THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Enric Energy Equipment Holdings Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s). This Composite Document should be read in conjunction with the Form(s) of Acceptance, the contents of which form part of terms of the Offers contained in this Composite Document.

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)

CHARM WISE LIMITED

(Incorporated in the British Virgin Islands with limited liability)

CONDITIONAL MANDATORY CASH OFFERS BY

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.

ON BEHALF OF CHARM WISE LIMITED TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY CHARM WISE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

Financial Adviser to Charm Wise Limited

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.

Independent Financial Adviser of Enric Energy Equipment Holdings Limited

SOMERLEY LIMITED

A letter from the Independent Board Committee is set out on pages 19 to 20 of this Composite Document.

A letter from the Independent Financial Adviser containing its advice in respect of the Offers is set out on pages 21 to 42 of this Composite Document.

The procedures for acceptance of the Offers and other related information are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance. Acceptances of the Share Offer and the Option Offer should be received by the Registrar and the Company respectively, no later than 4:00 p.m. on Friday, 12 October 2007 (or such other time(s) and/or date(s) as the Offeror may determine and announce in accordance with the Takeovers Code or as permitted by the Executive in accordance with the Takeovers Code).

21 September 2007

CONTENTS

EXPECTED TIMETABLE

	2007
Opening date of the Offers	Friday, 21 September
First Closing Date *(Note 1)*	Friday, 12 October
Latest time for acceptance of the Offers on the First Closing Date	4:00 p.m. on Friday, 12 October
Announcement of the results of the Offers as at the First Closing Date posted on the Stock Exchange website	7:00 p.m. on Friday, 12 October
Notification of the announcement of the results of the Offers as at the First Closing Date published in newspapers	Monday, 15 October
Latest date for despatch of remittances for the amounts due under the Offers in respect of valid acceptances received on or before 4:00 p.m. on the First Closing Date assuming the Offers become or are declared unconditional on the First Closing Date *(Note 2)*	Monday, 22 October
Final closing date of the Offers *(Note 3)*	Friday, 26 October
Latest time and date for acceptance of the Offers assuming the Offers become or are declared unconditional on the First Closing Date *(Note 3)*	4:00 p.m. on Friday, 26 October
Latest date for despatch of remittances for the amounts due under the Offers in respect of valid acceptances received after 4:00 p.m. on the First Closing Date but on or before 4:00 p.m. on the final closing date *(Note 2)*	Monday, 5 November
Latest date by which the Offers can become or be declared unconditional as to acceptances *(Note 4)*	Wednesday, 21 November

Notes:

1. The latest time to receive acceptances under the Offers, which are conditional as to acceptance, will be 4:00 p.m. on Friday, 12 October 2007 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror will publish an announcement on the Stock Exchange's website by 7:00 p.m. on the First Closing Date stating the results of the Offers and whether the Offers have been revised or extended, have expired or have become or have been declared unconditional. In any announcement of an extension of an offer, either the next closing date must be stated or, if the offer is unconditional as to acceptances, a statement may be made that the offer will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offers are closed to those Independent Shareholders and the Independent Optionholders who have not accepted the Offers and an announcement will be published.

2. Assuming the Offers are declared unconditional, remittances in respect of the cash consideration payable for the Shares (after deducting the seller's ad valorem stamp duty) and the Share Options tendered under the Offers will be posted to the accepting Independent Shareholders and Independent Optionholders by ordinary post at their own risk as soon as possible but in any event within 10 days of the later of the Unconditional Date and the date of receipt by the Registrar (for the Share Offer) or the Company (for the Option Offer) of a duly completed acceptance.

3. If the Offers become or are declared unconditional on the First Closing Date, the Offers will remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.

4. If the Offers have not been declared or have not become unconditional as to acceptances on or before 7:00 p.m. on Wednesday, 21 November 2007, being the first business day after the 60th day after the day this Composite Document is posted, the Offers will lapse except with the consent of the Executive.

All time and date references contained in this Composite Document refer to Hong Kong time and date which is calculated in accordance with the Takeovers Code.

In this Composite Document, unless the context requires otherwise, the following expressions have the meanings set out below:

"Acquisition"	acquisition of the Sale Shares by the Offeror in accordance with the terms and conditions of the Share Transfer Agreement
"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above or a "Black" rainstorm warning is hoisted between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for business
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"China Merchants"	China Merchants Securities (HK) Co., Ltd., a licensed corporation to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
"CIMC (Group)"	China International Marine Containers (Group) Co., Ltd., a company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock codes: 000039 and 200039)
"Company"	Enric Energy Equipment Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
"Composite Document"	this composite document relating to the Offers jointly issued by the Offeror and the Company in accordance with the Takeovers Code and including the Form(s) of Acceptance

