**9,088,632**	9,088,632
Additions	**1,920,000**	–
At 31 December	**11,008,632**	9,088,632
Accumulated amortisation		
At 1 January	**(2,282,507)**	(1,373,647)
Charge for the year	**(924,861)**	(908,860)
At 31 December	**(3,207,368)**	(2,282,507)
Net book value		
At 31 December	**7,801,264**	6,806,125

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

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

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB	RMB
Unlisted shares, at cost	**119,825,371**	119,825,371

Details of the subsidiaries at 31 December 2006 are set out below. The class of shares held is ordinary unless otherwise stated.

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of establishment/ incorporation and operation	Authorised/ registered/ paid-in capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Enric (Bengbu) Compressor Company Limited	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	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited	PRC 30 September 2003	Registered and paid-in capital of USD7,000,000	–	100%	Manufacture and sale of pressure vessels
Enric Langfang Investment Limited ("Langfang BVI")	British Virgin Islands 14 September 2004	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric (Langfang) Energy Equipment Integration Company Limited	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	PRC 16 December 2006	Registered and paid-in capital of HKD40,000,000	–	100%	Research and development of technology for application in natural gas equipment

17. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2006	2005
	RMB	RMB
Raw materials	**69,539,206**	40,909,809
Goods in transit	**34,970,492**	–
Work in progress	**64,219,038**	31,681,844
Finished goods	**46,057,516**	52,407,162
	214,786,252	124,998,815

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2006	2005
	RMB	RMB
Carrying amount of inventories sold	**549,994,345**	362,953,734
Write down of inventories	**–**	2,138,722
Reversal of write-down of inventories	**(451,506)**	–
	549,542,839	365,092,456

The reversal of write-down of inventories arose as a result of the subsequent usage of long-aged raw materials for which a write-down was made in prior years.

18. 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	
	2006	2005
	RMB	RMB
Aged within 3 months	**37,227,516**	32,898,075
Aged between 3 to 6 months	**8,171,579**	24,977,183
Aged between 6 months to 1 year	**19,455,599**	11,701,865
Aged over 1 year	**5,616,346**	2,829,967
	70,471,040	72,407,090

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

Notes to the Financial Statements

19. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	The Group	
	2006	2005
	RMB	RMB
Advances to suppliers	**16,501,983**	20,430,932
Deposits for bidding, construction work and equipment purchase	**3,181,136**	4,598,203
Staff advances	**1,310,789**	941,274
Others	**1,437,510**	761,123
	22,431,418	26,731,532

20. CASH AT BANK AND IN HAND

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB	RMB	**RMB**	RMB
Cash and cash equivalents				
– Cash in hand and demand deposits	**260,786,347**	288,502,470	**5,262,449**	14,222,026
– Restricted bank deposits for letters of credit and bills payable within three months of maturity	**31,920,970**	24,563,777	**–**	–
	292,707,317	313,066,247	**5,262,449**	14,222,026
Restricted bank deposits for letters of credit and bills payable with maturity of more than three months	**26,014,000**	26,253,422	**–**	–
	318,721,317	339,319,669	**5,262,449**	14,222,026

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	
	2006	2005	**2006**	2005
	RMB equivalent	RMB equivalent	**RMB equivalent**	RMB equivalent
Hong Kong Dollars	**40,975,592**	155,060,499	**5,262,449**	14,222,026
United States Dollars	**7,093,152**	313,116	**–**	–

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

21. BANK LOANS

	The Group	
	2006	2005
	RMB	RMB
Bank loans – guaranteed	**167,733,123**	125,000,000

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2006	2005
	RMB	RMB
	equivalent	equivalent
United States Dollars	**42,733,123**	–

At 31 December 2006, all the bank loans are guaranteed by subsidiaries of the Company. At 31 December 2005, bank loans of RMB40,000,000 were guaranteed by Xinao Group Company Limited, a related party controlled by Mr. Wang Yusuo ("Mr. Wang"), and 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 2006 (2005: 5.6% to 6.8%).

