

# Enric

**安瑞科能源裝備控股有限公司**  
**Enric Energy Equipment Holdings Limited**

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

Stock code: 3899

## DEVOTION TO **EXCELLENCE**

Annual Report 2006





**A LEADING SPECIALISED  
ENERGY EQUIPMENT  
MANUFACTURER AND  
INTEGRATED BUSINESS  
SOLUTIONS PROVIDER IN  
THE PRC**

# Enric Energy Equipment Holdings Limited

Annual Report 2006



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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Wang Yusuo (*Chairman*)

Jin Yongsheng (*Chief Executive Officer*)

Cai Hongqiu

Zhao Xiaowen

Zhou Kexing

Yu Jianchao

Cheong Siu Fai

#### Non-executive Director

Zhao Baoju

#### Independent Non-executive Directors

Wong Chun Ho

Gao Zhengping

Shou Binan

### QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Cheong Siu Fai CPA

### AUDIT COMMITTEE

Wong Chun Ho

Gao Zhengping

Shou Binan

### REMUNERATION COMMITTEE

Jin Yongsheng

Gao Zhengping

Shou Binan

### NOMINATION COMMITTEE

Jin Yongsheng

Wong Chun Ho

Gao Zhengping

### AUTHORISED REPRESENTATIVES

Cai Hongqiu

Cheong Siu Fai

### COMPLIANCE OFFICER

Cai Hongqiu

### REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

### 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

26th Floor, Jardine House

1 Connaught Place

Central

Hong Kong

### PRINCIPAL BANKERS

Agricultural Bank of China

Bank of Communications

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

### HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Rooms 1712-16

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

### STOCK CODE

3899

### COMPANY WEBSITE

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

## Chairman's Statement



**Wang Yusuo**  
*Chairman*

DEVOTION TO  
**EXCELLENCE**

Leveraging on advanced energy equipment and technologies, we are devoted to the efficient and clean use of energy.

## Chairman's Statement

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 2006.

### MAIN BOARD LISTING

The Group turned over a new leaf on 20 July 2006, the day the entire issued share capital of the Company commenced listing by way of introduction on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Thanks to the support of shareholders and investors, on this memorable day, the share price closed at HKD4.975 with market capitalisation tripled to approximately HKD2,214,870,000 from approximately HKD667,800,000 on 18 October 2005, the date of listing on the Growth Enterprise Market of the Stock Exchange ("GEM").

### RESULTS OF THE YEAR

Benefited from the natural gas boom in the PRC and our continued efforts in business expansion, the Group recorded a strong growth for the year ended 31 December 2006.

Net profit attributable to equity shareholders for the year reached RMB96,504,000 (2005: RMB68,706,000), up 40.5%. Basic and diluted earnings per share were RMB0.217 and RMB0.212 (2005: RMB0.225 and RMB0.224) respectively.

Turnover for the year under review was up 50.1% to RMB769,952,000 from RMB513,014,000 for 2005. The Group's compressed natural gas ("CNG") trailers, seamless pressure cylinders and CNG refueling station systems received very positive market response and therefore experienced high turnover growth. Turnover for the segments of pressure vessels and integrated business solutions ("IBS") rose by 71.8% to RMB451,192,000 (2005: RMB262,606,000) and 41.4% to RMB187,886,000 (2005: RMB132,894,000) respectively over last year. The compressors segment had a moderate growth and recorded a turnover of RMB130,874,000 (2005: RMB117,513,000), up 11.4%.

### PROSPECTS

The rapid growth of the PRC economy is expected to continue with an estimated GDP growth of 9.5% in 2007. Realising that a sufficient and balanced energy source is the backbone of sustainable economic growth, the PRC government has identified natural gas as a green and price competitive alternative to alleviate its pollution problems and heavy reliance on coal and oil. Natural gas has become an important energy in China. The PRC government targets to increase the proportion of natural gas in the overall primary energy consumption mix to 6% by 2010 and 10% by 2020 from the

current 2.7%, signifying a huge development potential of the natural gas market.

Under the 11th Five-Year Plan, a series of policies is promulgated by the state and local governments to promote natural gas, such as "Opinion concerning the speeding up of the development of market economy in the public utilities sector" (《關於加快市政公用行業市場化進程的意見》), "Blueprint of the development of gas industry in Shenzhen in 2006–2020" (《深圳市燃氣行業發展規劃(2006–2020年)》) and "Report on the promotion of natural gas vehicles in Guangdong region" (《廣東地區推廣天然氣汽車的研究報告》).

To ensure a healthy and sustainable growth of the natural gas industry, the government has also put great efforts in establishing a stable and reliable gas source. State-owned oil and gas giants have been actively exploring new gas fields at home and abroad. According to the BP Statistical Review of World Energy 2006, proved natural gas reserves in China reached 2.35 trillion cubic metres at the end of 2005, up 6.8% over 2004. Supply of imported liquefied natural gas ("LNG") has been realised since the nation's first LNG terminal commenced operation in Shenzhen in June 2006. More and more LNG terminals are scheduled to be built in costal cities such as Ningbo, Quanzhou, Rudong, Shanghai and Zhuhai.

Natural gas is used as a vehicle fuel because of its advantages over gasoline and diesel – lower cost, environmentally-friendly and safer. In 2005, there were approximately 130,000 natural gas vehicles ("NGV(s)") in China. Nevertheless, the number of NGV per 1,000 Chinese citizens is merely 0.18. This reflects that room for further development of its NGV market is enormous and a stunning growth is expected. Car manufacturers in the PRC have recently begun to produce NGVs to meet market needs. Motivated by the price edge of natural gas against gasoline, more and more gasoline-powered vehicles in the Mainland have been converted into NGVs, most of which are taxis and buses. It is anticipated that both NGVs and CNG refueling stations will enter into a rapid growth stage in the PRC in coming years.

Against the business opportunities brought by the prosperous natural gas industry in China, our commitment to penetrating the vast overseas market will never falter.

Currently, export sales contributes 4.2% to the overall revenue. In the next three years, we will strive to have this figure lifted up by a considerable percentage. One of our major target markets is Southeast Asia. Countries in the region, such as Malaysia and Indonesia are rich in natural gas and demand for

gas refueling stations and pressure vessels are ballooning. In light of this, our products including gas refueling station systems, CNG trailers and natural gas compressors are expected to receive positive response in these markets.

We also plan to export our pressure vessels to the United States. In addition to natural gas, our pressure vessels can be used in the storage and transportation of specialty gases, like hydrogen and nitrogen. Specialty gas producers in the U.S. require pressure vessels to transport the gases to downstream industrial users, creating a new business opportunity for the Group. To realise direct export to the U.S., the Group has already obtained relevant certificates from the U.S. Department of Transportation ("DOT") and the American Society of Mechanical Engineers ("ASME").

To fulfil growing market needs, the Group is committed to enhancing its productivity and research and development ("R&D") capacity. In 2006, the Group completed the construction of a new seamless pressure cylinders production plant in Shijiazhuang upon which the annual production capacity of seamless pressure cylinders increased to 8,000 units. We have also started the construction of an R&D complex in order to centralise our R&D divisions and ensure an effective allocation of R&D resources.

Not only a company's growth and competitive edge depends on its ability to globalise its market and optimise its productivity, but also on its ability to operate at a lowest possible cost. Seamless steel pipes, most of which have been imported from overseas suppliers, occupies a major portion of the Group's cost of sales. With the continued technological enhancement at local steel plants, the Group, since the second half of 2006, has begun to purchase domestically-made seamless steel pipes which have the same quality as and more economical than imported ones. In 2007, the Group will gradually increase the proportion of seamless steel pipes sourced domestically to control its cost of sales more effectively.

On the back of favourable market conditions and our strength in R&D and business acumen, complemented by our leading market position, we are confident that the Group is well prepared to grasp opportunities ahead and will continue to grow and bring the best returns to our shareholders.

#### APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to all our shareholders, business partners and employees for their support and contribution in turning 2006 into a brilliant year.

**Wang Yusuo**

*Chairman*

Hong Kong, 10 April 2007



DEVOTION TO  
**INDUSTRY  
LEADERSHIP**







We play a leading role in the PRC's energy equipment industry. In the years ahead, we will continue to attach the greatest value to productivity enhancement, industry qualification and effective cost control to secure our prime position.



## Financial Summary

### For the year ended 31 December

|                                    | <b>2006</b><br><b>RMB'000</b> | 2005<br>RMB'000 | 2004<br>RMB'000 | 2003<br>RMB'000 |
|------------------------------------|-------------------------------|-----------------|-----------------|-----------------|
| Turnover                           | <u>769,952</u>                | <u>513,014</u>  | <u>252,376</u>  | <u>68,943</u>   |
| Profit from operations             | <b>117,290</b>                | 78,402          | 46,461          | 15,051          |
| Main Board listing expenses        | <b>(6,822)</b>                | –               | –               | –               |
| Finance costs                      | <b>(8,677)</b>                | (7,814)         | (6,082)         | (4,444)         |
| Profit before taxation             | <b>101,791</b>                | 70,588          | 40,379          | 10,607          |
| Income tax                         | <b>(5,287)</b>                | (1,882)         | (1,815)         | –               |
| Profit for the year                | <u><b>96,504</b></u>          | <u>68,706</u>   | <u>38,564</u>   | <u>10,607</u>   |
| Attributable to:                   |                               |                 |                 |                 |
| Equity shareholders of the Company | <b>96,504</b>                 | 68,706          | 36,191          | 10,607          |
| Minority interests                 | –                             | –               | 2,373           | –               |
|                                    | <u><b>96,504</b></u>          | <u>68,706</u>   | <u>38,564</u>   | <u>10,607</u>   |
| Earnings per share – basic         | <u><b>RMB0.217</b></u>        | <u>RMB0.225</u> | <u>RMB0.139</u> | <u>RMB0.041</u> |
| – diluted                          | <u><b>RMB0.212</b></u>        | <u>RMB0.224</u> | <u>N/A</u>      | <u>N/A</u>      |

### At 31 December

|                   | <b>2006</b><br><b>RMB'000</b> | 2005<br>RMB'000 | 2004<br>RMB'000 | 2003<br>RMB'000 |
|-------------------|-------------------------------|-----------------|-----------------|-----------------|
| Total assets      | <b>906,193</b>                | 722,957         | 319,787         | 204,211         |
| Total liabilities | <b>(400,669)</b>              | (317,699)       | (266,026)       | (164,045)       |
| Net assets        | <u><b>505,524</b></u>         | <u>405,258</u>  | <u>53,761</u>   | <u>40,166</u>   |

## Financial Highlights

### At 31 December

|                            | 2006<br>RMB'000 | 2005<br>RMB'000 | +/-   |
|----------------------------|-----------------|-----------------|-------|
| <b>FINANCIAL POSITION</b>  |                 |                 |       |
| Total assets               | 906,193         | 722,957         | 25.3% |
| Net assets                 | 505,524         | 405,258         | 24.7% |
| Net current assets         | 246,759         | 266,055         | -7.3% |
| Cash balances              | 318,721         | 339,320         | -6.1% |
| Bank loans                 | 167,733         | 125,000         | 34.2% |
| Gearing ratio <sup>1</sup> | 33.2%           | 30.8%           | 2.4%  |

### For the year ended 31 December

|   | 2006<br>RMB'000 | 2005<br>RMB'000 | +/-    |
|---|-----------------|-----------------|--------|
| <b>OPERATING RESULTS</b>  |                 |                 |        |
| Turnover  | 769,952         | 513,014         | 50.1%  |
| Gross profit  | 219,957         | 150,060         | 46.6%  |
| Earnings before interest, taxation, depreciation<br>and amortisation (EBITDA) | 119,221         | 90,214          | 32.2%  |
| Profits from operations   | 117,290         | 78,402          | 49.6%  |
| Profit attributable to equity shareholders                                    | 96,504          | 68,706          | 40.5%  |
| <b>PER SHARE DATA</b>   |                 |                 |        |
| Earnings per share – basic  | RMB0.217        | RMB0.225        | -3.6%  |
| Earnings per share – diluted  | RMB0.212        | RMB0.224        | -5.4%  |
| Net asset value per share   | RMB1.135        | RMB0.910        | 24.7%  |
| <b>KEY STATISTICS</b>   |                 |                 |        |
| GP ratio  | 28.6%           | 29.3%           | -0.7%  |
| EBITDA margin   | 15.5%           | 17.6%           | -2.1%  |
| Operating profit margin   | 15.2%           | 15.3%           | -0.1%  |
| Net profit margin   | 12.5%           | 13.4%           | -0.9%  |
| Return on equity <sup>2</sup>   | 21.1%           | 19.5%           | 1.6%   |
| Interest coverage – Times   | 21.1            | 9.5             | 11.6   |
| Inventory turnover days <sup>3</sup>  | 101             | 103             | -2     |
| Debtor turnover days  | 34              | 43              | -9     |
| Creditor turnover days  | 70              | 69              | 1      |
| <b>KEY OPERATIONAL DATA (units sold)</b>                                      |                 |                 |        |
| CNG trailers  | 299             | 128             | 133.6% |
| Compressed specialty gas trailers   | 6               | Nil             | N/A    |
| Seamless pressure cylinders   | 335             | 300             | 11.7%  |
| LNG trailers and tanks  | 96              | 79              | 21.5%  |
| LPG tank trucks   | 150             | 117             | 28.2%  |
| CNG hydraulic refueling system  |                 |                 |        |
| – Hydraulic refueling stations  | 50              | 36              | 38.9%  |
| – Refueling station trailers  | 100             | 68              | 47.1%  |
| Natural gas compressors   | 154             | 96              | 60.4%  |
| Special-purpose compressors   | 127             | 124             | 2.4%   |

<sup>1</sup> Gearing ratio = Bank loans/Total equity

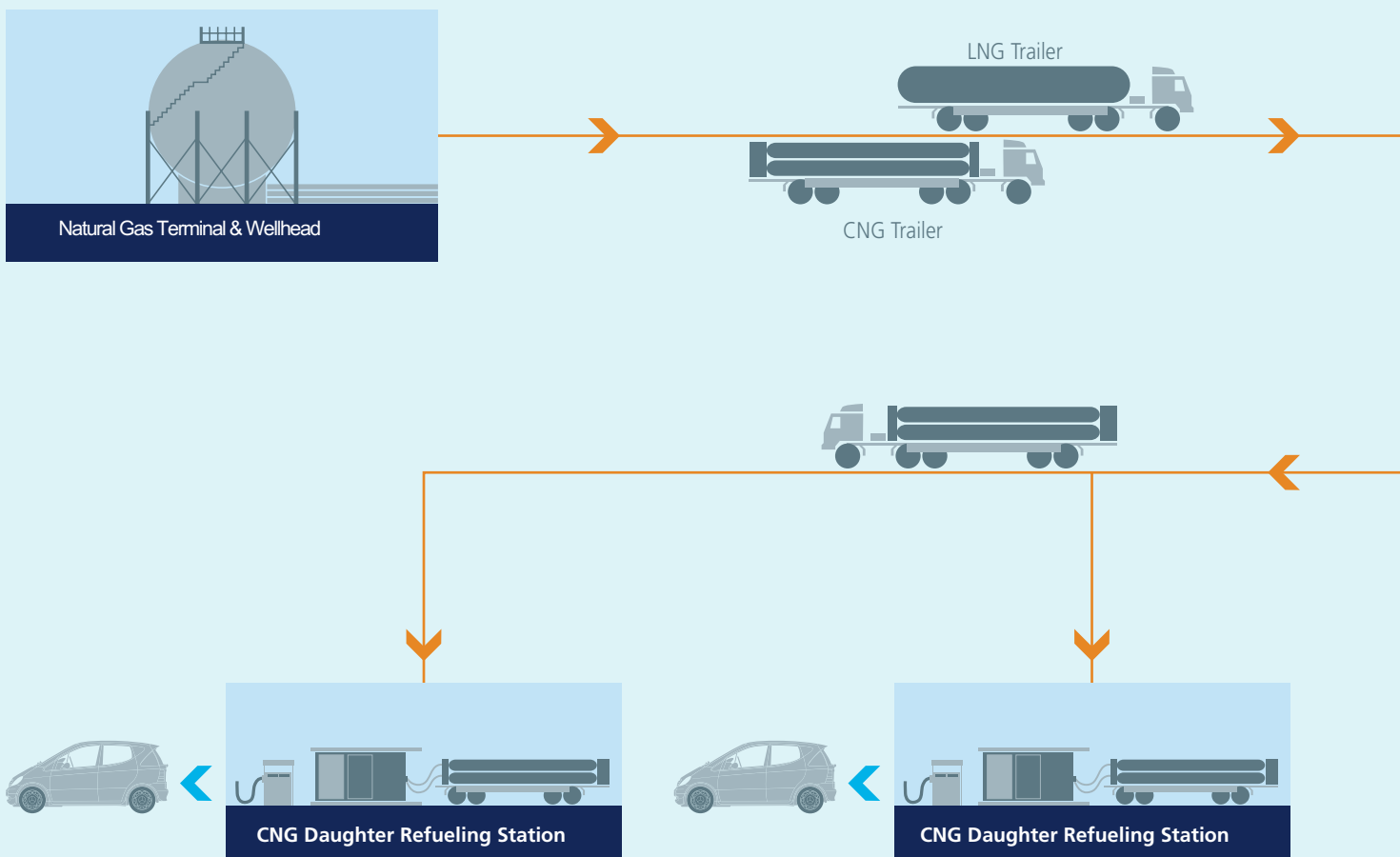
<sup>2</sup> Return on equity = EBIT/Total equity

<sup>3</sup> Excludes inventories in-transit

## Management Discussion and Analysis

We are at a promising industry – annual investment in the PRC’s gas equipment industry is forecasted to reach USD3.2 billion by 2020, a fivefold increase over 2000.