"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Share Transfer Agreement
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
"First Closing Date"	Friday, 12 October 2007, being the 21st day after the date on which this Composite Document is posted (or such other time(s) and/or date(s) as the Offeror may determine and announce in accordance with the Takeovers Code or as permitted by the Executive in accordance with the Takeovers Code)
"Form(s) of Acceptance"	the **WHITE** form of acceptance and transfer of shares in respect of the Share Offer (accompanying this Composite Document) and the **PINK** form of acceptance and cancellation of the Share Options in respect of the Option Offer
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Company, comprising all independent non-executive Directors, namely Mr. Wong Chun Ho, Mr. Gao Zhengping and Mr. Shou Binan, established for the purpose of advising the Independent Shareholders and the Independent Optionholders in relation to the Offers
"Independent Financial Adviser"	Somerley Limited, the independent financial adviser of the Company, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO
"Independent Optionholders"	Optionholders other than the Offeror, CIMC (Group) and parties acting in concert with any one of them
"Independent Shareholders"	Shareholders other than the Offeror, CIMC (Group) and parties acting in concert with any one of them

"Joint Announcement"	the joint announcement issued by the Offeror and the Company dated 3 August 2007 relating to the Acquisition and the Offers
"Latest Practicable Date"	18 September 2007, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Offeror"	Charm Wise Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is beneficially owned by CIMC (Group)
"Offers"	the Share Offer and the Option Offer
"Offer Share(s)"	all the issued Share(s) other than the Shares already owned and/or agreed to be acquired by the Offeror, CIMC (Group) and parties acting in concert with any one of them
"Optionholders"	holders of the Share Options
"Option Offer"	the mandatory conditional cash offer to be made by China Merchants, on behalf of the Offeror, for the cancellation of all outstanding Share Options
"Overseas Shareholder(s) or Overseas Optionholder(s)"	Shareholder(s) or Optionholder(s) whose registered address(es) are outside Hong Kong
"PRC" or "China"	the People's Republic of China. References in this document to the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Registrar"	Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company which is situated at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
"Relevant Period"	the period commencing from six calendar months immediately prior to 3 August 2007, the date of the Joint Announcement, up to and including the Latest Practicable Date

"Restricted Business"	design, manufacture and sale of specialised gas products (including compressors, pressure vessels, gas refueling stations and compressed natural gas trailers), plate heat exchangers, heavy chemical-industrial equipment and the provision of related integrated business solutions
"Sale Shares"	190,703,000 Shares acquired by the Offeror pursuant to the Share Transfer Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company
"Share Transfer Agreement"	the conditional share transfer agreement dated 30 July 2007 entered into between the Vendor and the Offeror in relation to the sale and purchase of the Sale Shares
"Shareholder(s)"	holders of the Share(s)
"Share Offer"	the mandatory conditional cash offer to be made by China Merchants, on behalf of the Offeror, to acquire all the issued Shares not already owned and/or agreed to be acquired by the Offeror, CIMC (Group) and/or parties acting in concert with any one of them
"Share Offer Price"	HK$5.92 per Offer Share
"Share Option(s)"	share option(s) which has/have been granted by the Company in accordance with the Company's pre-GEM listing share option plan adopted on 26 September 2005
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Unconditional Date"	the date on which the Offers become, or are declared, unconditional

"Vendor"	Xinao Group International Investment Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Wang Yusuo and Ms. Zhao Baoju, both Directors
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent

In this Composite Document, the English names of the relevant PRC government authorities or entities and names of individuals are translations of their Chinese names and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

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)

Executive Directors:
Wang Yusuo *(Chairman)*
Jin Yongsheng
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

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Rooms 3101-03, 31st Floor
Tower One
Lippo Centre
No. 89 Queensway
Hong Kong

21 September 2007

To the Independent Shareholders and Independent Optionholders

Dear Sir or Madam,

CONDITIONAL MANDATORY CASH OFFERS BY CHINA MERCHANTS SECURITIES (HK) CO., LTD. ON BEHALF OF CHARM WISE LIMITED TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY CHARM WISE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

The Board refers to the joint announcements of the Company and the Offeror dated 3 August 2007 and 7 August 2007. It was announced that on 30 July 2007, the Vendor entered into the Share Transfer Agreement with the Offeror, pursuant to which the Vendor conditionally agreed to sell and the Offeror conditionally agreed to purchase the Sale Shares. The Acquisition was completed on 7 August 2007. Upon Completion, there was an effective change in control of the Company resulting in the Offeror becoming interested in 42.18% of the issued share capital of the Company. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make a conditional mandatory cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and/or parties acting in concert with it and under Rule 13 of the Takeovers Code to make a comparable offer for all the outstanding Share Options.

The details and terms of the Offers are set out in the "Letter from China Merchants" of this Composite Document, Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

The purpose of this Composite Document is to provide you with, among other things, further information relating to the Group and the Offers, as well as the respective recommendation and advice of the Independent Board Committee and the Independent Financial Adviser regarding the Offers.