22. TRADE AND BILLS PAYABLE

	The Group	
	2006	2005
	RMB	RMB
Trade creditors	**75,248,434**	53,717,162
Bills payable	**39,950,000**	41,450,000
	115,198,434	95,167,162

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

	The Group	
	2006	2005
	RMB	RMB
Due within 3 months or on demand	**103,884,783**	74,713,030
Due after 3 months but within 6 months	**11,149,664**	19,250,000
Due after 6 months but within 1 year	**163,987**	1,204,132
	115,198,434	95,167,162

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

23. OTHER PAYABLES AND ACCRUED EXPENSES

	The Group	
	2006	2005
	RMB	RMB
Advances from customers	**47,274,840**	68,029,379
Other taxes payable	**10,168,089**	5,259,968
Accrued expenses	**5,413,199**	4,212,563
Employees' bonus and welfare	**8,187,533**	3,406,031
Other surcharges payable	**2,308,320**	1,973,107
Payable for construction work	**8,480,272**	1,135,349
Directors' remuneration	**2,531,890**	761,714
Others	**1,892,904**	1,396,109
	86,257,047	86,174,220

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	
	2006	2005
	RMB	RMB
	equivalent	equivalent
Hong Kong Dollars	**2,676,113**	1,724,065

24. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the written resolutions of the Company's then sole shareholder passed on 26 September 2005, the Company has adopted a GEM Share Option Scheme and a Pre-GEM Listing Share Option Plan.

Under the Pre-GEM Listing Share Option Plan, the Company invited certain directors and employees of the Group to take up options at HKD1 consideration to subscribe for 13,800,000 ordinary shares of the Company. The exercise price of such share options was determined based on the new issue price of the Company's shares on 18 October 2005 (the "Listing Date").

The Pre-GEM Listing Share Option Plan was valid from 26 September 2005 to 17 October 2005, after which no further options were granted but its provisions will remain in force until 25 September 2015 so as to give effect to the exercise of any options granted.

Half of the options vest after 6 months from the Listing Date and are then exercisable within a period of 10 years from the date of grant, and the remaining options vest after 2 years from the Listing Date and are then exercisable within a period of 10 years from the date of grant.

On 12 July 2006, the Company's shareholders passed a resolution to approve the adoption of another share option scheme (the "Main Board Share Option Scheme") and terminated the abovementioned GEM Share Option Scheme. No options were granted neither under the GEM Share Option Scheme nor the Main Board Share Option Scheme during the year ended 31 December 2006.

24. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(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	2,700,000	Two years after the Listing Date	10 years
Total share options	13,800,000		

No options were exercised during the year.

The options outstanding at 31 December 2006 had an exercise price of HKD1.50 and a weighted average remaining contractual life of 8.7 years.

(b) Fair value of share options and assumptions

There were no share options granted by the Group and the Company during the year ended 31 December 2006.

The fair value of services received in return for share options granted during the year ended 31 December 2005 were measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted was measured based on a binomial option pricing model. The contractual life of the option was used as an input into this model. Expectations of early exercise were incorporated into the binomial option pricing model.

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

The expected volatility was 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.

Notes to the Financial Statements

25. PROVISION FOR PRODUCT WARRANTIES

	The Group	
	2006	2005
	RMB	RMB
At 1 January	**1,281,780**	912,619
Additional provisions made	**6,748,284**	2,889,288
Provisions utilised	**(5,424,525)**	(2,520,127)
At 31 December	**2,605,539**	1,281,780

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

26. DEFERRED TAX ASSETS

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group			
Deferred tax arising from:	**Impairment losses for trade and other receivables RMB**	**Write-down of inventories RMB**	**Provision for product warranties RMB**	**Total RMB**
At 1 January 2006	–	–	–	–
Credited to profit or loss	1,180,140	253,082	451,162	1,884,384
At 31 December 2006	**1,180,140**	**253,082**	**451,162**	**1,884,384**