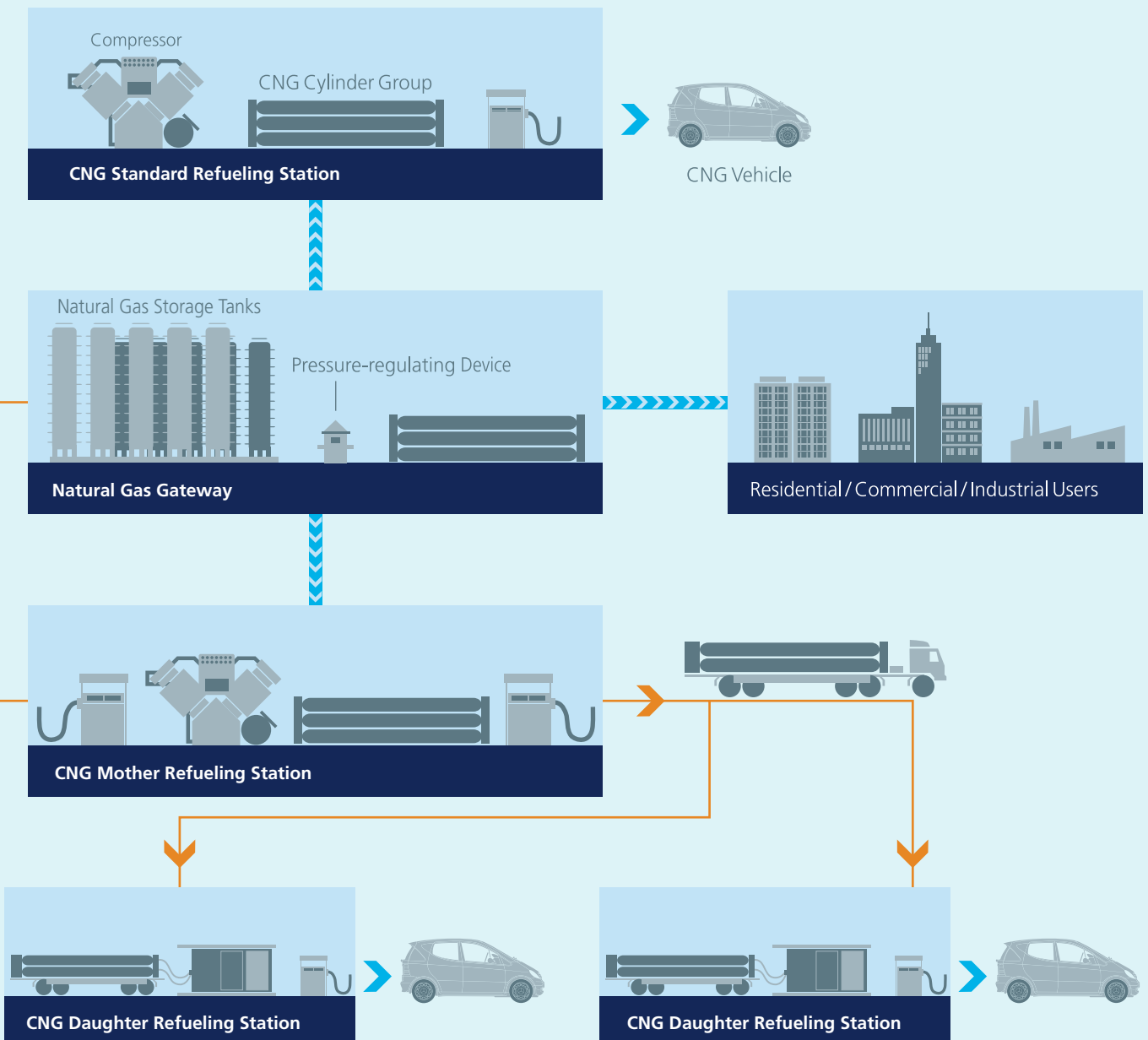
### CNG Refueling Station Solutions



## INDUSTRY OVERVIEW

Driven by rapid economic growth, the world's consumption of primary energy jumped significantly by 22.9% in past ten years. The present energy pattern relies heavily on coal and oil, totalling 64.2% of the overall consumption according to the BP Statistical Review of World Energy 2006. Burning coal and oil emits a great amount of greenhouse gases, which are the major culprits of deteriorating environmental problems. Coupled with the soaring oil price, many countries have turned to clean and economically-competitive fuels like natural gas. Global oil consumption grew by 1.3% in 2005, below the 10-year average, while that of natural gas grew by 2.3% in the same year with largest gains recorded in developing countries including China, signifying its hunger for energy.

The Chinese government has been taking active measures to introduce green alternatives to feed its voracious appetite for energy under rapid economic growth and to rationalise its energy consumption pattern which relies heavily on coal and oil. Natural gas, one of the cleanest and most economical fuels, has thus moved into the spotlight. China's consumption on natural gas rose by 97.5% from 2000 to 2005. According to the National Development and Reform Commission ("NDRC") of the Chinese government, the nation consumed 47.9 billion cubic metres ("bcm") of natural gas in 2005, merely 2.7% of the entire energy pie, reflecting a great development potential for the PRC gas market.



## Management Discussion and Analysis



To fulfil the surging demand for natural gas, China recorded the world's largest gas production increase in 2005. Proven reserves of natural gas amounted to 2.35 trillion m<sup>3</sup> with discovery of several gas fields like Puguang Gas Field and Dabeil Oil & Gas Field. An array of foreign countries has become China's strategic gas suppliers, such as Indonesia, Iran, Malaysia and Russia.

China's first LNG terminal located in Shenzhen commenced operation in June 2006 and hence opening an access to imported LNG. Other cities where terminals are scheduled to be built include Ningbo, Quanzhou, Rudong, Shanghai and Zhuhai etc.

Long-distance pipeline network is expanding. The West-East Pipeline Project has raised its daily supply capacity by 38.5% to 36,000,000 m<sup>3</sup> and the second phase is under planning. Other major pipelines including the Zhong-Wu Pipeline Project and the Shannxi-Beijing Pipeline Project have all come into operation in past two years.

The burgeoning of natural gas is also evidenced in the development of NGVs and gas refueling stations in the downstream. When more and more energy users recognise the serious pollution caused by the exhaust of petrol and are threatened by surging petrol price, natural gas is becoming a choice of vehicle fuel because of its non-polluting nature and relatively lower price.

The central and local governments have implemented a number of policies to accelerate the development of NGVs. Shenzhen is known as one of the most aggressive cities. The local government sets to have 20,800 NGVs running in the city by 2020 with 98 gas refueling stations to be added. Other cities which are fuelling its NGV projects include Xining, Wuhan, Zhengzhou, Shijiazhuang and Changsha.

According to the China Alternative Fuel Vehicles, the number of NGVs has jumped over thirty times to approximately 130,000 since the launch of the Clean Auto Action programme by the National Clean Auto Coordination Leading Group, which is supervised by the NDRC and the Chinese Ministry of Science and Technology, in 1999. However, there is merely approximately 0.18 NGV per 1,000 Chinese citizens. This figure remains far below that of the two largest NGV users — Argentina and Brazil, which is 40 and seven respectively. China's NGV market is yet to expand and the number of gas refueling stations will increase evidently to get in line with the rise of NGVs.

The favourable government policies and increasing gas sources have made natural gas a good choice of fuel in commercial, industrial, residential and transportation sectors. Gas equipment such as pressure vessels, gas refueling stations, trailers and compressors is set to grow with the gas.



## BUSINESS REVIEW

The Group is a leading specialised energy equipment manufacturer and IBS provider in the PRC. It designs, manufactures and sells specialised gas equipment including seamless pressure cylinders, CNG trailers, CNG refueling station systems, LNG storage tanks, LNG trailers and natural gas compressors. The Group also offers IBS, 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 after-sales services. Products of the Group are essential for the transportation, storage and distribution of natural gas.

### Operational Performance

During the year ended 31 December 2006, the Group's operational performance was remarkable on the back of overwhelming market demand and ongoing technological enhancements.

Under the 11th Five-Year Plan, the PRC government has been actively promoting natural gas for commercial, industrial, residential and vehicular use. City gas projects are being implemented inevitably in the PRC. City gas operators, gas station operators, public transportation corporations and logistic companies are showing huge demand for CNG and LNG storage and transportation equipment. During the year, the Group sold 299 CNG trailers and 335 seamless pressure cylinders whereas 128 and 300 were sold respectively in 2005. Turnover in LNG products rose by 26.3% to RMB71,156,000 (2005: RMB56,350,000). Owing to the significant growth in CNG and LNG products, turnover of the pressure vessels segment increased by 71.8% to RMB451,192,000 (2005: RMB262,606,000).

The fast development of NGVs accelerates the Group's IBS business, which experienced an encouraging growth during the year. A total of 52 sets of gas refueling station and 100 CNG refueling station trailers were sold in 2006, contributing RMB179,361,000 to the Group's turnover, a surge of 48.1% over the previous year. Turnover of the IBS segment totalling RMB187,886,000 accounted for approximately 24.4% of the Group's total turnover (2005: 25.9%). The IBS segment also recorded the highest GP margin among the segments at 38.1% (2005: 39.4%). It is no question that the Group's IBS has been regarded as a short payback and one of the most efficient choices in the gas industry.

To bring the highest return to shareholders, the Group focused on more profitable business in recent years. While the contributions to turnover from segments of pressure vessels and IBS were 58.6% and 24.4% for 2006 respectively (2005: 51.2%



and 25.9% respectively), the compressors segment fell to 17.0% of the overall turnover from 22.9% for 2005. Nevertheless, the compressors segment recorded a moderate growth of 11.4% to RMB130,874,000 (2005: RMB117,513,000). Spurred by the rising number of CNG refueling stations being set up in both the PRC and the South Asian regions, turnover of the Group's natural gas compressors experienced a strong growth. During the year, the Group sold 154 sets of natural gas compressor which contributed RMB71,542,000 in turnover, up 52.1% over the turnover of RMB47,050,000 (96 sets) in the previous year. Given that natural gas compressors are indispensable for the set up of CNG standard and mother refueling stations, a steady growth of this product is anticipated.

### Research and Development

For the year 2006, the Group devoted RMB7,433,000 (2005: RMB6,172,000) to the R&D of products and manufacturing technologies.

In April 2006, Beijing Enric Energy Technologies Limited ("Beijing Enric"), a wholly-owned subsidiary of the Company, commenced operations as an R&D arm of the Group.

During the year, the Group successfully developed a new product – LNG container – which can be used for the transportation of LNG by ships. The relevant certificate has been obtained from the China Classification Society. As more and more LNG plants and terminals are being built, it is expected the product will receive a positive market response.



## Management Discussion and Analysis



Another newly-developed product of the Group is the liquefied-compressed natural gas ("LCNG") station system, which transports natural gas in LNG form and uses LNG as a feedstock to deliver natural gas either in compressed or liquefied form to vehicles. During the year, one set of LCNG system was sold. Given that it is more economical to transport natural gas in long distance in liquefied form than in compressed form as LNG is 2.5 times the density of CNG, the Group believes that it will be a unique and competitive product in market.

Product diversification and business acumen are fundamental to the success of any business. In anticipation of China's latest energy trend which stresses the importance of conservation and effective utilisation of energy, the Group is developing certain energy-efficient equipment as well as storage and transportation equipment for coalbed methane.

### Productivity

The Group regards productivity enhancement as an important strategy in securing its leading position. A new production plant of seamless pressure cylinders with total construction cost of approximately RMB60,900,000 commenced operation in December 2006. This state-of-the-art production plant nearly triples the annual output of seamless pressure cylinders to 8,000 units from 3,000 units approximately, enabling the Group to capture surging market demand in coming years.

In 2006, the Group invested approximately RMB37,887,000 in the construction of an R&D complex and in the expansion of its IBS plant. The two projects are expected to be completed in 2007 upon which the R&D capability and productivity of the Group will be further strengthened.

### Qualifications

The energy equipment industry sets high entry barriers. Not only has the Group obtained qualifications from local industry authorities such as the China Classification Society and the

China Machinery Industry Federation ("CMIF"), but also been granted an array of manufacturing licenses from international bodies, including the ASME, the Ministry of Commerce, Industry and Energy of Korea and the U.S. DOT as well as the ISO9001 and ISO14001 certificates. All these enable the Group to export its products to the U.S. and other Asian countries.

### Sales and Marketing

The Group's products and services have presence in over 29 provinces, autonomous regions and municipalities throughout the PRC. At 31 December 2006, the Group ran sales offices in nine cities, namely Bengbu, Chongqing, Guangzhou, Langfang, Shanghai, Shenyang, Urumqi, Xi'an and Wuhan.

A number of the Group's customers are energy giants, including PetroChina Company Limited ("PetroChina"), China Petroleum & Chemical Corporation ("Sinopec"), CNOOC Limited, The Hong Kong and China Gas Company Limited ("Towngas"), Xinao Gas Holdings Limited ("Xinao Gas"), Zhengzhou Gas Company Limited, Jincheng Anthracite Mining Group Inc., Liaohe Oil Field and Shengli Oil Field.

A significant growth in export sales was achieved in 2006. Export sales increased to RMB32,390,000 (2005: RMB22,526,000), accounting for 4.2% of the overall turnover. Products were exported to Brazil and Asian countries like Pakistan and Thailand. In terms of product diversification, the Group successfully launched pressure vessels for specialty gases, providing a new source of revenue.

The Group understands that brand image and awareness are indispensable elements of success. During the year, the Group participated in energy equipment industry exhibitions and conventions in the PRC and placed advertisements on billboards and in professional magazines and websites within the gas industry.



### Human Resources

The Group bases its competitive advantage on the excellence of its people, central to which is people development.

Competence-based training programmes and a performance management scheme were carried out throughout the year. Significant progress has been made in enhancing employees' skills and job knowledge as well as strengthening their commitment to attaining the Group's objectives.

Education and training aids are provided to motivate employees to take external training programmes for their self-improvement and career development.

At 31 December 2006, the total number of employees of the Group was approximately 1,600. Total staff costs (including Directors' emoluments and retirement benefits schemes contributions) were approximately RMB54,829,000 (2005: RMB36,257,000). 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 employees in Hong Kong and contributions to government pension schemes to employees in Mainland China.

### Customer Service

Success relies heavily on establishing a long-standing relationship with customers.

The Group is committed to providing the best customer service. In addition to a 24-hour customer service hotline, there is a service pledge undertaking timely delivery of after-sales service across the country.

Company visits are arranged regularly for local and overseas customers who are interested in gaining a better understanding

of the daily operation and production processes of the Group. The Group also organises regular conferences where customers are encouraged to share their opinions on the Group's products and services.

Our dedication to quality customer service did not go unnoticed. During the year, the Group was awarded the "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.

### Recognition

In recognition of its profitability and growth prospect, the Company received awards from certain international financial magazines.

In October 2006, the Company was awarded the "Chinese Business 500" and the "Top 20 Business of Assets Growth" by Yazhou Zhoukan for the first time. The 500 enterprises are listed companies in Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Taiwan, Thailand and the U.S. owned by Chinese and are ranked by their market capitalisation as at 30 June 2006.