UNDERTAKINGS

Pursuant to the Share Transfer Agreement, Mr. Wang Yusuo, Ms. Zhao Baoju, the Vendor and Xinao Group Company Limited (the "Covenantors") entered into a deed of undertaking in favour of the Offeror and CIMC (Group) (the "Covenantees") on the date of Completion that the Covenantors would use their best endeavors to procure and guarantee that (1) the level of transactions in respect of, the design, manufacture and sale of specialised gas equipment (including compressors, pressure vessels, gas refueling stations and compressed natural gas ("CNG") trailers) and the provision of integrated business solutions, between the Group on one hand and the Covenantors and their subsidiaries (the "Relevant Parties") on the other hand for the three financial years ending 31 December 2007, 2008 and 2009, respectively, shall not be less than 70% of the respective transaction amounts for the financial year of 2006 of the Company, provided that the price and quality of the products and services offered by the Group are competitive under reasonable commercial arrangements or similar to those offered by other suppliers; (2) within five years from the date of Completion, the Relevant Parties will continue to support the technology development of the Group in respect of gas, coal chemicals and gasification mining equipment and equipment integration business (the "Relevant Business"); and (3) within five years from the date of Completion, in respect of the Relevant Business, the Relevant Parties shall purchase from the Group products and services in relation to the Relevant Business with priority, provided that the price and quality of such products and services offered by the Group are competitive or similar to those offered by other suppliers.

The Covenantors also entered into a deed of non-competition undertaking in favour of the Covenantees on the date of Completion that within five years from the date of Completion, they would not, except with the prior written consent of the Covenantees (1) engage in any business, directly or indirectly, that are in competition with the Restricted Business in any place which the Group has carried on business within one year prior to the date of Completion, save for holding of not more than 5% of the issued share capital of any member of the Group or any company listed on a recognised stock exchange; (2) solicit customers or potential customers of the Group; (3) solicit or entice any staff of the Group; (4) disclose any trade secrets and confidential information of the Group; and (5) use or register any names or logos which are same or similar to certain names or logos in relation to the business of the Group, except for non-commercial purposes, or take any actions in contravention of the intellectual properties of the Group.

THE SHARE OFFER

China Merchants, for and on behalf of the Offeror, is making the Share Offer to acquire all the issued Shares not already owned and/or agreed to be acquired by the Offeror, CIMC (Group) and/or parties acting in concert with any one of them on the following basis:

For each Offer Share .... HK$5.92 in cash

THE OPTION OFFER

As at the Latest Practicable Date, there were a total of 6,900,000 outstanding Share Options held by 12 Independent Optionholders entitling them to, during the period from 18 October 2007 to 25 September 2015, subscribe for up to 6,900,000 new Shares in aggregate at an exercise price of HK$1.50 per Share.

Pursuant to the terms of the pre-GEM listing share option plan of the Company adopted on 26 September 2005, where a general offer is made to all the Shareholders, the Optionholders are entitled to exercise the outstanding Share Options at any time within 21 days of the notice given by the Offeror that the Share Offer has become or is declared unconditional, to the extent which the outstanding Share Options have become exercisable on the date when the Offeror gives such notice. Hence, if the Share Offer becomes or is declared unconditional prior to 18 October 2007, being the first date on which the outstanding Share Options become exercisable, the Optionholders will not be entitled to exercise their outstanding Share Options and all the outstanding Share Options will lapse upon the expiry of the 21 days of the notice given by the Offeror as mentioned above. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional.

As stated in the "Letter from China Merchants" of this Composite Document, China Merchants, for and on behalf of the Offeror, is making the Option Offer to cancel all the outstanding Share Options on the following basis:

For each outstanding Share Option .... HK$4.42 in cash

EXISTING SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company showing beneficial ownership of the Shares as at the Latest Practicable Date:

	Number of Shares	*% (approximate)*
The Vendor	43,441,000	9.61
Offeror and parties acting in concert with it	190,703,000	42.18
Public	217,956,000	48.21
Total	452,100,000	100.00

INFORMATION ON THE GROUP

The Company is an investment holding company. 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.

INTENTION OF THE OFFEROR REGARDING THE GROUP AND CHANGE OF BOARD COMPOSITION

Your attention is drawn to the "Letter from China Merchants" of this Composite Document for the intention of the Offeror regarding the Group and the proposed changes of the composition of the Board.

RECOMMENDATION

The Independent Board Committee comprising all the three independent non-executive Directors (who have no direct or indirect interest in the Offers) has been established to make a recommendation (i) as to whether prices for the Share Offer and the Option Offer respectively are fair and reasonable; and (ii) as to acceptance of the Offers. As Mr. Wang Yusuo and Ms. Zhao Baoju beneficially own the Vendor, Ms. Zhao Baoju, a non-executive Director, has not been appointed as a member of the Independent Board Committee. Somerley Limited has advised the Independent Board Committee in respect of the Offers.

Your attention is drawn to the "Letter from the Independent Board Committee" to the Independent Shareholders and Independent Optionholders set out on pages 19 to 20 of this Composite Document and the "Letter from the Independent Financial Adviser" to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders set out on pages 21 to 42 of this Composite Document.

ADDITIONAL INFORMATION

Your attention is also drawn to the "Letter from China Merchants" set out on pages 10 to 18 of this Composite Document as well as the additional information contained in Appendices I to III to this Composite Document and the accompanying Form(s) of Acceptance.