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

27. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company							
	Share capital RMB	Share premium RMB (vii)	Contributed surplus RMB (viii)	Capital reserve RMB (ix)	General reserve fund RMB (x)	Enterprise expansion fund RMB (xi)	Retained profits RMB	Total RMB
At 1 January 2005	8	–	–	–	2,477,817	–	51,283,610	53,761,435
Issuance of shares:								
– Pursuant to the Reorganisation (iii)	9	–	–	–	–	–	–	9
– Capitalisation issue (iv)	2,705,655	42,294,345	–	–	–	–	–	45,000,000
– Conversion of convertible redeemable bonds ((v) and note 28)	539,136	39,781,664	–	–	–	–	–	40,320,800
– By placing (vi)	1,385,280	206,406,720	–	–	–	–	–	207,792,000
– Others (ii)	819	15,709,117	–	–	–	–	–	15,709,936
Elimination on consolidation (iii)	(827)	(15,709,117)	–	–	–	–	–	(15,709,944)
Reorganisation adjustment (iii)	–	–	15,709,935	–	–	–	–	15,709,935
Share issue expenses (vi)	–	(27,862,743)	–	–	–	–	–	(27,862,743)
Equity-settled share-based transactions (note 24)	–	–	–	1,830,928	–	–	–	1,830,928
Profit for the year	–	–	–	–	–	–	68,705,694	68,705,694
Transfer between reserves	–	–	–	–	7,365,915	–	(7,365,915)	–
At 31 December 2005	4,630,080	260,619,986	15,709,935	1,830,928	9,843,732	–	112,623,389	405,258,050
At 1 January 2006	4,630,080	260,619,986	15,709,935	1,830,928	9,843,732	–	112,623,389	405,258,050
Equity-settled share-based transactions (note 24)	–	–	–	3,762,871	–	–	–	3,762,871
Profit for the year	–	–	–	–	–	–	96,503,519	96,503,519
Transfer between reserves	–	–	–	–	11,640,747	–	(11,640,747)	–
At 31 December 2006	**4,630,080**	**260,619,986**	**15,709,935**	**5,593,799**	**21,484,479**	**–**	**197,486,161**	**505,524,440**

Notes to the Financial Statements

27. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Attributable to equity shareholders of the Company					
	Share capital RMB	Share premium RMB (vii)	Contributed surplus RMB (viii)	Capital reserve RMB (ix)	Accumulated losses RMB	Total RMB
At 1 January 2005	–	–	–	–	–	–
Issuance of shares:						
– Pursuant to the Reorganisation (iii)	9	–	–	–	–	9
– Capitalisation issue (iv)	2,705,655	42,294,345	–	–	–	45,000,000
– Conversion of convertible redeemable bonds ((v) and note 28)	539,136	39,781,664	–	–	–	40,320,800
– By placing (vi)	1,385,280	206,406,720	–	–	–	207,792,000
Reorganisation adjustment (iii)	–	–	119,825,362	–	–	119,825,362
Share issue expenses (vi)	–	(27,862,743)	–	–	–	(27,862,743)
Equity-settled share-based transactions (note 24)	–	–	–	1,830,928	–	1,830,928
Loss for the year	–	–	–	–	(1,785,873)	(1,785,873)
At 31 December 2005	4,630,080	260,619,986	119,825,362	1,830,928	(1,785,873)	385,120,483
At 1 January 2006	4,630,080	260,619,986	119,825,362	1,830,928	(1,785,873)	385,120,483
Equity-settled share-based transactions (note 24)	–	–	–	3,762,871	–	3,762,871
Loss for the year	–	–	–	–	(4,447,169)	(4,447,169)
At 31 December 2006	**4,630,080**	**260,619,986**	**119,825,362**	**5,593,799**	**(6,233,042)**	**384,436,185**

27. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

	2006		2005	
	Number of shares	**RMB equivalent**	Number of shares	RMB equivalent
Authorised:				
Ordinary shares of the Company of HKD0.01 each (i)	**10,000,000,000**	**104,000,000**	10,000,000,000	104,000,000
Ordinary shares of the Company, issued and fully paid:				
At 1 January	**445,200,000**	**4,630,080**	1	–
Issuance of shares:				
– Pursuant to the Reorganisation (iii)	**–**	**–**	879	9
– Capitalisation issue (iv)	**–**	**–**	260,159,120	2,705,655
– Conversion of convertible redeemable bonds ((v) and note 28)	**–**	**–**	51,840,000	539,136
– By placing (vi)	**–**	**–**	133,200,000	1,385,280
At 31 December	**445,200,000**	**4,630,080**	445,200,000	4,630,080

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

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

(ii) 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).

(iii) 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.

27. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(iv) 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.

(v) 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 (note 28), 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.

(vi) 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.