It was also first awarded the "2007 China's Potential 100" in January 2007 by Forbes China. The 100 award winners are small and medium enterprises which run their principal business in Mainland China with an annual turnover not exceeding RMB650 million. The ranking is based on the rate of return to shareholders, profitability and potential growth rate of these companies.

## Management Discussion and Analysis

### FINANCIAL ANALYSIS

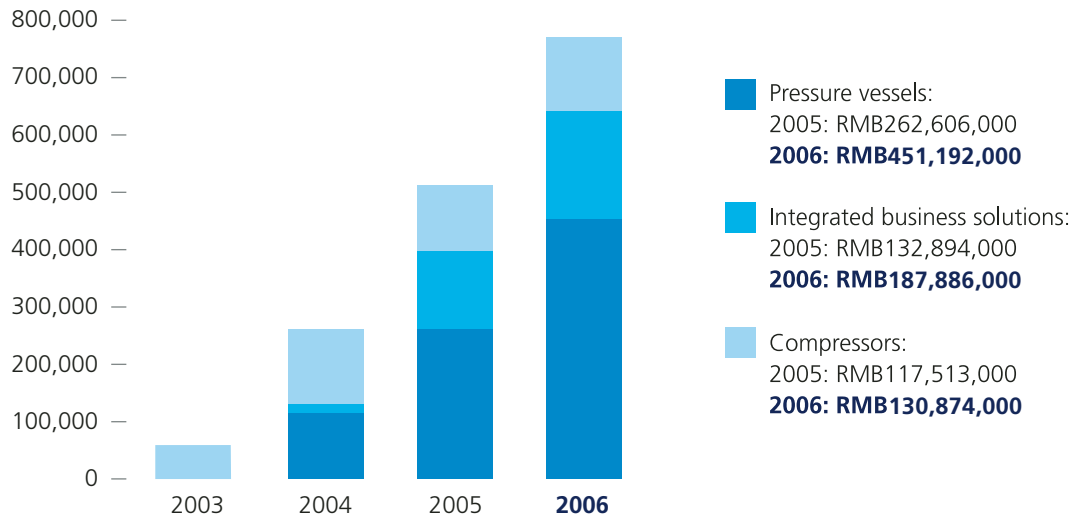
#### Turnover

The natural gas industry is booming in the PRC which in turn drives the demand for natural gas storage and transportation equipment. Riding on the increased demand for these types of equipment, the Group's turnover for 2006 surged by 50.1% to RMB769,952,000 over last year (2005: RMB513,014,000).

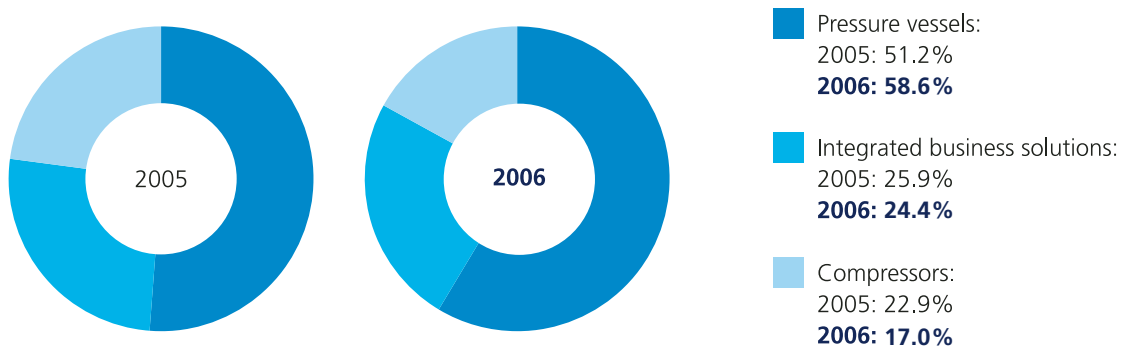
The increased turnover was mainly contributed by the rise in sales of pressure vessels and provision of IBS. Pressure vessels' turnover rose by 71.8% to RMB451,192,000 (2005: RMB262,606,000), turnover of IBS was RMB187,886,000 (2005: RMB132,894,000), representing an increase of 41.4%, and compressors' turnover was RMB130,874,000 (2005: RMB117,513,000) which grew by 11.4%.

#### Turnover

RMB'000



#### Segment Turnover Contribution





### *Pressure Vessels*

As the top grossing segment of the Group, pressure vessels specialises in the manufacture and sale of wide range of pressure vessels for the storage, transportation and distribution of natural gas such as CNG trailers, seamless pressure cylinders, LNG trailers and LNG storage tanks. During 2006, this segment accounted for 58.6% (2005: 51.2%) of the overall turnover.

### *Integrated Business Solutions*

The Group specialises in the provision of IBS to operators of gas refueling stations and city gas projects. The service covers the entire project life-cycle from design and manufacture of gas equipment system, on-site installation to staff training as well as after-sales services. During the year, this segment contributed 24.4% (2005: 25.9%) of the overall turnover and was the second top grossing segment of the Group.

### *Compressors*

The Group builds its gas equipment business on the foundation of manufacture and sale of compressors. Natural gas compressors are key equipment for the operation of standard gas refueling stations and mother refueling stations, and are used to compress and dispense natural gas to CNG trailers and NGVs. For 2006, this segment made up 17.0% (2005: 22.9%) of the overall turnover.

## Management Discussion and Analysis

### Gross Profit Margin and Profitability

The pressure vessels segment managed to maintain the gross profit margin ("GP margin") at 24.0% (2005: 24.0%) through increasing the average selling price ("ASP") and economy of scale. In 2006, the compressors segment increased the sale of natural gas compressors to 154 units from 96 units in 2005 and sold less of the traditional low-margin general-purpose compressors than it did in 2005. Due to the aforementioned change in product mix, compressors raised its GP margin to 30.6% in 2006 (2005: 29.6%). This proves the Group's strategy to focus on the high-end natural gas compressors is starting to pay off. During the year, the IBS had continued to grow at a steady pace and sold 50 units of CNG hydraulic daughter refueling station with GP margin of 65.1% (2005: 36 units with GP margin of 64.5%) and 100 units of CNG daughter refueling station trailer with GP margin of 27.4% (2005: 68 units with GP margin of 27.6%). Mainly because of the change in sales proportion between the two abovementioned products, the GP margin for IBS was diluted by 1.3 percentage points to 38.1% in 2006 (2005: 39.4%).

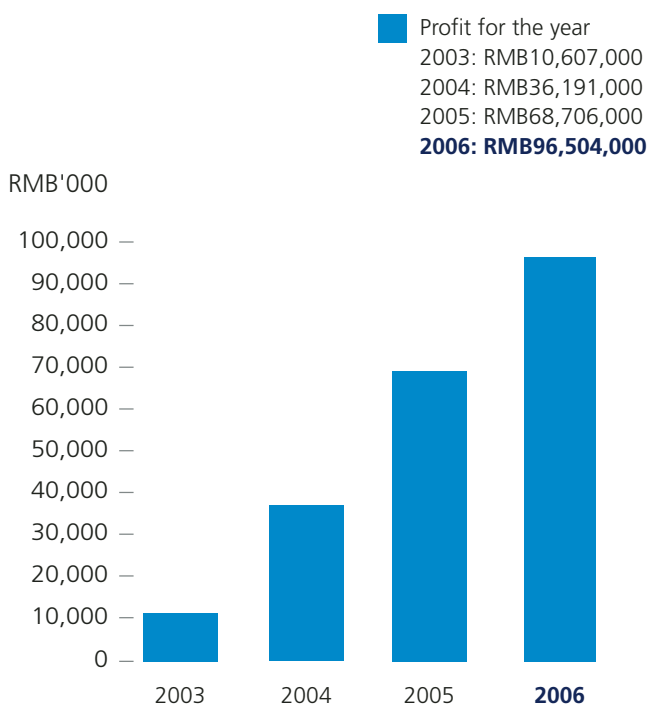
As pressure vessels raised its proportion of the overall turnover from 51.2% in 2005 to 58.6% in 2006, this change in segment proportion lowered slightly the Group's overall GP margin by 0.7 percentage point to 28.6% (2005: 29.3%).

The profit from operations expressed as a percentage of turnover dropped by 0.1 percentage point to 15.2% (2005: 15.3%) which is attributable to three main reasons, namely the increase in share option expense, higher Directors' remuneration and loss on disposal of property, plant and equipment. Firstly, the fair value of share options granted to Directors and employees totalling RMB3,763,000 was recognised as an expense in 2006 while the amount for 2005 was RMB1,831,000, representing an increase of 105.5%. Moreover, it is worthwhile to note that this expense is non-cash in nature and does not have any effect on the shareholders' equity as the same amount was credited to the capital reserve account. Secondly, for three quarters of 2005 the Company was a private company and only since listing on the GEM that the Directors started to be compensated at rates

comparable to other listed companies; therefore, Directors' remuneration (excluding share-based payments) surged by 195.5% to RMB3,324,000 in 2006 (2005: RMB1,125,000). Thirdly, certain old buildings and production facilities were disposed of in connection with the construction of a new production plant for seamless pressure cylinders and, accordingly, loss on disposal of property, plant and equipment of RMB4,684,000 (2005: RMB119,000) was recorded during the year.

The net profit margin for the year ended 31 December 2006 decreased by 0.9 percentage point to 12.5% (2005: 13.4%). In addition to the aforesaid non-cash share option expense and non-recurring loss on disposal of property, plant and equipment, the fall in net profit margin was resulted from the one-off professional and other expenses of RMB6,822,000 incurred in relation to the Company's Main Board listing.

### Profit attributable to Shareholders





## Cost of Sales

Cost of sales rose by 51.5% to RMB549,994,000 during 2006 (2005: RMB362,954,000). Within cost of sales, 90.1% (2005: 89.9%), 2.8% (2005: 2.7%), 1.6% (2005: 1.8%) and 5.5% (2005: 5.6%) were attributable to raw materials, wages, depreciation and factory overheads respectively. The cost structure has been stable over the past two years.

## Cost Analysis (expressed as percentage of turnover)

|                             | 2006  | 2005  | +/-   |
|-----------------------------|-------|-------|-------|
| Cost of sales               | 71.4% | 70.8% | 0.6%  |
| Selling expenses            | 4.3%  | 4.5%  | -0.2% |
| Administrative expenses     | 8.9%  | 10.0% | -1.1% |
| Main Board listing expenses | 0.9%  | -     | 0.9%  |
| Finance costs               | 1.1%  | 1.5%  | -0.4% |

## Other Revenue

Other revenue totalling RMB5,151,000 in 2006 (2005: RMB3,538,000) comprised of bank interest income of RMB3,674,000 (2005: RMB1,634,000), government grants of RMB488,000 (2005: RMB1,184,000) and other operating revenue of RMB989,000 (2005: RMB720,000). The rise in bank interest income correlated to the increase in the average cash and bank balances in 2006.

## Selling Expenses

Selling expenses rose by 43.4% over 2005. Selling expenses consisted transportation expenses, provision for product warranty, royalty fee, human resources, commission and other expenses directly attributable to selling activities. Selling expenses increased in proportion to the rise in turnover.

## Administrative Expenses

Administrative expenses increased by 32.9% over 2005 which is at a rate slower than the growth in turnover indicating the Group has been enjoying economy of scale. During 2006, human resources, professional fees, share option, Directors' remuneration and R&D expenditure were the major contributors to the rising administrative expenses.

## Other Net Expense

Other net expense amounted to RMB6,269,000 in 2006 (2005: RMB604,000) which principally consisted of loss on disposal of property, plant and equipment of RMB4,684,000 (2005: RMB119,000) and charitable donations of RMB1,640,000 (2005: RMB500,000). Loss on disposal of property, plant and equipment was mainly incurred in connection to the construction of a new seamless pressure cylinders production plant where certain aged buildings and production facilities were disposed of to make way for the new production plant.

## Main Board Listing Expenses

In connection to transferring the Company's listing from the GEM to the Main Board of the Stock Exchange on 20 July 2006, the Group incurred RMB6,822,000 (2005: nil) for professional and other expenses. The Main Board listing expenses are non-recurring in nature and have a negative impact on the Group's net profit for the year 2006 only.

## Finance Costs

During 2006, finance costs rose by 11.1% to RMB8,677,000 (2005: RMB7,814,000). Finance costs were mainly made up of bank loan interest of RMB5,074,000 (2005: RMB8,166,000) and exchange loss of RMB2,775,000 (2005: exchange gain of RMB714,000). The rise in exchange loss arose primarily on the surging Renminbi ("RMB") exchange rate against the Hong Kong Dollar ("HKD") and U.S. Dollar ("USD"), since a portion of the Group's bank deposits were denominated in HKD and USD.

## Taxation

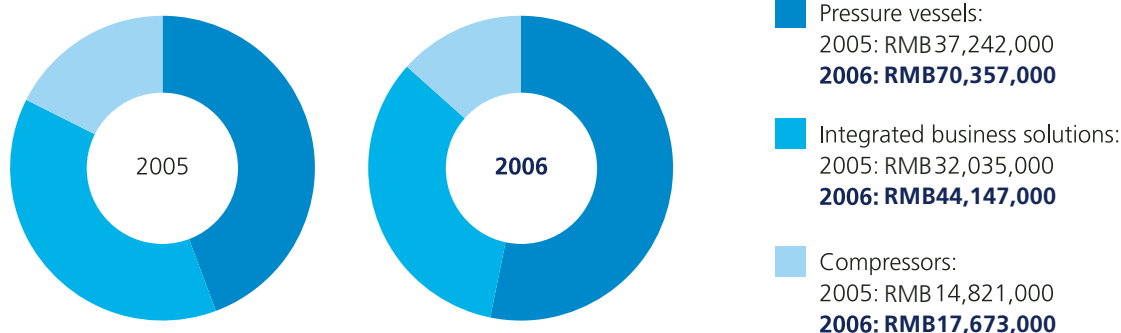
Tax expenses for the Group totalled RMB5,287,000 for 2006 (2005: RMB1,882,000) representing a surge of 180.9% over 2005. This is due to the fact that Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment"), which specialises in the production of pressure vessels, has moved out from the tax-free period and is now liable to pay income tax at 7.5%. Nevertheless, Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration"), which was still within the tax-free period, increased its profits contribution to the Group thereby offsetting the tax effect attributable to taxable profits generated by Enric Gas Equipment and Enric (Bengbu) Compressor Company Limited ("Enric Compressor"). As a result, the Group's effective tax rate only increased by 2.5 percentage points to 5.2% during 2006 (2005: 2.7%).

## Management Discussion and Analysis

### Segment Results

|                               | 2006<br>RMB        | 2005<br>RMB       |
|-------------------------------|--------------------|-------------------|
| Pressure vessels              | 70,357,000         | 37,242,000        |
| Integrated business solutions | 44,147,000         | 32,035,000        |
| Compressors                   | 17,673,000         | 14,821,000        |
| Inter-segment elimination     | (290,000)          | (550,000)         |
| Total segment results*        | <u>131,887,000</u> | <u>83,548,000</u> |

\* Total segment result = profit before unallocated operating income and expenses, finance costs and taxation



### FINANCIAL RESOURCES REVIEW

#### Liquidity and Financial Resources

At 31 December 2006, the Group recorded cash on hand of RMB318,721,000 (2005: RMB339,320,000) and bank loans of RMB167,733,000 (2005: RMB125,000,000). A portion of the Group's bank deposits totalling RMB26,014,000 (2005: RMB26,253,000), which have more than three months of maturity at acquisition, were restricted for securing letters of credit and bills payable. The Group has maintained sufficient cash on hand for repayment of bank loans as they fall due. The Group has continued to take a prudent approach in future development and capital expenditure. Accordingly, the Group has been cautious in managing its financial resources and will constantly review and maintain an optimal gearing level.

At 31 December 2006, all bank loans of the Group were guaranteed by the Company's subsidiaries, bearing interest at rates from 5.6% to 6.8% per annum and repayable within one year. The net gearing ratio, which is calculated by dividing net debt over equity, was zero times (2005: zero times) as the Group retained a net cash balance of RMB150,988,000 (2005: RMB214,320,000). The Group's interest coverage was 21.1 times for 2006 (2005: 9.5 times) which demonstrates that the Group is fully capable of meeting its interest expense commitments.

In order to fulfil sales orders on hand as of 31 December 2006, closing inventories level was increased by RMB89,787,000 (including inventories in-transit of RMB34,970,000) to RMB214,786,000, which occupied a portion of the Group's working capital.