Yours faithfully,
By order of the Board
Enric Energy Equipment Holdings Limited
Cheong Siu Fai
Executive Director and Company Secretary

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.
48/F, One Exchange Square, Central
Hong Kong

21 September 2007

To the Independent Shareholders and the Independent Optionholders

Dear Sir or Madam,

CONDITIONAL MANDATORY CASH OFFERS BY CHINA MERCHANTS SECURITIES (HK) CO., LTD. ON BEHALF OF CHARM WISE LIMITED TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY CHARM WISE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

On 3 August 2007, the Company and the Offeror jointly announced that, on 30 July 2007, the Vendor and the Offeror entered into the Share Transfer Agreement pursuant to which the Vendor conditionally agreed to sell and the Offeror conditionally agreed to purchase a total of 190,703,000 Shares, representing approximately 42.18% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total consideration of HK$1,128,961,760,000 (equivalent to HK$5.92 per Sale Share).

On 7 August 2007, the Company and the Offeror also announced that Completion had taken place on 7 August 2007.

Immediately prior to Completion, the Offeror and parties acting in concert with it did not own any Share or any convertible securities in the Company. Upon Completion and as at the Latest Practicable Date, the Offeror, CIMC (Group) and parties acting in concert with any one of them owned in aggregate 190,703,000 Shares, representing approximately 42.18% of the entire issued share capital of the Company as at the Latest Practicable Date. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make a conditional mandatory cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and parties acting in concert with it and under Rule 13 of the Takeovers Code to make a comparable offer for all the outstanding Share Options. Accordingly, China Merchants is making the Offers on behalf of the Offeror.

This letter sets out the details of the Offers, information on the Offeror and the intention of the Offeror regarding the Group following the Offers.

The terms of the Offers are set out below in this letter, Appendix I to this Composite Document and the Form(s) of Acceptance.

THE OFFERS

Principal terms of the Offers

China Merchants, for and on behalf of the Offeror, is making the Offers on the following basis:

For each Offer Share .... HK$5.92 in cash
For cancellation of each outstanding Share Option .... HK$4.42 in cash

As at the Latest Practicable Date, the Company had a total of 6,900,000 outstanding Share Options held by 12 Optionholders entitling them to subscribe for up to 6,900,000 new Shares in aggregate at an exercise price of HK$1.50 per Share at any time from 18 October 2007 up to 25 September 2015. According to the terms of the pre-GEM listing share option plan of the Company adopted on 26 September 2005, where a general offer is made to all the Shareholders, the Optionholders are entitled to exercise the outstanding Share Options at any time within 21 days of the notice given by the Offeror that the Share Offer has become or is declared unconditional, to the extent which the outstanding Share Options have become exercisable on the date when the Offeror gives such notice. Hence, if the Share Offer becomes or is declared unconditional prior to 18 October 2007, being the first date on which the outstanding Share Options become exercisable, the Independent Optionholders will not be entitled to exercise their outstanding Share Options and all the outstanding Share Options will lapse upon the expiry of the 21 days of the notice given by the Offeror as mentioned above. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional.

China Merchants is making an offer, on behalf of the Offeror, to pay to the Independent Optionholders a consideration of HK$4.42 in cash in respect of every Share Option held by the Independent Optionholders, in consideration for the surrender to the Company by the relevant Independent Optionholders of all the existing rights attached to their Share Options, following which such Share Options will be cancelled.

Apart from the outstanding Share Options mentioned above, there are no other outstanding warrants, options, derivatives or convertible securities which may confer any right to the holders thereof to subscribe for or convert or exchange into Shares.

Following Completion and as at the Latest Practicable Date, the Vendor continued to hold 43,441,000 Shares representing approximately 9.61% of the entire issued share capital of Company as at the Latest Practicable Date. The Vendor has undertaken to the Offeror in the Share Transfer Agreement not to accept the Share Offer in respect of the remaining Shares which it holds. Save as disclosed above, the Offeror, CIMC (Group) and parties acting in concert with any one of them have not received any irrevocable commitment to accept or reject the Offers.

The Offeror has confirmed that, save as disclosed above, as at the Latest Practicable Date, there were no other arrangements to which it is a party of the kind referred to in Note 8 to Rule 22 to the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Offers and the Offeror and parties acting in concert with it have not received any irrevocable commitment to accept the Offers. As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers other than that stated under the section headed "Condition of the Offers" below.

The Offers are required to be opened for acceptance for at least 21 days after the despatch of this Composite Document. Your attention is drawn to the expected timetable set out on page ii of this Composite Document.