On 20 July 2006, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of introduction on the Main Board of the Stock Exchange. No new shares were issued upon the listing of the Company's shares on the Main Board of the Stock Exchange.

(vii) *Share premium*

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

(viii) *Contributed surplus*

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

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

(ix) *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).

27. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(x) 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.

(xi) 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 2006.

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.

(xii) 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 2006, the Company had RMB374,212,306 available for distribution to equity shareholders of the Company (2005: RMB378,659,475).

28. 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 mandatorily converted to 51,840,000 ordinary shares of the Company on 18 October 2005.

29. RETIREMENT BENEFITS

The subsidiaries in the PRC participate in government pension schemes whereby they are required to pay annual contributions at the rates of 20% to 22% 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.

Notes to the Financial Statements

30. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB	RMB	**RMB**	RMB
Contracted for				
– Land and buildings	**28,069,180**	920,154	**–**	–
– Investment in subsidiary	**8,000,000**	–	**–**	–
	36,069,180	920,154	**–**	–
Authorised but not contracted for				
– Land and buildings	**536,500**	40,000,000	**–**	–
	536,500	40,000,000	**–**	–

Beijing Enric Energy Efficiency Equipment & Technology Limited ("Enric Energy Efficiency") is a joint venture established in Beijing in the PRC by Langfang BVI and Beijing Huaxingkangwo Energy-Efficient Technology Development Company Limited, an independent third party. Enric Energy Efficiency obtained an approval certificate (shang wai zi jing zi [2006] No. 18055) from the People's Government of Beijing on 11 October 2006, and a provisional business licence (No. 030290) on 23 November 2006 issued by Beijing Administration of Industry and Commerce of the PRC. Enric Energy Efficiency has not carried out any business since the date of its establishment. As at 31 December 2006, the Group had not made the required capital contribution of RMB8,000,000 into Enric Energy Efficiency.

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB	RMB	**RMB**	RMB
Within 1 year	**1,555,559**	1,301,215	**–**	–
After 1 year but within 5 years	**126,901**	1,035,967	**–**	–
	1,682,460	2,337,182	**–**	–

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

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions

		The Group	
		Year ended 31 December	
		2006	2005
		RMB	RMB
Sales	(i)	**133,248,674**	101,865,440
Purchases	(ii)	**138,824**	145,242
Rental of property and office equipment and property management fee	(iii)	**1,562,273**	1,087,695
Repayments received in respect of loans to a related party and related interest	(iv)	**–**	814,191
Prepayments for purchase of properties	(v)	**–**	478,581
Donations	(vi)	**600,000**	500,000
Repayments of cash advances from related parties	(vii)	**–**	9,678,988
Settlement of cash advances from a related party pursuant to a capitalisation issue	(viii)	**–**	45,000,000
Other services	(ix)	**980,000**	–
Connection fee	(x)	**1,350,993**	–

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;
- 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; and
- the lease of property and office equipment by the Group from Langfang Xinao Gas Equipment Company Limited, a related party in which Mr. Wang and Ms. Zhao Baoju have substantive interests through XGII, for a term of 2 years and 4 months from 1 November 2005 to 29 February 2008, at an annual rental of RMB466,209.

(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 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.

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

(vii) 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.

Notes to the Financial Statements

31. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

Notes: *(Continued)*

(viii) 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.

(ix) This represents services provided to the Group by Xinao Group Golden Elephant Hotel Company Limited, a related party controlled by Mr. Wang, in relation to seminars and conferences held by the Group during the year ended 31 December 2006.

(x) During the year, Shijiazhuang Xinao Gas Company Limited, a related party in which Mr. Wang and Ms. Zhao Baoju have substantive interests through XGII, provided gas connection services to the Group.

(xi) At 31 December 2006, the Group had no bank loans (2005: RMB40,000,000) guaranteed by Xinao Group Company Limited (note 21).

(xii) 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:

	2006 RMB	2005 RMB
Short-term employee benefits	**4,142,344**	1,606,037
Equity compensation benefits	**3,403,708**	1,631,914
	7,546,052	3,237,951

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

(b) Balances with related parties

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

		The Group	
		2006 RMB	2005 RMB
Trade balances	(i)	**21,017,425**	19,818,718
Prepayments for purchase of properties	(ii)	**–**	478,581
Total		**21,017,425**	20,297,299

Notes:

(i) This represents receivables from sales of the Group's products to related parties.