During 2006, net cash generated from operating activities amounted to RMB74,705,000 (2005: RMB90,977,000). The Group drew bank loans of RMB167,733,000 (2005: RMB140,000,000) and repaid RMB125,000,000 for 2006 (2005: RMB147,860,000). Apart from drawing bank loans, in 2006 the Group did not engage in any other forms of financing activity while in 2005 the Group raised approximately RMB236,000,000 from listing on the GEM board and issuing shares and convertible bonds to institutional investors.

#### Assets and Liabilities

At 31 December 2006, total assets of the Group amounted to RMB906,193,000 (2005: RMB722,957,000) while total liabilities were RMB400,669,000 (2005: RMB317,699,000). The net asset value rose by 24.7% to RMB505,524,000 (2005: RMB405,258,000) which was mainly caused by net profit of RMB96,504,000 recorded for the year and the increase in capital reserve of RMB3,763,000 for the recognition of fair value of share options granted to the Directors and employees. As a result, the net asset value per share increased to RMB1.14 at 31 December 2006 from RMB0.91 at 31 December 2005.



## Net Assets



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

Currently, the Group's operating and capital expenditures are mainly financed by its internal resources such as operating cash flow and shareholders' equity, and to a lesser extent by bank loans. The Group has sufficient resources of funding and unutilised banking facilities to meet future capital expenditure and working capital requirement. As of 31 December 2006, the Group had total capital commitments of RMB36,606,000. Further details of the Group's future plans of material investments and expected source of funding are set out in the section headed "Future Plans and Prospects" of the Listing Document of the Company dated 27 June 2006.

## Contingent Liabilities

At 31 December 2006, the Group did not have any significant contingent liabilities.

## Capital Commitments

At 31 December 2006, the Group had contracted but not provided for capital commitments of RMB36,069,000 (2005: RMB920,000), and authorised but not contracted for capital commitments of RMB537,000 (2005: RMB40,000,000). The contracted but not provided for commitments include, amongst others, RMB8,000,000 for investment in a new subsidiary and RMB21,855,000 for the expansion of the IBS plant and construction of an R&D complex.

## Foreign Exchange Exposure

The Group earns revenue and incurs cost mainly in RMB and HKD. In the PRC, RMB is subject to a managed float against a basket of unspecified currencies. Despite the exchange rate between HKD and RMB was generally stable in the past few years, the Group controls its exchange rate risks by raising funds in the denominations of its principal operating assets and revenue. Borrowings are also primarily denominated in RMB. During the year, RMB has appreciated against HKD and USD which caused an exchange loss of RMB2,775,000 mainly because a portion of the Group's bank deposits are denominated in the two abovementioned currencies. Since the Group's assets and liabilities are substantially denominated in RMB and also earns revenue and incurs cost in RMB, the Directors thus consider the impact of foreign exchange exposure on the Group to be minimal.

DEVOTION TO  
**THE IBS**  
**BUSINESS**





Our Integrated Business Solutions does not only provide customers with the design and manufacture of gas equipment system, but also with comprehensive services including on-site installation, staff training and after-sales services. This beyond-the-equipment package is an optimal solution for city gas operators and gas station operators.



## Directors and Senior Management



Mr. Wang Yusuo

Mr. Jin Yongsheng

Mr. Cai Hongqiu

Mr. Zhao Xiaowen

Mr. Zhou Kexing

### DIRECTORS

#### Executive Directors

**Mr. Wang Yusuo**, aged 42, is a Co-founder, the Chairman and an Executive Director. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 20 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 obtained a master's degree in Management from the Tianjin University of Finance and Economics in 2002. Mr. Wang is a member of the Tenth National Committee of the Chinese People's Political Consultative Conference and a 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, the China Charity Award and Outstanding Entrepreneurs in China. Mr. Wang is a director and a controlling shareholder of Xinao Group International Investment Limited ("XGII"), a controlling shareholder of the Company. Mr. Wang is the spouse of Ms. Zhao Baoju. He and Ms. Zhao jointly own various investment holding companies.

**Mr. Jin Yongsheng**, aged 43, is an Executive Director and the Chief Executive Officer. He is responsible for strategic planning jointly with the Chairman, investor relations and executing the decisions made by the Board. Mr. Jin graduated from the Tianjin University of Finance and Economics in the PRC in 1986, specialising in finance and obtained an executive master's degree in Business Administration from the Guanghua School of Management of the Peking University in 2005. Prior to joining the Group in 2005, Mr. Jin was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture in the PRC. He is a qualified lawyer in the PRC

and has over 17 years of experience in legal practice. Mr. Jin is a director of XGII, a controlling shareholder of the Company.

**Mr. Cai Hongqiu**, aged 43, is an Executive Director and the General Manager. He has joined the Group since 2002 and is responsible for the overall operations of the Group. Mr. Cai graduated from the China University of Political Science and Law and Tsinghua University's School of Economics and Management and obtained his bachelor's degree in Law in 1985 and master's degree in Science in 1992. Mr. Cai is a senior economist and obtained qualification as a lawyer in the PRC in 1989. Mr. Cai has over nine years of experience in the management of industrial enterprises.

**Mr. Zhao Xiaowen**, aged 43, is an Executive Director and the Chief Marketing Officer. He has joined the Group since 2003 and is responsible for the sales and marketing strategy of the Group. Mr. Zhao is experienced in sales and marketing and has over 21 years of experience in corporate management, of which nine years were in the manufacturing industry.

**Mr. Zhou Kexing**, aged 44, is an Executive Director and the Chief Accountant responsible for the Group's accounting and finance operations. Mr. Zhou graduated from Tianjin University 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 university as a deputy research officer. Mr. Zhou specialises in accounting and finance and is experienced in capital operation.

**Mr. Yu Jianchao**, aged 38, is an Executive Director and is responsible for the Group's capital investment. He graduated from the Hebei 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 Group 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. Mr. Yu has over 18 years of experience in accounting and finance and over nine years of experience in the management of industrial enterprises. He is a director of XGII, a controlling shareholder of the Company.

**Mr. Cheong Siu Fai**, aged 35, is an Executive Director, the Financial Controller and the Company Secretary. He is responsible for financial management, corporate finance, implementation of corporate governance practices and investor relations. 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 Group in 2004, Mr. Cheong worked in an international firm of certified public accountants and has more than 11 years of experience in accounting, financial management and corporate finance.

#### Non-executive Director

**Ms. Zhao Baoju**, aged 41, is a Co-founder and the Non-executive Director. Ms. Zhao graduated from Hebei Medical College Nursing School in 1987 and Capital Normal University in 1998. She is a director and a controlling shareholder of XGII, a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo. She and Mr. Wang jointly own various investment holding companies.





Mr. Yu Jianchao

Mr. Cheong Siu Fai

Mr. Ren Yingjian

Mr. Liu Wenxiang

Mr. Yang Weifeng

### Independent Non-executive Directors

**Mr. Wong Chun Ho**, aged 34, is an Independent Non-executive Director appointed by the Company in 2005. 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, a 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 worked as an auditor in KPMG. Mr. Wong has over 11 years of corporate finance and audit experience in the Hong Kong and China region.

**Mr. Gao Zhengping**, aged 52, is an Independent Non-executive Director appointed by the Company in 2005. 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 50, is an Independent Non-executive Director appointed by the Company in 2005. 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. Ren Yingjian**, aged 51, 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 2003, 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 the management of industrial enterprises.

**Mr. Liu Wenxiang**, aged 43, is the general manager of Enric Integration, responsible for its day-to-day operations. Mr. Liu obtained a bachelor's degree in Mechanical Design in Tianjin Polytechnic University in 1986. Prior to joining the Group in 2006, Mr. Liu was a marketing manager at Beijing Weihong New-tech Development Company Limited and the head of sales department of Handan Textile Machinery Factory. He is experienced in sales and marketing.

**Mr. Yang Weifeng**, aged 35, is the general manager of Enric Compressor, responsible for its day-to-day operations. Mr. Yang received his 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. 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 Co. Ltd. where he was responsible for project design, project management, financial consultancy, securities analysis, legal affairs and business administration.

**Mr. Liu Zhi'ang**, aged 61, 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 2003, 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 the People's Government of Xingtai City, Hebei province.

**Mr. Tu Guangzong**, aged 37, is the chief engineer of the Group and the general manager of Beijing Enric, responsible for its day-to-day operations. Mr. Tu obtained a bachelor's degree in Engineering from Tsinghua University in 1993. He has been the researcher of CNG projects, the manager of CNG workshop of Xinao Group Shijiazhuang Chemical Machinery Company Limited and a deputy general manager of Enric Gas Equipment. Prior to joining the Group in 2002, Mr. Tu worked for Langfang Hengyu Tools Company Limited and was responsible for production management.

DEVOTION TO  
**RESEARCH AND  
DEVELOPMENT**







We have our own R&D centre supported by a strong pool of expertise in the energy equipment industry. Beijing Enric has become operational in June 2006 as an arm for the R&D of products and manufacturing technologies.





## Corporate Governance Report

The Company understands that shareholders' confidence and faith in the Company comes with good corporate governance, which is fundamental to enhancing shareholders' value and interests. The principles of the Company's corporate governance practices emphasise on an effective board, prudent internal and risk controls, transparency and quality disclosure, and, most importantly, accountability to shareholders. Continued efforts have been undertaken in reviewing and enhancing the quality of corporate governance practices with reference to local and international standards.

Since its listing in October 2005, the Company has adopted the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2004 (the "CG Code") as its guideline in relation to corporate governance practices. For the purpose of its listing on the Main Board of the Stock Exchange by way of introduction (the "Main Board Listing"), the Company conducted a review on its accounting and management system, including, but not limited to, corporate governance policies in 2006.

Throughout the year ended 31 December 2006, the Company has fulfilled all the code provisions in the CG Code, and has, to further enhance its corporate governance standards, complied with those recommended best practices in the CG Code as set out herein, details of such are summarised hereinbelow.

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

#### A. DIRECTORS

##### A.1 The Board

###### *Code Principle*

The board should assume responsibility for leadership and control of the issuer; and be collectively responsible for directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests 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>The Board met at least quarterly and six meetings were held in 2006.</li> </ul> |

Details of Directors' attendance record of Board meetings and Board committees meetings held in 2006 are set out below:

#### Board meeting

| <b>Executive Directors</b>                 | <b>Attendance</b> |
|--|-------------------|
| Mr. Wang Yusuo                             | 2/6               |
| Mr. Jin Yongsheng                          | 2/2*              |
| Mr. Cai Hongqiu                            | 6/6               |
| Mr. Zhao Xiaowen                           | 3/6               |
| Mr. Zhou Kexing                            | 6/6               |
| Mr. Yu Jianchao                            | 6/6               |
| Mr. Cheong Siu Fai                         | —#                |
| <b>Non-executive Director</b>              |                   |
| Ms. Zhao Baoju                             | 4/6               |
| <b>Independent Non-executive Directors</b> |                   |
| Mr. Wong Chun Ho                           | 4/6               |
| Mr. Gao Zhengping                          | 6/6               |
| Mr. Shou Binan                             | 3/6               |

\* Mr. Jin was appointed as an Executive Director on 5 June 2006. Two Board meetings were held after his appointment and up to 31 December 2006.

# Mr. Cheong was appointed as an Executive Director on 11 January 2007.

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

**A. DIRECTORS** (Continued)**A.1 The Board** (Continued)

## Code Principle (Continued)

**Audit Committee meeting**

| <b>Committee member</b> | <b>Attendance</b> |
|-------------------------|-------------------|
| Mr. Wong Chun Ho        | 7/7               |
| Mr. Gao Zhengping       | 7/7               |
| Mr. Shou Binan          | 5/7               |

**Remuneration Committee meeting**

| <b>Committee member</b> | <b>Attendance</b> |
|-------------------------|-------------------|
| Mr. Jin Yongsheng       | 1/1*              |
| Mr. Gao Zhengping       | 2/2               |
| Mr. Shou Binan          | 1/2               |
| Mr. Cai Hongqiu         | 1/1#              |

\* Mr. Jin was appointed as a member and the chairman of the Remuneration Committee on 5 June 2006. One Remuneration Committee meeting was held after his appointment and up to 31 December 2006.

# Mr. Cai resigned as a member and the chairman of the Remuneration Committee on 5 June 2006. In 2006, one Remuneration Committee meeting was held during his office.

**Nomination Committee meeting**

| <b>Committee member</b> | <b>Attendance</b> |
|-------------------------|-------------------|
| Mr. Jin Yongsheng       | 1/1               |
| Mr. Wong Chun Ho        | 1/1               |
| Mr. Gao Zhengping       | 1/1               |

| <b>Code Provisions</b>   | <b>Compliance</b> | <b>Details of Compliance</b>  |
|--|-------------------|---|
| <ul style="list-style-type: none"> <li>Opportunities to all directors to include matters in the agenda for regular board meetings.</li> <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 at least 14 days in advance. Directors are invited to include items which they wish to be included in the agenda for the same to be finalised and given to all Directors with the relevant meeting papers at least three days in advance.</li> </ul> |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### A. DIRECTORS (Continued)

##### A.1 The Board (Continued)

###### Code Principle (Continued)

| Code Provisions  | Compliance | Details of Compliance  |
|--|------------|--|
| <ul style="list-style-type: none"> <li>Access to the advice and services of the company secretary.</li> </ul>  | Yes        | <ul style="list-style-type: none"> <li>The Company Secretary is responsible for company secretarial matters of the Company, including Board procedures and corporate governance practices and regulations compliance, and giving advice to the Board on such matters.</li> <li>The Company retains legal advisors and company secretarial consultants to provide legal advice and secretarial services to the Company.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Minutes of meetings kept by company secretary and available for inspection.</li> <li>Draft and final versions of minutes of board meetings sent to all directors for comments and records within a reasonable time.</li> </ul>  | Yes        | <ul style="list-style-type: none"> <li>The Company Secretary is responsible for taking minutes of Board and Board committees meetings. Draft minutes will be circulated to all Directors or Board committee members for review and comment for a reasonable period. Final version of the minutes signed by the chairman of the relevant meeting will be sent to all Directors or Board committee members for record within a reasonable time (generally within 14 days) after the relevant meeting and be kept by the Company Secretary and made open for inspection.</li> </ul> |
| <ul style="list-style-type: none"> <li>Agreed procedure for directors to seek independent professional advice at the issuer'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 has a conflict of interest in a material matter, a board meeting should be held. Such director must abstain from voting and not be counted in quorum. Independent non-executive directors who, and whose associates, have no 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 stipulates the voting and quorum requirements conforming with the code provision.</li> <li>It is the practice of the Board to hold a Board 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 who, and whose associates, have no interest in such matter.</li> </ul>   |

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

**A. DIRECTORS** (Continued)

**A.1 The Board** (Continued)

*Code Principle (Continued)*

| Recommended Best Practices  | 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>All Board committees adopt broadly the same principles and procedures applicable to the Board as stated in 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 and the Chief Executive Officer (the "CEO") are distinguished and clearly set out in writing.</li> <li>The Chairman, Mr. Wang Yusuo, is responsible for setting the Group's strategies and direction, identifying business goals and the related business plans, overseeing the functioning of the Board and monitoring the performance of senior management, and establishing good corporate governance practices.</li> <li>The CEO, Mr. Jin Yongsheng, focuses on leading the senior management 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 that all directors are properly briefed on issues arising at board meetings.</li> </ul>                               | Yes        | <ul style="list-style-type: none"> <li>The Chairman is responsible for the provision of the necessary information, either through himself or other members of the management, to all Directors on issues arising at Board meetings.</li> </ul>  |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### A. DIRECTORS (Continued)

##### A.2 Chairman and Chief Executive Officer (Continued)

###### Code Principle (Continued)

| Code Provisions   | Compliance | Details of Compliance   |
|---|------------|---|
| <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 implemented procedures to ensure the completeness and timeliness of the dissemination of information to Directors (see section A.6 – “Supply of and Access to Information” below).</li> <li>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 Practices   | Compliance | Details of Compliance   |
|--|------------|---|
| <p>Various recommended roles for chairman including:</p> <ul style="list-style-type: none"> <li>Drawing up and approving board agenda.</li> <li>Ensure establishment of good corporate governance practices and procedures.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>Board agenda is drawn up with the assistance of the Company Secretary with prior consultation with the Directors. The Chairman supervises and approves the preparation of the agenda.</li> <li>In 2006, the Board, under the leadership of the Chairman, took the following measures in relation to corporate governance practices:               <ol style="list-style-type: none"> <li>the Board continued to execute 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 appointment policy of Directors; and</li> <li>the remuneration policy of Directors;</li> </ol> </li> </ol> </li> </ul> |

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

**A. DIRECTORS** (Continued)

**A.2 Chairman and Chief Executive Officer** (Continued)

*Code Principle (Continued)*

| Recommended Best Practices   | Compliance | Details of Compliance   |
|--|------------|---|
| <ul style="list-style-type: none"> <li>• Encourage full and active contribution of all directors to board affairs and facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.</li> <li>• Ensure the effective communication between the board and shareholders.</li> </ul> |            | <ol style="list-style-type: none"> <li>3. the Board implemented the guidelines established in 2005, regarding:               <ol style="list-style-type: none"> <li>(a) the roles and responsibilities of the Board and the senior management;</li> <li>(b) the procedure for Directors to seek independent professional advice at the Company's expense;</li> <li>(c) the division of responsibilities between the Chairman and the CEO; and</li> <li>(d) the dealing in securities of the Company by employees of the Group; and</li> </ol> </li> <li>4. the Company arranged training programmes and seminars relating to various topics including corporate governance, business management and PRC laws for the Directors.</li> </ol> <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 both Executive and Non-executive Directors.</li> <li>• The Board has taken appropriate steps to provide effective communication with shareholders (see section E – "Communication with Shareholders" below).</li> </ul> |



## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

#### A. DIRECTORS *(Continued)*

##### 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) so as to exercise independent judgement effectively.

###### *The Company's Board*

At 31 December 2006, the Board consisted of six Executive Directors, one Non-executive Director and three Independent Non-executive Directors, as follows:

###### **Executive Directors**

Mr. Wang Yusuo (*Chairman*)  
 Mr. Jin Yongsheng (*CEO*)  
 Mr. Cai Hongqiu  
 Mr. Zhao Xiaowen  
 Mr. Zhou Kexing  
 Mr. Yu Jianchao

###### **Non-executive Director**

Ms. Zhao Baoju

###### **Independent Non-executive Directors**

Mr. Wong Chun Ho  
 Mr. Gao Zhengping  
 Mr. Shou Binan

In addition to the Board members listed hereinabove, Mr. Cheong Siu Fai was appointed as an Executive Director with effect from 11 January 2007.