Condition of the Offers

The Offers are conditional upon the Offeror having received valid acceptances of the Share Offer (and such acceptances not, where permitted under the Takeovers Code, having been withdrawn) by 4:00 p.m. on the First Closing Date (or such other time(s) and/or date(s) as the Offeror may determine and announce in accordance with the Takeovers Code, or as permitted by the Executive in accordance with the Takeovers Code) which, together with voting rights of the Shares already owned and/or acquired by the Offeror, CIMC (Group) and parties acting in concert with any one of them before or during the Share Offer, will result in the Offeror, CIMC (Group) and parties acting in concert with any one of them holding more than 50% of the voting rights of the Shares. Independent Shareholders are reminded that the Offers are conditional. If the Offeror does not receive valid acceptances of the Share Offer by such time and date which, together with voting rights of the Shares already owned and/or acquired by the Offeror, CIMC (Group) and parties acting in concert with any one of them before and during the Share Offer, will result in the Offeror, CIMC (Group) and parties acting in concert with any one of them holding more than 50% of the voting rights of the Shares, the Offers cannot become unconditional and will lapse unless it is revised or extended by the Offeror in accordance with the Takeovers Code. The Offers are not subject to any other conditions apart from the condition set out in this paragraph.

Except with the consent of the Executive, the last day to which the deadline for acceptance of the Offers can be extended and on which the Offers can become unconditional as to acceptances is Wednesday, 21 November 2007, being the first Business Day after the 60th day after the day this Composite Document is posted.

Comparison of the Share Offer Price

The determination of the Share Offer Price of HK$5.92 per Share is based on the price per Share which the Offeror has agreed to pay for the Sale Shares under the Share Transfer Agreement.

The Offer Price of HK$5.92 per Share represents:

- a discount of approximately 45.99% to the closing price of HK$10.96 per share as quoted on the Stock Exchange on the Latest Practicable Date;

- a discount of approximately 27.36% to the closing price of HK$8.15 per Share as quoted on the Stock Exchange on 30 July 2007, being the last trading day immediately prior to suspension of trading in the Shares pending the release of the Joint Announcement;

- a discount of approximately 28.00% to the average closing price of HK$8.222 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including 30 July 2007;

- a discount of approximately 25.41% to the average closing price of HK$7.937 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including 30 July 2007; and

- a premium of approximately 414.78% to the audited net assets per Share of approximately HK$1.15 as at 31 December 2006, calculated based on the Group's audited consolidated net assets of approximately RMB505.52 million (equivalent to approximately HK$521.15 million, at the exchange rate of HK$1.00 equivalent to RMB0.97) as at 31 December 2006 and 452,100,000 Shares in issue as at the date of the Joint Announcement.

The highest and lowest prices

The highest and lowest closing prices per Share, based on the Share price as quoted on the Stock Exchange, during the Relevant Period, were HK$10.96 on 18 September 2007 and HK$3.85 on 5 March 2007 respectively.

Total consideration

As at the Latest Practicable Date, the Company had 452,100,000 Shares in issue. Based on the Share Offer Price of HK$5.92 per Share, the Share Offer valued the entire issued share capital of the Company at HK$2,676,432,000.00. The Share Offer is made to the Independent Shareholders (including the Vendor who continued to hold 43,441,000 Shares immediately following Completion) who in aggregate hold 261,397,000 Shares as at the Latest Practicable Date. Based on the Share Offer Price of HK$5.92 per Share, the Offeror will be required to pay an aggregate amount of HK$1,547,470,240.00 under the Share Offer. As at the Latest Practicable Date, the Company had a total of 6,900,000 outstanding Share Options. The total consideration payable under the Option Offer for the cancellation of the outstanding Share Options held by the Independent Optionholders is HK$30,498,000.00.

China Merchants is satisfied that the Offeror has sufficient financial resources to satisfy full acceptance of the Offers. The Offers are financed by a term loan facility made available to the Offeror by China Merchants Bank Co., Ltd., Hong Kong Branch. The granting of the aforesaid financing by China Merchants Bank Co., Ltd., Hong Kong Branch shall be applied solely for the purpose of satisfying consideration payable under the Offers. The Offeror confirms that repayment of the principal sum and interest on the aforesaid financing, or further security for any liability under the aforesaid financing, if required, would not be dependent on the business of the Group.

Compulsory acquisition

The Offeror does not intend to apply any right which may be available to it to acquire compulsorily any Shares in issue which are not owned by it and parties acting in concert with it after the close of the Offers.

Effect of accepting the Offers

By accepting the Share Offer, the Independent Shareholders will sell their Shares free from all lien, claims and encumbrances and with all rights attached to them, including the rights to receive all dividends and distributions declared, made or paid on or after the date of Completion. By accepting the Option Offer, the Independent Optionholders will surrender to the Company their Share Options for cancellation by the Company.

Payment

Payment in cash in respect of acceptances of the Offers will be made as soon as possible but in any event within ten days of the later of the Unconditional Date and the date of receipt of a duly completed acceptance. Settlement of the consideration to which any Shareholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.