(ii) 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.

31. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties *(Continued)*

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

		The Group	
		2006	2005
		RMB	RMB
Trade balances	(i)	**26,190,838**	8,967,663
Rental and property management fee payable	(ii)	**560,000**	180,000
Total		**26,750,838**	9,147,663

Notes:

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

(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, and Langfang Xinao Property Management Company Limited.

32. AMOUNTS DUE FROM A SUBSIDIARY

At 31 December 2006, these represent cash advances to EIGL. These amounts are unsecured, interest-free and repayable on demand.

33. 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.

33. FINANCIAL INSTRUMENTS *(Continued)*

(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 21 and 28 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 a basket of unspecified currencies.

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

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

(e) Fair value

The carrying amounts of the significant financial assets and liabilities are not materially different from their fair values as at 31 December 2006.

(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.

34. 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.

34. SEGMENT REPORTING

	Year ended 31 December 2006					Year ended 31 December 2005				
	Compressors RMB	Pressure vessels RMB	Integrated business solutions RMB	Inter-segment elimination RMB	Consolidated RMB	Compressors RMB	Pressure vessels RMB	Integrated business solutions RMB	Inter-segment elimination RMB	Consolidated RMB
Revenue from external customers	**132,036,508**	**451,210,429**	**187,885,521**	**(1,180,797)**	**769,951,661**	119,301,227	262,933,736	132,894,189	(2,115,262)	513,013,890
Segment result	**17,673,005**	**70,356,914**	**44,146,778**	**(290,004)**	**131,886,693**	14,821,172	37,242,183	32,035,373	(551,118)	83,547,610
Unallocated operating income and expenses					**(14,596,796)**					(5,145,864)
Profit from operations					**117,289,897**					78,401,746
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board					**(6,821,660)**					–
Finance costs					**(8,677,246)**					(7,813,959)
Taxation					**(5,287,472)**					(1,882,093)
Profit for the year					**96,503,519**					68,705,694
Depreciation and amortisation for the year	**3,183,951**	**7,969,645**	**1,202,543**			3,489,803	5,674,755	2,157,667		
Segment assets	**184,286,656**	**348,894,802**	**138,597,251**	**(9,408,063)**	**662,370,646**	215,233,160	197,995,962	102,718,061	(70,935,728)	445,011,455
Unallocated assets					**243,822,306**					277,945,959
Total assets					**906,192,952**					722,957,414
Segment liabilities	**103,334,049**	**111,256,473**	**45,010,167**	**(9,118,059)**	**250,482,630**	146,832,681	132,119,347	47,266,086	(70,384,610)	255,833,504
Unallocated liabilities					**150,185,882**					61,865,860
Total liabilities					**400,668,512**					317,699,364
Capital expenditure incurred during the year	**14,214,785**	**73,354,513**	**47,894,571**			7,521,470	10,686,582	3,590,504		

35. NON-ADJUSTING POST BALANCE SHEET EVENTS

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008.

The income tax rates applicable to the Group's subsidiaries in the PRC are at 18% to 30%, and certain of these subsidiaries are entitled to tax holidays commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years (note 6(a)). From 1 January 2008, the income tax rate is expected to gradually change to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually change to the standard rate of 25%.

In addition, one of the subsidiaries has been granted the status of a high-tech enterprise by the No. 1 Branch of the State Tax Bureau of the High-Tech Industry Development Zone on 1 July 2005 and currently its applicable state income tax rate is 15%. According to the new tax law, certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the detailed implementation rules regarding the preferential tax policies have yet to be made public.

Consequently, the Group is not able to make an estimate of the financial effect of the new tax law on its deferred tax assets and liabilities. The financial effect of the new tax law, if any, will be reflected in the Group's consolidated financial statements subsequent to 2006. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

36. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2006, 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 2006, the Directors consider the ultimate controlling parties of the Company to be Mr. Wang and Ms. Zhao Baoju, the spouse of Mr. Wang.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 24 and 33 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments respectively.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

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 year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HK(IFRIC) 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9, Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) 10, Interim financial reporting and impairment	1 November 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007