The Board members, possessing a wide range of professional and educational backgrounds, bring a diverse and balance set of skills and experience to the Board, which contributes to the effective direction of the Group. Biographical details and relationships (if any) of all Directors are given in the section headed "Directors and Senior Management" on pages 24 to 25.

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 also gives clear directions as to the power 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 effective discharge of the Board's decision.

Throughout the year 2006 and up to the date of this report, the Board:

- reviewed the performance and formulated business strategies of the Group;
- set and approved budgets, as well as compared and analysed them with actual results on a quarterly basis;
- reviewed and approved financial statements of the Group for the six months ended 30 June 2006, for the three months ended 31 March 2006 and for the years ended 31 December 2006 and 2005 respectively;

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

### A. DIRECTORS (Continued)

#### A.3 Board Composition (Continued)

- reviewed connected transactions of the Group;
- reviewed and refined the corporate governance practices of the Group;
- reviewed the effectiveness of internal controls taken by the Group;
- reviewed and approved the listing document for the listing of shares in the Company on the Main Board of the Stock Exchange;
- approved the “Policy on the Appointment of Directors” and the “Policy on Directors’ Remuneration”; and
- approved the appointment of Mr. Jin Yongsheng and Mr. Cheong Siu Fai as Executive Directors.

To streamline the duties of the Board and uphold good corporate governance, the Board has established three committees, which are the Nomination Committee, the Remuneration Committee and the Audit Committee with defined terms of reference. Further details of the three committees are set out in sections A.4 – “Appointments, Re-election and Removal”, B.1 – “The Level and Make-up of Remuneration and Disclosure” and C.3 – “Audit Committee” respectively.

| Code Provisions  | Compliance | Details of Compliance  |
|--|------------|--|
| <ul style="list-style-type: none"> <li>• Identify 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>• Composition of the Board, by categories of directors, including names of Chairman, Executive Directors, Non-executive Director and Independent Non-executive Directors, is disclosed in all corporate communications that disclose the names of Directors.</li> </ul> |

| Recommended Best Practices   | Compliance | Details of Compliance   |
|--|------------|---|
| <ul style="list-style-type: none"> <li>• Maintain on 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 names, titles, roles and responsibilities, are maintained on the Company’s website at <a href="http://www.enricgroup.com">www.enricgroup.com</a> and updated from time to time.</li> </ul> |

#### A.4 Appointments, 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.

##### *Nomination Committee*

A Nomination Committee was set up on 23 June 2006 and currently consists of the following members:

|                   |  |
|-------------------|--|
| Mr. Jin Yongsheng | <i>(Executive Director and chairman of the Nomination Committee)</i> |
| Mr. Wong Chun Ho  | <i>(Independent Non-executive Director)</i>                          |
| Mr. Gao Zhengping | <i>(Independent Non-executive Director)</i>                          |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### A. DIRECTORS (Continued)

##### A.4 Appointments, Re-election and Removal (Continued)

The Nomination Committee is responsible for the identification and recommendation to the Board of suitable candidate as Director, making recommendations to the Board on matters relating to the appointment or reappointment of and secession planning for Directors, and assessing the independence of Independent Non-executive Directors. In selecting a suitable candidate, the Nomination Committee considers various criteria such as education, qualification and experience to determine whether his/her attributes are relevant to the business of the Group and can complement to the capabilities of existing Directors. Full terms of reference are available on the Company's website at [www.enricgroup.com](http://www.enricgroup.com).

In performing its duties in accordance with its terms of reference, throughout the year 2006 and up to the date of this report, the Nomination Committee:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and made recommendations to the Board regarding further refinement of the Board composition;
- nominated and recommended to the Board, Mr. Cheong Siu Fai, as an Executive Director. Mr. Cheong was subsequently appointed by the Board on 11 January 2007;
- assessed the independence of Independent Non-executive Directors; and
- formulated a "Policy on the Appointment of Directors" which clearly stipulates the procedures and criteria of the selection and nomination for directorship. The policy was approved by the Board and came into effect on 11 January 2007.

| 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) is 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>• All directors appointed to fill a casual vacancy should be subject to election at the first general meeting after their appointment.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>• Approved by shareholders at the 2006 annual general meeting of the Company, the articles of association of the Company was amended so that a Director appointed to fill a casual vacancy is subject to re-election at the next following general meeting after his/her appointment.</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>  |            | <ul style="list-style-type: none"> <li>• The articles of association of the Company also stipulates that all Directors are subject to retirement by rotation at least once every three years.</li> </ul>  |

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

## A. DIRECTORS (Continued)

## A.4 Appointments, Re-election and Removal (Continued)

| Recommended Best Practices   | 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/her continual independence.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>Currently, none of the Independent Non-executive Directors has been served 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>A nomination committee should be established with specific written terms of reference and a majority of members should be independent non-executive directors.</li> </ul>   | Yes        | <ul style="list-style-type: none"> <li>On 23 June 2006, the Board established a Nomination Committee with written terms of reference substantially the same as those contained in paragraph A.4.5 of the CG Code. Two out of three Nomination Committee members are Independent Non-executive Directors.</li> </ul>  |
| <ul style="list-style-type: none"> <li>The terms of reference of the nomination committee should be made available on request and on the issuer's website.</li> </ul>  | Yes        | <ul style="list-style-type: none"> <li>Full terms of reference of the Nomination Committee are available on request and on the Company's website at <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</li> </ul>   |
| <ul style="list-style-type: none"> <li>The nomination 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 Nomination Committee provide that its members may seek outside legal and other independent professional advice as and when necessary at the costs of the Company.</li> <li>The Board and senior management will give full support to the Nomination Committee.</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 (including Independent Non-executive Directors) are subject to election or re-election at a general meeting, a circular disclosing detailed biographies, interests and (where appropriate) independence of such Directors will be issued to shareholders.</li> </ul>  |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### A. DIRECTORS (Continued)

##### 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 a proper understanding of the business of the issuer and his/her responsibilities under regulatory requirements, and the 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 directors' duties and obligations under Cayman Islands law, Hong Kong law and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to a newly appointed Director to assist him/her understand his/her responsibilities.</li> <li>The Board will also arrange for a meeting between the Company's legal advisors and a newly appointed Director in which the Company's legal advisors will explain to such Director his/her responsibilities under the relevant legal and regulatory requirements.</li> <li>The Chairman or the CEO 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 such Director properly understands the business and governance policies of the Company. Such 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 should include:               <ul style="list-style-type: none"> <li>– bringing an independent judgement to board meetings;</li> <li>– taking the lead where conflicts of interests arise;</li> <li>– serving on board committees if invited; and</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 Board meetings 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 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 are also members of the Remuneration Committee and/or the Nomination Committee. The three Board committees all serve the function of scrutinising the Company.</li> </ul>   |



## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

## A. DIRECTORS (Continued)

## A.5 Responsibilities of Directors (Continued)

## Code Principle (Continued)

| 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 issuer's affairs.</li> </ul>  | Yes        | <ul style="list-style-type: none"> <li>There were satisfactory attendance in general for Board meetings and Board committees meetings. Please refer to the Directors' attendance record of Board meetings and Board committees meetings set out in section A.1 – "The Board" hereinabove.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>The Company has adopted the Model Code as the code of conduct regarding Directors' dealing in securities of the Company. Each Director is specifically required to confirm with the Company that he/she has complied with the Model Code at least twice each year. During the year, the Directors complied with the required standards thereof.</li> <li>The Company has also 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 Practices   | 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 2006, the Company organised more than 10 internal training programmes for the Directors covering different topics including corporate governance, assets, financial and human resources management and PRC laws. There were satisfactory attendances in general and programme materials were sent to all Directors.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Each director should disclose to the issuer at the time of his/her appointment, and on a periodic basis, all offices held in public companies and other significant commitments.</li> </ul>             | Yes        | <ul style="list-style-type: none"> <li>Details of each Director, including the offices held by such Director in other companies and other significant commitments (if any), 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>   |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### A. DIRECTORS (Continued)

##### A.5 Responsibilities of Directors (Continued)

###### Code Principle (Continued)

| Recommended Best Practices  | Compliance | Details of Compliance  |
|---|------------|--|
| <ul style="list-style-type: none"> <li>Non-executive directors should ensure regular and active participation in board meetings, board committees meetings and general meetings.</li> </ul>                                     | Yes        | <ul style="list-style-type: none"> <li>Throughout the year, the Non-executive Directors actively participated in Board meetings, Board committees meetings and general meetings in general.</li> </ul> |
| <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, the Non-executive Directors gave independent and constructive advice on the Company's business strategies from time to time.</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>Agenda and meeting papers should be sent in full to all directors at least three days before the date of board or board committees meeting.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>Agenda and meeting 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 or informally, with the Directors from time to time.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Directors should have access to board papers and steps must be taken to respond promptly and fully to directors' queries.</li> </ul>                   | Yes        | <ul style="list-style-type: none"> <li>Board and Board committees papers will be circulated to the Directors who may request for further information.</li> <li>Board and Board committees minutes are sent to all Directors for record after the meeting and are available for inspection by all Directors.</li> <li>Each Director will be given an opportunity to raise questions or comments at Board or Board committees meetings, and his/her questions will be answered at the meeting or promptly thereafter. Comments will be noted and appropriate action will be taken after discussion.</li> </ul> |

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

**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 remuneration packages for all directors. No director should be involved in deciding his/her own remuneration.

*Remuneration Committee*

A Remuneration Committee was set up on 26 September 2005 and currently consists of the following members:

|                   |  |
|-------------------|--|
| Mr. Jin Yongsheng | <i>(Executive Director and chairman of the Remuneration Committee)</i> |
| Mr. Gao Zhengping | <i>(Independent Non-executive Director)</i>                            |
| Mr. Shou Binan    | <i>(Independent Non-executive Director)</i>                            |

Mr. Cai Hongqiu resigned as and Mr. Jin Yongsheng was appointed as a member and the chairman of the Remuneration Committee on 5 June 2006.

The Remuneration Committee is responsible for the establishment and supervision of a fair and transparent procedure for setting the Company's remuneration policies, including determining and reviewing the remuneration packages of Directors and senior management. In determining their remuneration packages, the Remuneration Committee will take into account certain factors, including the performance of the respective individual and the Company and the prevailing market rate. Full terms of reference are available on the Company's website at [www.enricgroup.com](http://www.enricgroup.com).

In performing its duties in accordance with its terms of reference, throughout the year 2006 and up to the date of this report, the Remuneration Committee:

- determined the remuneration package of Mr. Jin Yongsheng and Mr. Cheong Siu Fai as an Executive Director; and
- formulated a "Policy on Directors' Remuneration" which clearly stipulates the procedures for determining the remuneration packages of all Directors (including Non-executive Directors). The policy was approved by the Board and came into effect on 11 January 2007.

| Code Provisions   | Compliance | Details of Compliance  |
|---|------------|--|
| <ul style="list-style-type: none"> <li>• A remuneration committee should be established with specific written terms of reference (containing the minimum prescribed duties) and a majority of members should be independent non-executive directors.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>• The Board established a Remuneration Committee in 2005 with written terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. Two out of three Remuneration Committee members are Independent Non-executive Directors.</li> </ul> |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

##### B.1 The Level and Make-up of Remuneration and Disclosure (Continued)

| Code Provisions  | Compliance | Details of Compliance  |
|--|------------|--|
| <ul style="list-style-type: none"> <li>The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the 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 and/or CEO regarding proposed remuneration of other Executive Directors in formal or informal meetings, and will seek independent professional advice where necessary at the Company's expense.</li> </ul>   |
| <ul style="list-style-type: none"> <li>The terms of reference of the remuneration committee should be made available on request and on the issuer's website.</li> </ul>  | Yes        | <ul style="list-style-type: none"> <li>Full terms of reference of the Remuneration Committee are available on request and on the Company's website at <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</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 its members may seek outside legal and other independent professional advice as and when necessary at the costs of the Company.</li> <li>The Board and senior management will give full support to the Remuneration Committee.</li> </ul> |

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

**C. ACCOUNTABILITY AND AUDIT****C.1 Financial Reporting***Code Principle*

The board should present a balanced, clear and comprehensive 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 and information to enable the board to make informed assessment of financial and other matters.</li> </ul>  | Yes        | <ul style="list-style-type: none"> <li>Directors are provided with financial and other relevant information and analytical review of the Group on a monthly basis.</li> <li>Management meets with Directors regularly 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 their reporting responsibilities in the 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 Directors' Report on pages 49 to 58.</li> <li>Auditors' reporting responsibilities statement is set out in the Independent Auditor's Report on page 59.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Board's responsibility to present a balanced, clear and understandable assessment in annual and interim reports, price-sensitive announcements and other financial disclosures and reports under statutory requirements.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>The Board is collectively responsible for ensuring the clear and understandable assessment in annual and interim reports, price-sensitive announcements and other financial disclosures and reports under statutory requirements.</li> <li>The Audit Committee was set up in 2005 to monitor the integrity of financial statements of the Group.</li> </ul> |

**C.2 Internal Controls***Code Principle*

The board should ensure 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 internal control system of the issuer.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>The Directors conduct reviews of the effectiveness of the internal control system of the Group in accordance with the Listing Rules and the guideline of internal controls of the Company at least twice a year.</li> <li>The Directors considered the internal control system of the Group was effective and adequate throughout the year.</li> </ul> |



## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### C. ACCOUNTABILITY AND AUDIT (Continued)

##### 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 clear terms of reference.

###### *Audit Committee*

An Audit Committee was set up on 26 September 2005 and currently consists of the following members:

|                   |   |
|-------------------|---|
| Mr. Wong Chun Ho  | <i>(Independent Non-executive Director and chairman of the Audit Committee)</i> |
| Mr. Gao Zhengping | <i>(Independent Non-executive Director)</i>                                     |
| Mr. Shou Binan    | <i>(Independent Non-executive Director)</i>                                     |

The major responsibilities of the Audit Committee are:

1. to oversee the relationship with the external auditors, including
  - (a) making recommendation to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, and addressing any questions of resignation or dismissal of such auditors;
  - (b) reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and
  - (c) developing and implementing policy on the engagement of external auditors to supply non-audit services;
2. to monitor the integrity of financial statements and financial reports of the Company and to review significant financial reporting judgements contained in them; and
3. to review the effectiveness of the Group's financial reporting and internal control systems.

Full terms of reference are available on the Company's website at [www.enricgroup.com](http://www.enricgroup.com).