Stamp duty

Seller's ad valorem stamp duty arising in connection with acceptance of the Share Offer amounting to HK$1.00 for every HK$1,000.00 or part thereof of the amount payable in respect of relevant acceptances by the Independent Shareholders, or (if higher) the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to the Independent Shareholders who accept the Share Offer. The Offeror will then pay the stamp duty so deducted to the Stamp Office. The Offeror will bear buyer's ad valorem stamp duty. There is no stamp duty payable by the Independent Optionholders who accept the Option Offer for the cancellation of their Share Options.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands on 3 July 2007 and the entire issued share capital of the Offeror was beneficially owned by CIMC (Group) as at the Latest Practicable Date. CIMC (Group) is a company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange. The board of CIMC (Group) comprised Mr. Fu Yuning, Mr. Li Jianhong, Mr. Xu Minjie, Mr. Wong Hong, Mr. Mai Boliang, Mr. Qin Rongsheng, Mr. Xu Jingan and Mr. Jin Qingjun as at the Latest Practicable Date. As at 30 June 2007, CIMC (Group) had an aggregate of 2,662,396,051 shares in issue. As at the Latest Practicable Date, the major shareholders of CIMC (Group) were (i) COSCO Container Industries Limited which held 432,171,843 shares, representing approximately 16.23% of the total issued share capital of CIMC (Group); (ii) China Merchants (CIMC) Investment Limited which held 432,171,844 shares, representing approximately 16.23% of the total issued share capital of CIMC (Group); and (iii) China Merchants (CIMC) Holdings Limited which held 173,643,136 shares, representing approximately 6.52% of the total issued share capital of CIMC (Group). COSCO Container Industries Limited is a company wholly and beneficially owned by COSCO Pacific Limited, a company listed on the Stock

Exchange (stock code: 1199). According to the information available on the website of the Stock Exchange as at the Latest Practicable Date, the ultimate controlling shareholder of COSCO Pacific Limited was China Ocean Shipping (Group) Company, a PRC state-owned enterprise, which (through its subsidiaries) held approximately 51.05% of the issued share capital of COSCO Pacific Limited and the members of the board of directors of COSCO Pacific Limited were Dr. WEI Jiafu, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. XU Lirong, Ms. SUN Yueying, Mr. Xu Minjie, Dr. SUN Jiakang, Mr. WONG Tin Yau, Kelvin, Mr. WANG Zhi, Mr. QIN Fuyan, Dr. LI Kwok Po, David, Mr. LIU Lit Man, Mr. CHOW Kwong Fai, Edward and Mr. Timothy George FRESHWATER. Both China Merchants (CIMC) Investment Limited and China Merchants (CIMC) Holdings Limited are wholly and beneficially owned by China Merchants Holdings (International) Company Limited, a company listed on the Stock Exchange (stock code: 144). According to the information available on the website of the Stock Exchange as at the Latest Practicable Date, the ultimate controlling shareholder of China Merchants Holdings (International) Company Limited was China Merchants Group Limited, a PRC state-owned enterprise, which held approximately 56.16% of the total issued share capital of China Merchants Holdings (International) Company Limited and the board of China Merchants Holdings (International) Company Limited comprised Dr. Fu Yuning, Mr. Li Yingquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Yu Liming, Mr. To Wing Sing, Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem, John and Mr. Li Ka Fai, David. Apart from entering into the Share Transfer Agreement in respect of the Sale Shares, the Offeror has not been engaged in any business since its incorporation.

The core business of CIMC (Group) is design, manufacturing, sale and provision of repairing services for dry containers, reefers, special containers, road transportation vehicles, tank equipment and airport facilities. It is the mission of CIMC (Group) to become a world-class enterprise in the industries which it is engaged in and it targets to achieve such mission through building up a globalized operation system based on Chinese advantages. CIMC (Group) is dedicated to providing advanced transportation equipment and services. For the year ended 31 December 2006, the audited consolidated total assets and net assets of CIMC (Group), based on accounts prepared in accordance with the generally accepted accounting principles of the PRC, were approximately RMB22.92 billion and RMB11.12 billion, respectively. The Offeror believes that the Offers, if accepted, will strengthen and improve the asset base of the Offeror.

The Offeror has three directors, namely, 麥伯良 (Mr. Mai Boliang), 趙慶生 (Mr. Zhao Qingsheng), and 周密 (Miss Zhou Mi).

麥伯良 (Mr. Mai Boliang), aged 48, is currently a director and the president of CIMC (Group). Mr. Mai graduated from South China University of Technology, majoring in machinery engineering. Since 1982, Mr. Mai has served within the CIMC (Group) in the various positions includes technician, manager of the production and technology department, and the deputy general manager. Since 1992, Mr. Mai has held the post of the president of CIMC (Group). He has also served as a director of CIMC (Group) since March 1994.

趙慶生 (Mr. Zhao Qingsheng), aged 55, is currently the vice-president of CIMC (Group). Mr. Zhao graduated from Wuhan University of Water Transportation Engineering (now known as Wuhan University of Technology), majoring in vessel gas engineering. Mr. Zhao joined the China Merchants Group Limited in 1983 and consecutively served as the general manager of the enterprise department from 1991 to 1995 and the deputy general manager of China Merchants Holdings (International) Company Limited from 1995 to 1999. Mr. Zhao held the post of the vice chairman of the board of CIMC (Group) from 1997 to 1999, and has held the post of the vice-president of CIMC (Group) since 1999.