In performing its duties in accordance with its terms of reference, throughout the year 2006 and up to the date of this report, the Audit Committee:

- reviewed and approved the remuneration and terms of engagement of the external auditors for the year 2006;
- reviewed with the management the effectiveness of the financial reporting procedures and internal control system of the Group and made recommendations to the Board;
- reviewed and monitored the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewed with the external auditors the nature and scope of the audit and reporting obligations;
- reviewed the policy on engagement of external auditors to supply non-audit services;
- monitored the integrity of financial statements of the Company and reviewed the Company's annual accounts for the years ended 31 December 2006 and 2005, and the interim and quarterly results for the six months ended 30 June 2006 and the three months ended 31 March 2006 respectively; and
- reviewed the external auditors' management letters and management's response.

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

## C. ACCOUNTABILITY AND AUDIT (Continued)

## C.3 Audit Committee (Continued)

*Auditors' Remuneration*

The Company engaged KPMG, the external auditors of the Group, (1) to prepare the Accountants' Report for the three financial years ended 31 December 2005 in relation to the Main Board Listing during the year for RMB670,000; (2) to review the financial statements of the Group for the six months ended 30 June 2006 for RMB315,000; and (3) to audit the financial statements of the Group for the year ended 31 December 2006 for RMB1,400,000. Save as disclosed above, the Company did not engage KPMG for any other 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 minutes are circulated to all committee members for comment and final version of minutes are sent to all Directors 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 issuer's existing auditing firm should not sit on the issuer's 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 duties and should be made available on request and on the issuer's website.</li> </ul>   | Yes        | <ul style="list-style-type: none"> <li>The terms of reference of the Audit Committee set out in writing are substantially the same as those contained in paragraph C.3.3 of the CG Code.</li> <li>The full terms of reference of the Audit Committee are available on request and on the Company's website at <a href="http://www.enricgroup.com">www.enricgroup.com</a>.</li> </ul> |
| <ul style="list-style-type: none"> <li>Where the board disagree with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the audit committee's recommendation and the board's view should be disclosed.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>The Board did not have 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 provide that its members may seek outside legal and other independent professional advice as and when necessary at the costs of the Company.</li> <li>The Board and senior management will give full support to the Audit Committee.</li> </ul>   |

## Corporate Governance Report

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

#### 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 the 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 senior management, and ensuring good corporate governance. The senior management, which is led by 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 Practices   | 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 (i) a written service agreement with each Executive Director setting out the rights, obligations, duties, responsibilities and other terms and conditions of his appointment; and (ii) a letter of appointment with each Non-executive Director (including Independent Non-executive Directors) confirming the terms of his/her appointment.</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 Board has established three committees, namely, Audit Committee, Nomination Committee and Remuneration Committee, each of which has adopted clear written terms of reference setting out details of its authorities and duties.</li> </ul> |
| <ul style="list-style-type: none"> <li>The terms of reference should require committees to report their decisions to the board.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>The terms of reference of each of the Board committees contain provisions which require such Board committee to report its findings, decisions and recommendations to the Board.</li> </ul>  |

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

**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.

*General Meetings*

In 2006, the Company held one annual general meeting (the "AGM") and one extraordinary general meeting (the "EGM").

The most recent general meeting was the EGM held on 12 July 2006 at Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong. The resolutions proposed therein and the percentages of votes cast in favour of respective resolutions are as follows:

- The cessation of listing of the shares in the Company on the Growth Enterprise Market of the Stock Exchange ("GEM"), and the reduction of notice period required under Rule 9.19(3) of the Rules Governing the Listing of Securities on GEM (100%); and
- The adoption of the Main Board Share Option Scheme and the termination of the then existing GEM Share Option Scheme (87.5%).

All resolutions put to shareholders were passed at such meeting. The results of the EGM were published on the websites of the Stock Exchange and the Company and also in local gazetted newspapers.

| 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>• At a general meeting, separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.</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> <li>• The chairman of the independent board committee (if any) should also be present 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 Chairman and the respective chairman of the Audit Committee and the Remuneration Committee attended the AGM.</li> <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 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 the procedures for and rights of shareholders to demand a poll.</li> </ul>   | Yes        | <ul style="list-style-type: none"> <li>• The procedures for and rights of shareholders to demand a poll were set out in the circulars accompanying the notices of AGM and EGM dispatched to shareholders.</li> </ul>       |
| <ul style="list-style-type: none"> <li>• Ensure 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 in general meetings.</li> </ul> |
| <ul style="list-style-type: none"> <li>• Chairman of meeting should explain the procedures for demanding a poll by shareholders and the procedures for conducting a poll at the commencement of such meeting.</li> </ul> | Yes        | <ul style="list-style-type: none"> <li>• At each of the AGM and EGM held in the review year, the chairman explained the procedures for demanding and conducting a poll at the commencement of such meeting.</li> </ul>     |

## Corporate Governance Report

### ADDITIONAL CORPORATE GOVERNANCE INFORMATION

#### A. SHAREHOLDERS' RIGHTS

The Company is committed to providing shareholders with full and clear performance information of the Company on its efforts to enhance corporate governance standards and ensure shareholders' interests. The Company communicates with its shareholders through various channels, including half-year and annual reports, general meetings, circulars to shareholders, notices of general meetings, announcements, presentations, press releases and other corporate communications available on the Company's website.

Any registered shareholder is encouraged and entitled to attend all general meetings, provided that their shares have been recorded in the register of members of the Company. Prior notice of general meetings will be given to all registered shareholders by post.

Pursuant to article 58 of the articles of association of the Company, any one or more shareholder(s) (at the date of deposit of requisition holding not less than 10% of the paid up capital of the Company carrying voting right at a general meeting) shall have the statutory rights to require an extraordinary general meeting by sending a written requisition together with the proposed agenda items to the Board or the Company Secretary. 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) from such failure shall be reimbursed by the Company.

#### B. INVESTOR RELATIONS

The Company believes that effective communications and the integrity of information provided are keys to maintain market confidence. An investor relations department has been established to facilitate liaison with investors. In 2006, the Executive Directors and senior management of the Company had frequent meetings with the investment community, including institutional shareholders, fund managers and analysts, and participated in numerous roadshows covering Germany, Hong Kong, Mainland China, Malaysia, Singapore, the United Kingdom and the United States. The Company also maintains regular communications with the media through press conferences, news releases to the media and on the Company's websites, and responding to enquires from the media.

The Company values feedbacks from shareholders, investors and the public. Enquiries and proposals are welcome and can be put to the Company via the following means:

By phone: (852) 2528 9386  
 By fax: (852) 2865 9877  
 By post: Rooms 3101-03  
 31st Floor, Tower One, Lippo Centre  
 No. 89 Queensway, Hong Kong  
 Attention to: Mr. Cheong Siu Fai  
 By email: enric@enicgroup.com

#### C. CHANGES OF ARTICLES OF ASSOCIATION

Certain minor and housekeeping changes were made to the Company's articles of associations during the year under review and were resolved by shareholders at the AGM. Such changes are set out in the notice of AGM dated 27 April 2006.

On behalf of the Board

**Wang Yusuo**

*Chairman*

Hong Kong, 10 April 2007



## Directors' Report

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 2006.

### 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 energy equipment industry and the design, manufacture and sale of specialised gas equipment. Particulars of the Company's subsidiaries are set out in note 16 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 2006 and the state of the Company's and the Group's affairs as at such date are set out in the financial statements on pages 60 and 104.

### DIVIDENDS AND RESERVES

The Directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: nil).

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 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 2006 is as follows:

|                                     | Percentage of the Group's total |          |
|-------------------------------------|---------------------------------|----------|
|                                     | sales                           | purchase |
| The largest customer                | 17.0%                           |          |
| Five largest customers in aggregate | 30.1%                           |          |
| The largest supplier                |                                 | 37.8%    |
| Five largest suppliers in aggregate |                                 | 57.6%    |

The largest customer of the Group is Xiniao Gas Holdings Limited ("Xiniao 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"), the Non-executive Director of the Company, have substantial interests through Xiniao 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.

## Directors' 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 customers or suppliers of the Group.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 12 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 schemes are set out in note 29 to the financial statements.

### CHARITABLE DONATIONS

During the year, charitable donations made by the Group amounted to RMB1,640,000 (2005: RMB500,000).

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

### BANK LOANS

Details of bank loans of the Group at 31 December 2006 are set out in note 21 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 8.

### DIRECTORS

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

#### Executive Directors

Mr. Wang Yusuo (*Chairman*)  
 Mr. Jin Yongsheng (*Chief Executive Officer*)\*  
 Mr. Cai Hongqiu  
 Mr. Zhao Xiaowen  
 Mr. Zhou Kexing  
 Mr. Yu Jianchao  
 Mr. Cheong Siu Fai\*

\* Mr. Jin and Mr. Cheong were appointed on 5 June 2006 and 11 January 2007 respectively.

#### Non-executive Director

Ms. Zhao Baoju

#### Independent Non-executive Directors

Mr. Wong Chun Ho  
 Mr. Gao Zhengping  
 Mr. Shou Binan

In accordance with article 86(3) of the Company's articles of association, Messrs Jin Yongsheng and Cheong Siu Fai will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In addition, in accordance with articles 87(1) and 87(2), Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen and Zhou Kexing 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. Service agreements of Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen, Zhou Kexing and Yu Jianchao are of an initial term of three years commencing on 1 October 2005 whereas the service agreement of each of Messrs Jin Yongsheng and Cheong Siu Fai commences on 5 June 2006 and 11 January 2007 respectively. The initial term of service agreements of all Executive Directors expire 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 18 October 2005 and expiring on 17 October 2008. The service agreements of Messrs Wong Chun Ho, Gao Zhengping and Shou Binan 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' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2006, the interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### *Interests in shares and underlying shares of the Company*

| Name of Director   | Capacity  | Interests in shares |                         | Total interests in shares | Interests in underlying shares subject to share options | Aggregate interests in shares and underlying shares | Approximate percentage of total issued share capital |
|--------------------|---|---------------------|-------------------------|---------------------------|---|---|--|
|                    |   | Personal            | Corporate               |                           |   |   |  |
| Mr. Wang           | Interest of controlled corporation and beneficial owner   | –                   | 234,144,000<br>(Note 1) | 234,144,000               | 4,000,000<br>(Note 2)                                   | 238,144,000   | 53.49%   |
| Ms. Zhao           | Interest of controlled corporation and interest of spouse | –                   | 234,144,000<br>(Note 1) | 234,144,000               | 4,000,000<br>(Note 2)                                   | 238,144,000   | 53.49%   |
| Mr. Jin Yongsheng  | Beneficial owner  | –                   | –                       | –                         | 2,000,000   | 2,000,000   | 0.45%  |
| Mr. Cai Hongqiu    | Beneficial owner  | –                   | –                       | –                         | 1,400,000   | 1,400,000   | 0.31%  |
| 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%  |
| Mr. Yu Jianchao    | Beneficial owner  | –                   | –                       | –                         | 1,000,000   | 1,000,000   | 0.22%  |
| Mr. Cheong Siu Fai | Beneficial owner  | –                   | –                       | –                         | 700,000   | 700,000   | 0.16%  |

## Directors' Report

Notes:

1. 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.
2. 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 underlying shares subject to share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

### Interests in 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%                    |

### Directors' rights to acquire shares

Pursuant to the Pre-GEM Listing Share Option Plan adopted by the Company on 26 September 2005, certain Directors were granted share options to subscribe for one ordinary share in the Company for each option granted, details of which as at 31 December 2006 were as follows:

| Name of Director   | Date of grant | Exercisable period      | Exercise price per share<br>HKD | Number of underlying shares subject to share options of total issued share capital | Approximate percentage |
|--------------------|---------------|-------------------------|---------------------------------|--|------------------------|
| Mr. Wang           | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 4,000,000<br>(Note 2)  | 0.90%                  |
| Mr. Jin Yongsheng  | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 2,000,000  | 0.45%                  |
| Mr. Cai Hongqiu    | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 1,400,000  | 0.31%                  |
| 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%                  |
| Mr. Yu Jianchao    | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 1,000,000  | 0.22%                  |
| Mr. Cheong Siu Fai | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 700,000  | 0.16%                  |

Notes:

1. Subject to certain vesting conditions as stated in the Pre-GEM Listing Share Option Plan, 50% of the options granted to any grantee become exercisable upon the expiry of six months after 18 October 2005 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 18 October 2005 up to 10 years from the date of grant of the options.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in the share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 31 December 2006, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests and short positions of every person, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name of shareholder                    | Capacity                           | Number of share capital | Approximate percentage of total issued shares held |
|--|------------------------------------|-------------------------|--|
| XGII                                   | Beneficial owner                   | 234,144,000             | 52.59%   |
| INVESCO Hong Kong Limited              | Investment manager                 | 33,936,000              | 7.62%  |
| Symbiospartners Private Equity Limited | Beneficial owner                   | 26,016,000              | 5.84%  |
| Commonwealth Bank of Australia         | Interest in controlled corporation | 23,933,000              | 5.38%  |

Save as disclosed above, as at 31 December 2006, (i) the register required to be kept under section 336 of the SFO recorded no other interests or short positions in the shares or underlying shares of the Company; and (ii) the Directors are not aware of any other persons or corporations who were interested in 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

#### SHARE OPTIONS

##### Main Board Share Option Scheme

The Company adopted a share option scheme (the "GEM Share Option Scheme") pursuant to a written resolution passed by the then sole shareholder on 26 September 2005. In connection with the listing of the Company's shares on the Main Board of the Stock Exchange, the Company has adopted another share option scheme (the "Main Board Share Option Scheme") and terminated the GEM Share Option Scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company on 12 July 2006. No options were granted under the GEM Share Option Scheme and no further options may be offered upon its termination.

The purpose of the Main Board Share Option Scheme is to provide incentives and rewards to employees and Directors and eligible persons for their contributions to the Group. Under the scheme, 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 Main Board Share Option Scheme shall be valid and effective for a period of ten years ending on 11 July 2016, 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.

## Directors' Report

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 prices 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 a Company's share.

The maximum number of shares in respect of which options may be granted under the Main Board Share Option Scheme shall not exceed 44,520,000 shares, which represents 10% of the issued share capital of the Company as at the date of adoption of such scheme. 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.

As at the date of this report, a total of 44,520,000 shares, representing 10% of the issued share capital of the Company are available for issue under the Main Board Share Option Scheme.

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 Main Board Share Option 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/her associates abstaining from voting.

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

### Pre-GEM Listing Share Option Plan

Pursuant to a written resolution passed by the then sole shareholder on 26 September 2005, the Company adopted a Pre-GEM Listing Share Option Plan (the "Plan"). The principal terms of the Plan are substantially the same as those of the Main Board 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 Company's listing of shares on the Growth Enterprise Market of the Stock Exchange ("GEM") in 2005;
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 each participant must not exceed 13,800,000 shares;
3. the exercise price of options is set at HKD1.50;
4. the minimum periods which an option must be held before it is exercisable are: (i) six months after 18 October 2005 for 50% of the options granted; and (ii) 24 months after 18 October 2005 for the remaining 50% of the options granted; and
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 in force 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 have been granted and accepted by the respective participants. During the year ended 31 December 2006, movements of the options under the Plan were as follows:

| Grantee            | Date of grant | Exercisable period      | Exercise price per share<br>HKD | Number of share options       |                           |                                 |
|--------------------|---------------|-------------------------|---------------------------------|-------------------------------|---------------------------|---------------------------------|
|                    |               |                         |                                 | outstanding at 1 January 2006 | exercised during the year | outstanding at 31 December 2006 |
| Mr. Wang           | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 4,000,000                     | –                         | 4,000,000                       |
| Mr. Jin Yongsheng  | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 2,000,000                     | –                         | 2,000,000                       |
| Mr. Cai Hongqiu    | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 1,400,000                     | –                         | 1,400,000                       |
| 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                       |
| Mr. Yu Jianchao    | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 1,000,000                     | –                         | 1,000,000                       |
| Mr. Cheong Siu Fai | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 700,000                       | –                         | 700,000                         |
| Employees          | 26.09.2005    | 18.04.2006 – 25.09.2015 | 1.50                            | 2,700,000                     | –                         | 2,700,000                       |
|                    |               |                         |                                 | 13,800,000                    | –                         | 13,800,000                      |

No share options were granted, lapsed or cancelled during the year ended 31 December 2006.