周密 (Miss Zhou Mi), aged 36, is currently the deputy general manager of the container operation department of CIMC (Group), and is responsible for the marketing of container products. Miss Zhou graduated from Wuhan Technical University, majoring in trade economics. Miss Zhou has been with CIMC (Group) since 1992, and was previously the deputy manager of the marketing department and the deputy general manager of China International Marine Containers (Hong Kong) Limited.

Neither the Offeror, CIMC (Group) nor the parties acting in concert with any one of them owned any Shares or other securities of the Company immediately prior to the date of the Share Transfer Agreement. Save for the acquisition of the Sale Shares under the Share Transfer Agreement, none of the Offeror, CIMC (Group) and parties acting in concert with any one of them has dealt in any Shares or other securities of the Company during the period commencing on the date falling six months prior to the date of the Share Transfer Agreement and up to the Latest Practicable Date.

INTENTION OF THE OFFEROR REGARDING THE GROUP AND ITS EMPLOYEES

Following the close of the Offers, the Offeror intends to continue the existing business of the Group. In addition to the existing business operation of the Group, the Offeror will explore other business opportunities with a view to enhance the long term growth potential of the Group. Save for the proposed changes in the Board composition mentioned below, the Offeror plans to retain the existing employees of the Group. The Offeror has no intention to inject any assets or businesses into the Company. The Offeror does not intend to redeploy any material assets of the Group, including fixed assets, outside the business of the Group.

PROPOSED CHANGES TO BOARD COMPOSITION OF THE COMPANY

As at the Latest Practicable Date, the Board was made up of 11 Directors, comprising seven executive Directors, one non-executive Director and three independent non-executive Directors. It is intended that all executive Directors, except Mr. Jin Yongsheng, and the non-executive Director, Ms. Zhao Baoju, will resign on the First Closing Date or the date when the Offers become or are declared unconditional, whichever is the later. The Offeror intends to nominate at least six executive Directors and one non-executive Director of the Company. Further announcements in relation to the appointment and resignation of directors will be made by the Company as and when appropriate.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at all time, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or

- that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

Each of the Offeror and the Company will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. The Offeror intends to maintain the listing of the Shares on the Stock Exchange.

FURTHER TERMS OF THE OFFERS

Further terms and conditions of the Offers, including procedures for acceptance and the acceptance period, are set out in Appendix I to this Composite Document and the Form(s) of Acceptance.

GENERAL

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Share Offer.

Shareholders and Optionholders are advised that as set out in the paragraph headed "Condition of the Offers" above, the Offers will only become unconditional upon the Offeror having received acceptances of the Share Offer in respect of the Shares which, together with the Shares acquired and/or agreed to be acquired before or during the Share Offer, will result in the Offeror, CIMC (Group) and parties acting in concert with any of them holding more than 50% of the voting rights of the Company. Consequently, if such 50% threshold is not reached, all the Shares and the Share Options tendered in acceptance of the Offers will not be taken up and paid for by the Offeror, in which case the certificates for Shares and letter(s) of offer and acceptance for the Share Options tendered for accepting the Offers will be returned to the respective Shareholders and Optionholders.

In accordance with Rule 3.8 of the Takeovers Code, associates of the Company and the Offeror (within the meaning of the Takeovers Code) are hereby reminded to disclose their dealings in any securities of the Company pursuant to the requirements of the Takeovers Code.

Pursuant to Note 11 of Rule 22 of the Takeovers Code, stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant provisions of the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than HK$1 million. This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved. Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.

The attention of Overseas Shareholders and Overseas Optionholders is drawn to the section headed "Overseas Shareholders and Overseas Optionholders" in Appendix I to this Composite Document.

All documents and remittance sent to the Independent Shareholders and the Independent Optionholders will be sent to them by ordinary post and at their own risks. Such documents and remittances will be sent to the Independent Shareholders and the Independent Optionholders at their respective addresses as they appear in the register of members of the Company and the register of Optionholders, as applicable. None of the Company, the Offeror, China Merchants or any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices, which forms part of this Composite Document.

Yours faithfully,
For and on behalf of
China Merchants Securities (HK) Co., Ltd.
Tony Wu
Executive Director

The following is the text of a letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders and the Independent Optionholders in respect of the Offers.

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)

21 September 2007

To the Independent Shareholders and the Independent Optionholders

Dear Sir or Madam,

CONDITIONAL MANDATORY CASH OFFERS BY CHINA MERCHANTS SECURITIES (HK) CO., LTD. ON BEHALF OF CHARM WISE LIMITED TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY CHARM WISE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

We refer to the Composite Document dated 21 September 2007 of which this letter forms part. As the Independent Board Committee, we advise you in connection with the Offers, details of which are set out in the Composite Document. Terms used in this letter shall have the same meanings as those defined in the Composite Document, unless the context requires otherwise.

Somerley Limited has been appointed to advise us in connection with the Share Offer and Option Offer. Details of its advice and the principal factors and reasons that it has considered are set out in its letter on pages 21 to 42 of the Composite Document.

In respect of the Share Offer

Having considered the terms of the Share Offer and the advice of Somerley Limited in relation thereto, we are of the opinion that the terms of the Share Offer are fair and reasonable to the Independent Shareholders.