Notes:

1. Subject to certain vesting conditions as stated in the Pre-GEM Listing Share Option Plan, 50% of the options granted to any grantees become exercisable upon the expiry of six months after 18 October 2005 up to 10 years from the date of grant of the options; another 50% of the options granted to any grantees become exercisable upon the expiry of 24 months after 18 October 2005 up to 10 years from the date of grant of the options.
2. The market value per share on the date of grant was not available since the Company was still a private company on the date of grant.
3. The valuation of fair value of share options granted was measured based on a binomial option pricing model. The fair value per share on the date of grant was HKD0.49.

#### 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 14A of the 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-related equipment 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 2006, the Group's sales to Xinao Gas amounted to RMB131,539,000.

On 4 October 2005, the Group entered into a product sales and finance lease agreement with Hebei Finance Leasing Company Limited ("Hebei Finance") (note 1). Hebei Finance agreed to purchase gas-related equipment from the Group for the purpose of providing finance leasing to customers of the Group for a term of three years commencing on 1 January 2005. For the year ended 31 December 2006, the Group's sales to Hebei Finance amounted to RMB1,111,000.

## Directors' Report

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

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms, or where there are not 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
3. in accordance with the relevant agreements governing them 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;
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 (note 2) and Inner Mongolia New Veyong Biochemical Company Limited (note 2) amounted to RMB423,000 and RMB176,000 respectively.

During the year, Bengbu Xinao Gas Development Company Limited (note 3) and Shijiazhuang Xinao Gas Company Limited ("Shijiazhuang Xinao") (note 3) supplied natural gas to the Group for the Group's own consumption. The gas usage expense charged by the two companies for the year amounted to RMB59,000 and RMB27,000 respectively.

During the year, Shijiazhuang Xinao provided gas connection services to the Group. The connection fee for the year was RMB1,351,000.

On 1 September 2003, the Group entered into a tenancy agreement with Hebei Veyong Group Company Limited ("Hebei Veyong") (note 2) under which the Group leased 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 RMB3,600. 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 2) for office purpose. The contract term is three 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, the Group and Langfang Xinao Property Management Company Limited (note 2) entered into a property management contract, under which Langfang Xinao Property Management Company Limited would provide certain property management services to the Group with a term of three years commencing on 1 October 2004 and 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 3) 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 RMB474,000.

On 28 February 2006, the Group leased office premises and a workshop located in Langfang in the PRC from Langfang Xinao Gas Equipment Company Limited (note 3) for office and production purposes. The contract term is two years commencing on 1 March 2006 with an aggregate rental of approximately RMB466,000. The rental incurred for the year was RMB389,000.

During the year, the Group made donations totalling RMB600,000 to Xinao Charity Fund (note 4).

During the year, the Group received services from Xinao Group Golden Elephant Hotel Company Limited (note 2) in relation to seminars and conferences held by the Group. The service fee incurred during the year was RMB980,000.

Save as disclosed above, no other contracts of significance to which the Company or its subsidiaries, was a party and in which a Director 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. Hebei Veyong Biochemical Joint Stock Company, Inner Mongolia New Veyong Biochemical Company Limited, Hebei Veyong, Xinao Group Solar Energy Company Limited, Langfang Xinao Property Management Company Limited and Xinao Group Golden Elephant Hotel Company Limited are companies controlled by Mr. Wang.
3. Bengbu Xinao Gas Development Company Limited, Shijiazhuang Xinao, XGIGL and Langfang Xinao Gas Equipment Company Limited are subsidiaries of Xinao Gas in which Mr. Wang and Ms. Zhao have substantial interests through XGII.
4. Xinao Charity Fund is a non-profit-making organisation of which Mr. Wang is a legal representative.
5. Save as Xinao Gas and XGIGL, Hebei Finance, companies controlled by Mr. Wang and subsidiaries of Xinao Gas abovementioned have names in Chinese only, and the corresponding English names used in this report are merely for reference.

#### COMPETING INTERESTS

In accordance with the terms of a deed of non-competition undertakings in favour of the Company dated 23 June 2006 (the "Non-competition Deed"), each of XGII, Mr. Wang and Ms. Zhao, being a controlling shareholder of the Company, has declared to the Company that it/he/she has complied with the terms of the Non-competition Deed and confirmed that each of them did not have any interest in any business that competes or may compete with the business of the Group throughout the year ended 31 December 2006.

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 Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the year.

#### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' transactions of the securities of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code in their securities transactions throughout the year ended 31 December 2006.

#### CONFIRMATION OF INDEPENDENCE

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence and considered each of them is independent to the Company and the Group pursuant to Rule 3.13 of the Listing Rules.

#### CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year. The Company's corporate governance report is set out on pages 28 to 48.

## Directors' Report

### AUDIT COMMITTEE AND OTHER BOARD COMMITTEES

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. It has a membership comprising three Independent Non-executive Directors, namely Messrs Wong Chun Ho, Gao Zhengping and Shou Binan, among whom Mr. Wong has been appointed as the chairman. The primary duties of the Audit Committee are, amongst other things, to review and supervise over the financial reporting procedures and internal control system of the Group. The Audit Committee has reviewed and discussed with management the audited financial statements for the year ended 31 December 2006.

In addition to the Audit Committee, the Board has established a Remuneration Committee and a Nomination Committee. A majority of members of both committees are Independent Non-executive Directors. Each of the committees has its defined scope of duties and written terms of reference in compliance with the Listing Rules.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has, during the year and up to the date of this report, maintained a public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had 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

The financial statements for the year have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Wang Yusuo**

*Chairman*

Hong Kong, 10 April 2007

## Independent Auditor's Report



### Independent auditor's report to the shareholders of Enric Energy Equipment Holdings Limited

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

We have audited the consolidated financial statements of Enric Energy Equipment Holdings Limited (the "Company") set out on pages 60 to 104, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### KPMG

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

10 April 2007

## Consolidated Income Statement

For the year ended 31 December 2006

|   | Note | 2006<br>RMB          | 2005<br>RMB   |
|---|------|----------------------|---------------|
| <b>Turnover</b>   | 3    | <b>769,951,661</b>   | 513,013,890   |
| Cost of sales   |      | <b>(549,994,345)</b> | (362,953,734) |
| <b>Gross profit</b>   |      | <b>219,957,316</b>   | 150,060,156   |
| Other revenue   | 4    | <b>5,150,569</b>     | 3,537,864     |
| Selling expenses  |      | <b>(33,207,484)</b>  | (23,150,938)  |
| Administrative expenses   |      | <b>(68,341,794)</b>  | (51,441,412)  |
| Other net expense   | 5(a) | <b>(6,268,710)</b>   | (603,924)     |
| <b>Profit from operations</b>   |      | <b>117,289,897</b>   | 78,401,746    |
| Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board |      | <b>(6,821,660)</b>   | –             |
| Finance costs   | 5(b) | <b>(8,677,246)</b>   | (7,813,959)   |
| <b>Profit before taxation</b>   | 5    | <b>101,790,991</b>   | 70,587,787    |
| Income tax  | 6(a) | <b>(5,287,472)</b>   | (1,882,093)   |
| <b>Profit for the year attributable to equity shareholders of the Company</b>                                     |      | <b>96,503,519</b>    | 68,705,694    |
| <b>Earnings per share</b>   | 11   |                      |               |
| – Basic   |      | <b>0.217</b>         | 0.225         |
| – Diluted   |      | <b>0.212</b>         | 0.224         |

The notes on pages 66 to 104 form part of these financial statements.



## Consolidated Balance Sheet

At 31 December 2006

|  | Note      | 2006<br>RMB        | 2005<br>RMB        |
|--|-----------|--------------------|--------------------|
| <b>Non-current assets</b>                    |           |                    |                    |
| Property, plant and equipment                | 12        | 173,563,440        | 89,496,679         |
| Construction in progress                     | 13        | 39,501,800         | 12,333,721         |
| Lease prepayments                            | 14        | 29,902,292         | 30,566,484         |
| Intangible assets                            | 15        | 7,801,264          | 6,806,125          |
| Deposits for land use right                  |           | 6,112,320          | –                  |
| Deferred tax assets                          | 26        | 1,884,384          | –                  |
|  |           | <u>258,765,500</u> | <u>139,203,009</u> |
| <b>Current assets</b>                        |           |                    |                    |
| Inventories                                  | 17        | 214,786,252        | 124,998,815        |
| Trade and bills receivable                   | 18        | 70,471,040         | 72,407,090         |
| Deposits, other receivables and prepayments  | 19        | 22,431,418         | 26,731,532         |
| Amounts due from related parties             | 31(b)(I)  | 21,017,425         | 20,297,299         |
| Cash at bank and in hand                     | 20        | 318,721,317        | 339,319,669        |
|  |           | <u>647,427,452</u> | <u>583,754,405</u> |
| <b>Current liabilities</b>                   |           |                    |                    |
| Bank loans                                   | 21        | 167,733,123        | 125,000,000        |
| Trade and bills payable                      | 22        | 115,198,434        | 95,167,162         |
| Other payables and accrued expenses          | 23        | 86,257,047         | 86,174,220         |
| Income tax payable                           |           | 2,123,531          | 928,539            |
| Amounts due to related parties               | 31(b)(II) | 26,750,838         | 9,147,663          |
| Provisions                                   | 25        | 2,605,539          | 1,281,780          |
|  |           | <u>400,668,512</u> | <u>317,699,364</u> |
| <b>Net current assets</b>                    |           | <u>246,758,940</u> | <u>266,055,041</u> |
| <b>Total assets less current liabilities</b> |           | <u>505,524,440</u> | <u>405,258,050</u> |
| <b>NET ASSETS</b>                            |           | <u>505,524,440</u> | <u>405,258,050</u> |
| <b>CAPITAL AND RESERVES</b>                  |           |                    |                    |
| Share capital                                | 27        | 4,630,080          | 4,630,080          |
| Reserves                                     | 27        | 500,894,360        | 400,627,970        |
| <b>TOTAL EQUITY</b>                          |           | <u>505,524,440</u> | <u>405,258,050</u> |

Approved and authorised for issue by the Board of Directors on 10 April 2007.

**Jin Yongsheng**  
Director

**Zhou Kexing**  
Director

The notes on pages 66 to 104 form part of these financial statements.

## Balance Sheet

At 31 December 2006

|  | Note | 2006<br>RMB        | 2005<br>RMB        |
|--|------|--------------------|--------------------|
| <b>Non-current assets</b>                    |      |                    |                    |
| Investments in subsidiaries                  | 16   | <u>119,825,371</u> | <u>119,825,371</u> |
|  |      | <u>119,825,371</u> | <u>119,825,371</u> |
| <b>Current assets</b>                        |      |                    |                    |
| Amounts due from a subsidiary                | 32   | <u>259,348,365</u> | 251,073,086        |
| Cash at bank and in hand                     | 20   | <u>5,262,449</u>   | <u>14,222,026</u>  |
|  |      | <u>264,610,814</u> | <u>265,295,112</u> |
| <b>Net current assets</b>                    |      | <u>264,610,814</u> | <u>265,295,112</u> |
| <b>Total assets less current liabilities</b> |      | <u>384,436,185</u> | <u>385,120,483</u> |
| <b>NET ASSETS</b>                            |      | <u>384,436,185</u> | <u>385,120,483</u> |
| <b>CAPITAL AND RESERVES</b>                  |      |                    |                    |
| Share capital                                | 27   | <u>4,630,080</u>   | 4,630,080          |
| Reserves                                     | 27   | <u>379,806,105</u> | <u>380,490,403</u> |
| <b>TOTAL EQUITY</b>                          |      | <u>384,436,185</u> | <u>385,120,483</u> |

Approved and authorised for issue by the Board of Directors on 10 April 2007.

**Jin Yongsheng**  
Director

**Zhou Kexing**  
Director

The notes on pages 66 to 104 form part of these financial statements.

## Consolidated Statement of Changes in Equity

*For the year ended 31 December 2006*

|   | Note | 2006<br>RMB        | 2005<br>RMB        |
|---|------|--------------------|--------------------|
| <b>Total equity at 1 January</b>  | 27   | <u>405,258,050</u> | <u>53,761,435</u>  |
| <b>Net profit for the year attributable to equity shareholders of the Company</b> | 27   | <u>96,503,519</u>  | <u>68,705,694</u>  |
| <b>Movements in equity arising from capital transactions:</b>                     |      |                    |                    |
| Issuance of shares:   |      |                    |                    |
| – Pursuant to the Reorganisation  | 27   | –                  | 9                  |
| – Capitalisation issue  | 27   | –                  | 45,000,000         |
| – Conversion of convertible redeemable bonds                                      | 27   | –                  | 40,320,800         |
| – By placing  | 27   | –                  | 207,792,000        |
| – Others  | 27   | –                  | 15,709,936         |
| Elimination on consolidation  | 27   | –                  | (15,709,944)       |
| Reorganisation adjustment   | 27   | –                  | 15,709,935         |
| Share issue expenses  | 27   | –                  | (27,862,743)       |
| Equity-settled share-based transactions   | 24   | <u>3,762,871</u>   | <u>1,830,928</u>   |
|   |      | <u>3,762,871</u>   | <u>282,790,921</u> |
| <b>Total equity at 31 December</b>  |      | <u>505,524,440</u> | <u>405,258,050</u> |

The notes on pages 66 to 104 form part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2006

| Note  | 2006<br>RMB          | 2005<br>RMB  |
|---|----------------------|--------------|
| <b>Operating activities</b>   |                      |              |
| Profit before taxation  | <b>101,790,991</b>   | 70,587,787   |
| Adjustments for:  |                      |              |
| Depreciation  | <b>10,767,086</b>    | 9,719,262    |
| Amortisation of intangible assets   | <b>924,861</b>       | 908,860      |
| Amortisation of lease prepayments   | <b>664,192</b>       | 694,103      |
| Interest income   | <b>(3,673,892)</b>   | (1,633,775)  |
| Interest charges  | <b>5,073,629</b>     | 8,304,468    |
| Loss on disposal of property, plant and equipment                                       | <b>4,684,412</b>     | 119,318      |
| Equity-settled share-based payment expenses   | <b>3,762,871</b>     | 1,830,928    |
| Foreign exchange loss   | <b>1,678,610</b>     | 208,874      |
|   | <b>125,672,760</b>   | 90,739,825   |
| <b>Operating profit before changes in working capital</b>                               |                      |              |
| Increase in inventories   | <b>(89,787,437)</b>  | (45,347,049) |
| Decrease/(increase) in trade and bills receivable                                       | <b>1,936,050</b>     | (23,610,460) |
| Decrease/(increase) in deposits, other receivables and prepayments                      | <b>4,300,114</b>     | (4,900,878)  |
| Increase in amounts due from related parties  | <b>(720,126)</b>     | (12,064,331) |
| Decrease/(increase) in restricted bank deposits for letters of credit and bills payable | <b>239,422</b>       | (26,169,922) |
| Increase in trade and bills payable   | <b>20,031,272</b>    | 53,418,447   |
| Increase in other payables and accrued expenses   | <b>82,827</b>        | 61,394,370   |
| Increase/(decrease) in amounts due to related parties                                   | <b>17,603,175</b>    | (1,372,081)  |
| Increase in provision for product warranties  | <b>1,323,759</b>     | 369,161      |
|   | <b>80,681,816</b>    | 92,457,082   |
| <b>Cash generated from operations</b>   |                      |              |
| Income tax paid   | <b>(5,976,864)</b>   | (1,479,963)  |
|   | <b>74,704,952</b>    | 90,977,119   |
| <b>Net cash from operating activities</b>   |                      |              |
| <b>Investing activities</b>   |                      |              |
| Payment for acquisition of property, plant and equipment and construction in progress   | <b>(127,431,549)</b> | (21,798,556) |
| Deposits for land use right   | <b>(6,112,320)</b>   | –            |
| Payment for intangible assets   | <b>(1,920,000)</b>   | –            |
| Proceeds from disposal of property, plant and equipment                                 | <b>745,211</b>       | 4,999        |
| Interest received   | <b>3,673,892</b>     | 2,447,966    |
|   | <b>(131,044,766)</b> | (19,345,591) |
| <b>Net cash used in investing activities</b>  |                      |              |

|   | Note       | 2006<br>RMB               | 2005<br>RMB        |
|---|------------|---------------------------|--------------------|
| <b>Financing activities</b>                                 |            |                           |                    |
| Proceeds from issuance of shares:                           |            |                           |                    |
| – Conversion of convertible redeemable bonds                | 27(a)      | –                         | 40,320,800         |
| – By placing  | 27(a)      | –                         | 207,792,000        |
| – Others  | 27(a)      | –                         | 15,709,936         |
| Proceeds from new bank loans                                |            | <b>167,733,123</b>        | 140,000,000        |
| Repayment of bank loans                                     |            | <b>(125,000,000)</b>      | (147,860,000)      |
| Interest paid   |            | <b>(5,073,629)</b>        | (8,304,468)        |
| Repayments of advances received from related parties        | 31(a)(vii) | –                         | (9,678,988)        |
| Share issue expenses  | 27(a)      | –                         | (27,862,743)       |
|   |            | <u><b>37,659,494</b></u>  | <u>210,116,537</u> |
| <b>Net cash from financing activities</b>                   |            | <b>37,659,494</b>         | 210,116,537        |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |            | <b>(18,680,320)</b>       | 281,748,065        |
| <b>Cash and cash equivalents at 1 January</b>               |            | <b>313,066,247</b>        | 31,527,056         |
| <b>Effect of foreign exchange rate changes</b>              |            | <b>(1,678,610)</b>        | (208,874)          |
| <b>Cash and cash equivalents at 31 December</b>             | 20         | <u><b>292,707,317</b></u> | <u>313,066,247</u> |

The notes on pages 66 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. 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 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              | 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.

## Notes to the Financial Statements

### 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.

## Notes to the Financial Statements

### 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.

## Notes to the Financial Statements

### 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<br>RMB             | 2005<br>RMB             |
|------------------------------------|------|-------------------------|-------------------------|
| Government grants                  | (i)  | 487,714                 | 1,183,726               |
| Other operating revenue            | (ii) | 988,963                 | 720,363                 |
| Interest income from bank deposits |      | <u>3,673,892</u>        | <u>1,633,775</u>        |
|                                    |      | <u><u>5,150,569</u></u> | <u><u>3,537,864</u></u> |

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.

## Notes to the Financial Statements

### 5. PROFIT BEFORE TAXATION

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

#### (a) Other net expense

|   | 2006<br>RMB      | 2005<br>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)       |
|   | <u>6,268,710</u> | <u>603,924</u> |

#### (b) Finance costs

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

\* 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<br>RMB       | 2005<br>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         |
|   | <u>54,828,523</u> | <u>36,257,028</u> |

5. PROFIT BEFORE TAXATION (Continued)  
(d) Other items

|   | 2006<br>RMB | 2005<br>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<br>RMB      | 2005<br>RMB      |
|--------------------------------------|------------------|------------------|
| <b>Current tax</b>                   |                  |                  |
| Provision for the year               | 7,171,856        | 1,882,093        |
| <b>Deferred tax</b>                  |                  |                  |
| Origination of temporary differences | (1,884,384)      | –                |
|                                      | <u>5,287,472</u> | <u>1,882,093</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 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.

## Notes to the Financial Statements

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

## 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           |
|                                      | <u>249,600</u>  | <u>3,068,000</u>                          | <u>6,183</u>                    | <u>-</u>              | <u>3,323,783</u> | <u>2,877,932</u>            | <u>6,201,715</u> |



## 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           |
|                                      | <u>187,200</u>  | <u>930,681</u>                            | <u>7,029</u>                    | <u>–</u>              | <u>1,124,910</u> | <u>1,114,478</u>            | <u>2,239,388</u> |

#### 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<br>RMB    | 2005<br>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         |
|   | <u>871,787</u> | <u>604,553</u> |

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

|                        | 2006<br>Number of<br>individuals | 2005<br>Number of<br>individuals |
|------------------------|----------------------------------|----------------------------------|
| HKD Nil – HKD1,000,000 | <u>1</u>                         | <u>1</u>                         |

#### 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.

## Notes to the Financial Statements

### 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         |
|   | <u>445,200,000</u> | <u>305,283,288</u> |
| Weighted average number of ordinary shares at 31 December | <u>445,200,000</u> | <u>305,283,288</u> |

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

## 12. PROPERTY, PLANT AND EQUIPMENT

## The Group

|  | Buildings<br>RMB   | Leasehold<br>improve-<br>ments<br>RMB | Machinery<br>RMB    | Motor<br>vehicles<br>RMB | Office<br>equipment<br>RMB | Total<br>RMB        |
|--|--------------------|---------------------------------------|---------------------|--------------------------|----------------------------|---------------------|
| <b>Cost</b>                                |                    |                                       |                     |                          |                            |                     |
| 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<br>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<br>in progress | 46,873,618         | –                                     | 31,062,538          | –                        | –                          | 77,936,156          |
| <b>Balance at 31 December 2006</b>         | <b>90,396,035</b>  | <b>2,154,092</b>                      | <b>89,950,091</b>   | <b>9,791,607</b>         | <b>8,546,331</b>           | <b>200,838,156</b>  |
| <b>Accumulated depreciation</b>            |                    |                                       |                     |                          |                            |                     |
| 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             |
| <b>Balance at 31 December 2006</b>         | <b>(7,404,966)</b> | <b>(456,993)</b>                      | <b>(14,869,796)</b> | <b>(2,086,904)</b>       | <b>(2,456,057)</b>         | <b>(27,274,716)</b> |
| <b>Net book value</b>                      |                    |                                       |                     |                          |                            |                     |
| <b>At 31 December 2006</b>                 | <b>82,991,069</b>  | <b>1,697,099</b>                      | <b>75,080,295</b>   | <b>7,704,703</b>         | <b>6,090,274</b>           | <b>173,563,440</b>  |
| 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<br>RMB         | 2005<br>RMB        |
| At 1 January                               | 12,333,721          | 4,355,382          |
| Additions                                  | 105,104,235         | 10,540,391         |
| Transfers to property, plant and equipment | <u>(77,936,156)</u> | <u>(2,562,052)</u> |
| At 31 December                             | <u>39,501,800</u>   | <u>12,333,721</u>  |

### 14. LEASE PREPAYMENTS

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

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

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

|                          | <b>The Company</b> |             |
|--------------------------|--------------------|-------------|
|                          | <b>2006</b>        | 2005        |
|                          | <b>RMB</b>         | RMB         |
| Unlisted shares, at cost | <b>119,825,371</b> | 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.

## Notes to the Financial Statements

## 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 |                      | Principal activities  |
|---|--|---|----------------------------------|----------------------|---|
|   |  |   | held by the Company              | held by a subsidiary |   |
| Enric Investment Group Limited ("EIGL")                       | British Virgin Islands<br>1 May 2002                         | Authorised capital of USD50,000 and paid-in capital of USD100 | 100%                             | –                    | Investment holding  |
| Enric (Bengbu) Compressor Company Limited                     | PRC<br>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<br>29 April 2002                      | Authorised capital of USD50,000 and paid-in capital of USD1   | –                                | 100%                 | Investment holding  |
| Enric Shijiazhuang Investment Limited                         | British Virgin Islands<br>29 April 2002                      | Authorised capital of USD50,000 and paid-in capital of USD1   | –                                | 100%                 | Investment holding  |
| Shijiazhuang Enric Gas Equipment Company Limited              | PRC<br>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<br>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<br>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<br>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:

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

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

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

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:

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

## Notes to the Financial Statements

### 19. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

|  | The Group         |                   |
|--|-------------------|-------------------|
|  | 2006<br>RMB       | 2005<br>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           |
|  | <u>22,431,418</u> | <u>26,731,532</u> |

### 20. CASH AT BANK AND IN HAND

|  | The Group          |                    | The Company      |                   |
|--|--------------------|--------------------|------------------|-------------------|
|  | 2006<br>RMB        | 2005<br>RMB        | 2006<br>RMB      | 2005<br>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         | –                | –                 |
|  | <u>292,707,317</u> | 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         | –                | –                 |
|  | <u>318,721,317</u> | <u>339,319,669</u> | <u>5,262,449</u> | <u>14,222,026</u> |

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<br>RMB<br>equivalent | 2005<br>RMB<br>equivalent | 2006<br>RMB<br>equivalent | 2005<br>RMB<br>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

|                         | <b>The Group</b>          |                    |
|-------------------------|---------------------------|--------------------|
|                         | <b>2006</b>               | 2005               |
|                         | <b>RMB</b>                | RMB                |
| Bank loans – guaranteed | <u><b>167,733,123</b></u> | <u>125,000,000</u> |

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

|                       | <b>The Group</b>         |                |
|-----------------------|--------------------------|----------------|
|                       | <b>2006</b>              | 2005           |
|                       | <b>RMB equivalent</b>    | RMB equivalent |
| United States Dollars | <u><b>42,733,123</b></u> | <u>–</u>       |

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

|                 | <b>The Group</b>          |                   |
|-----------------|---------------------------|-------------------|
|                 | <b>2006</b>               | 2005              |
|                 | <b>RMB</b>                | RMB               |
| Trade creditors | <b>75,248,434</b>         | 53,717,162        |
| Bills payable   | <u><b>39,950,000</b></u>  | <u>41,450,000</u> |
|                 | <u><b>115,198,434</b></u> | <u>95,167,162</u> |

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

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

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

## Notes to the Financial Statements

### 23. OTHER PAYABLES AND ACCRUED EXPENSES

|                               | The Group         |                   |
|-------------------------------|-------------------|-------------------|
|                               | 2006<br>RMB       | 2005<br>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         |
|                               | <u>86,257,047</u> | <u>86,174,220</u> |

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<br>RMB<br>equivalent | 2005<br>RMB<br>equivalent |
| Hong Kong Dollars | <u>2,676,113</u>          | <u>1,724,065</u>          |

### 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           | <u>13,800,000</u>     |                                   |                             |

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<br>RMB             | 2005<br>RMB             |
| At 1 January               | 1,281,780               | 912,619                 |
| Additional provisions made | 6,748,284               | 2,889,288               |
| Provisions utilised        | <u>(5,424,525)</u>      | <u>(2,520,127)</u>      |
| <b>At 31 December</b>      | <b><u>2,605,539</u></b> | <b><u>1,281,780</u></b> |

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:

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

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<br>RMB                               | Share premium<br>RMB<br>(vii) | Contributed surplus<br>RMB<br>(viii) | Capital reserve<br>RMB<br>(ix) | General reserve fund<br>RMB<br>(x) | Enterprise expansion fund<br>RMB<br>(xi) | Retained profits<br>RMB | Total<br>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)             | –                  |
| <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> |
| 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)            | –                  |
| <b>At 31 December 2006</b>                                   | <b>4,630,080</b>                                   | <b>260,619,986</b>            | <b>15,709,935</b>                    | <b>5,593,799</b>               | <b>21,484,479</b>                  | <b>–</b>                                 | <b>197,486,161</b>      | <b>505,524,440</b> |



## Notes to the Financial Statements

27. CAPITAL AND RESERVES (Continued)  
(b) The Company

|   | Attributable to equity shareholders of the Company |                                  |   |                                   |                              | Total<br>RMB              |
|---|--|----------------------------------|---|-----------------------------------|------------------------------|---------------------------|
|   | Share<br>capital<br>RMB                            | Share<br>premium<br>RMB<br>(vii) | Contributed<br>surplus<br>RMB<br>(viii) | Capital<br>reserve<br>RMB<br>(ix) | Accumulated<br>losses<br>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<br>redeemable bonds<br>(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<br>transactions (note 24)                | -  | -                                | -                                       | 1,830,928                         | -                            | 1,830,928                 |
| Loss for the year   | -  | -                                | -                                       | -                                 | (1,785,873)                  | (1,785,873)               |
| At 31 December 2005   | <u>4,630,080</u>                                   | <u>260,619,986</u>               | <u>119,825,362</u>                      | <u>1,830,928</u>                  | <u>(1,785,873)</u>           | <u>385,120,483</u>        |
| 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<br>transactions (note 24)                | -  | -                                | -                                       | 3,762,871                         | -                            | 3,762,871                 |
| Loss for the year   | -  | -                                | -                                       | -                                 | (4,447,169)                  | (4,447,169)               |
| <b>At 31 December 2006</b>  | <b><u>4,630,080</u></b>                            | <b><u>260,619,986</u></b>        | <b><u>119,825,362</u></b>               | <b><u>5,593,799</u></b>           | <b><u>(6,233,042)</u></b>    | <b><u>384,436,185</u></b> |

## 27. CAPITAL AND RESERVES (Continued)

## (c) Share capital

|   | 2006                      |                         | 2005                  |                    |
|---|---------------------------|-------------------------|-----------------------|--------------------|
|   | Number of shares          | RMB equivalent          | Number of shares      | RMB equivalent     |
| <b>Authorised:</b>  |                           |                         |                       |                    |
| Ordinary shares of the Company of HKD0.01 each (i)            | <u>10,000,000,000</u>     | <u>104,000,000</u>      | <u>10,000,000,000</u> | <u>104,000,000</u> |
| <b>Ordinary shares of the Company, issued and fully paid:</b> |                           |                         |                       |                    |
| At 1 January  | <b>445,200,000</b>        | <b>4,630,080</b>        | 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)   | –                         | –                       | <u>133,200,000</u>    | <u>1,385,280</u>   |
| At 31 December  | <u><b>445,200,000</b></u> | <u><b>4,630,080</b></u> | <u>445,200,000</u>    | <u>4,630,080</u>   |

(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 Xiniao 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.

## Notes to the Financial Statements

### 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<br>RMB       | 2005<br>RMB       | 2006<br>RMB | 2005<br>RMB |
| Contracted for                    |                   |                   |             |             |
| – Land and buildings              | 28,069,180        | 920,154           | –           | –           |
| – Investment in subsidiary        | 8,000,000         | –                 | –           | –           |
|                                   | <u>36,069,180</u> | <u>920,154</u>    | <u>–</u>    | <u>–</u>    |
| Authorised but not contracted for |                   |                   |             |             |
| – Land and buildings              | 536,500           | 40,000,000        | –           | –           |
|                                   | <u>536,500</u>    | <u>40,000,000</u> | <u>–</u>    | <u>–</u>    |

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<br>RMB      | 2005<br>RMB      | 2006<br>RMB | 2005<br>RMB |
| Within 1 year                   | 1,555,559        | 1,301,215        | –           | –           |
| After 1 year but within 5 years | 126,901          | 1,035,967        | –           | –           |
|                                 | <u>1,682,460</u> | <u>2,337,182</u> | <u>–</u>    | <u>–</u>    |

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

|  |        | <b>The Group</b>              |             |
|--|--------|-------------------------------|-------------|
|  |        | <b>Year ended 31 December</b> |             |
|  |        | <b>2006</b>                   | <b>2005</b> |
|  |        | <b>RMB</b>                    | <b>RMB</b>  |
| Sales  | (i)    | <b>133,248,674</b>            | 101,865,440 |
| Purchases  | (ii)   | <b>138,824</b>                | 145,242     |
| Rental of property and office equipment<br>and property management fee                 | (iii)  | <b>1,562,273</b>              | 1,087,695   |
| Repayments received in respect of loans to<br>a related party and related interest     | (iv)   | –                             | 814,191     |
| Prepayments for purchase of properties   | (v)    | –                             | 478,581     |
| Donations  | (vi)   | <b>600,000</b>                | 500,000     |
| Repayments of cash advances from related parties                                       | (vii)  | –                             | 9,678,988   |
| Settlement of cash advances from a related<br>party pursuant to a capitalisation issue | (viii) | –                             | 45,000,000  |
| Other services   | (ix)   | <b>980,000</b>                | –           |
| Connection fee   | (x)    | <b>1,350,993</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;
  - 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<br>RMB      | 2005<br>RMB      |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 4,142,344        | 1,606,037        |
| Equity compensation benefits | 3,403,708        | 1,631,914        |
|                              | <u>7,546,052</u> | <u>3,237,951</u> |

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<br>RMB       | 2005<br>RMB       |
| Trade balances                         | (i)  | 21,017,425        | 19,818,718        |
| Prepayments for purchase of properties | (ii) | —                 | 478,581           |
| Total                                  |      | <u>21,017,425</u> | <u>20,297,299</u> |

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:

|  |      | <b>The Group</b>  |           |
|--|------|-------------------|-----------|
|  |      | <b>2006</b>       | 2005      |
|  |      | <b>RMB</b>        | RMB       |
| Trade balances                             | (i)  | <b>26,190,838</b> | 8,967,663 |
| Rental and property management fee payable | (ii) | <b>560,000</b>    | 180,000   |
| Total                                      |      | <b>26,750,838</b> | 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.

## Notes to the Financial Statements

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

## Notes to the Financial Statements

### 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:

|  | <b>Effective for accounting periods beginning on or after</b> |
|--|---|
| 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  |



# Enric

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