Independent Shareholders who prefer to dispose of their investment in the Company should **not** accept the Share Offer but take advantage of the strong market price of the Shares, which closed at HK$10.96 at the Latest Practicable Date, and sell in the market. Such Independent Shareholders are encouraged to monitor the market closely in the current volatile market conditions.

Independent Shareholders who wish to sell but have not done so in the market at prices higher than the Share Offer Price should consider accepting the Share Offer as the First Closing Date of 12 October 2007 approaches if the market price of the Shares has dropped close to the Share Offer Price of HK$5.92. Turnover in the market was relatively thin before the Share Offer and may be thin again once the Offers close.

Independent Shareholders who, after considering the information on the Offeror and the intention of the Offeror regarding the Group contained in the "Letter from China Merchants" of the Composite Document, are attracted by the future prospects of the Group following the Offers should consider retaining some or all of their Shares.

In respect of the Option Offer

Having considered the terms of the Option Offer and the advice of Somerley Limited in relation thereto, we are of the opinion that the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned.

Independent Optionholders are advised to monitor the market price of the Shares carefully. If the market price drops toward the Share Offer Price of HK$5.92 and it seems possible that the Share Offer may become or be declared unconditional prior to 18 October 2007, being the first date on which the outstanding Share Options become exercisable, the Independent Optionholders should accept the Option Offer because, in such circumstances, their outstanding Share Options will lapse.

If the Share Offer only becomes or is declared unconditional on or after 18 October 2007, we recommend the Independent Optionholders **not** to accept the Option Offer in circumstances where the net proceeds they will receive by exercising their outstanding Share Options (which they will then be able to do) and disposing of the Shares issued to them would exceed the proceeds from accepting the Option Offer.

Yours faithfully,
Independent Board Committee
Enric Energy Equipment Holdings Limited
Wong Chun Ho   Gao Zhengping   Shou Binan
Independent non-executive Directors

The following is the text of the letter of advice prepared by the Independent Financial Adviser to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders for inclusion in this Composite Document.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

21 September 2007

To: the Independent Board Committee, the Independent Shareholders and the Independent Optionholders

Dear Sirs,

CONDITIONAL MANDATORY CASH OFFERS BY CHINA MERCHANTS SECURITIES (HK) CO., LTD. ON BEHALF OF CHARM WISE LIMITED TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF ENRIC ENERGY EQUIPMENT HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY CHARM WISE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee, the Independent Shareholders and the Independent Optionholders in connection with the Offers being made by the Offeror, a wholly owned subsidiary of CIMC (Group), for all the issued Shares (other than those already held by the Offeror, CIMC (Group) and parties acting in concert with anyone of them) at a price of HK$5.92 per Share (the "Share Offer Price") and for the cancellation of all outstanding Share Options at a price of HK$4.42 per Share Option. Details of the Offers are contained in the composite document addressed to the Independent Shareholders and the Independent Optionholders dated 21 September 2007, of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Composite Document.

The Offeror and the Company made a joint announcement in relation to the Acquisition and the possible Offers on 3 August 2007. On 7 August 2007, Completion took place and as a result, the Offeror, CIMC (Group) together with parties acting in concert with anyone of them, owned an aggregate of 190,703,000 Shares representing approximately 42.18% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror is required under Rule 26.1 of the Takeovers Code to make a conditional mandatory cash offer for all the issued Shares not already owned and/or agreed to be acquired by it, CIMC (Group) and/or parties acting in concert with anyone of them. Under Rule 13 of the Takeovers Code, the Offeror is also required to make a comparable offer for all the outstanding Share Options.

The Board currently consists of seven executive Directors including the Chairman and the Chief Executive Officer, one non-executive Director and three independent non-executive Directors. In accordance with Rule 2.8 of the Takeovers Code, members of the Independent Board Committee should comprise all non-executive Directors who have no direct or indirect interest in the Offers. Ms. Zhao Baoju, the non-executive Director who together with her spouse, Mr. Wang Yusuo, the Chairman, are the beneficial owners of the Vendor which has a material interest in the Acquisition. Ms. Zhao Baoju is therefore not considered an appropriate member of the Independent Board Committee. Consequently, the three independent non-executive Directors, namely Mr. Wong Chun Ho, Mr. Gao Zhengping and Mr. Shou Binan, have been appointed to constitute the Independent Board Committee in respect of the Offers. Somerley Limited has been appointed to advise the Independent Board Committee in connection with the Offers, in particular as to whether the terms of the Offers are fair and reasonable, and to give a recommendation as regards acceptance of the Offers.

Somerley Limited is not associated with the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Board, which we have assumed to be true, accurate and complete. We have sought and received confirmation from the Board that as far as the Directors are aware, no material facts have been omitted from the information supplied and opinions expressed by them to us in connection with the Group and the Offers. We consider that the information which we have received is sufficient for us to reach our opinion and give the advice set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Composite Document are true at the date of the Composite Document and will continue to be true during the period the Offers are open for acceptance. However, we have not conducted any independent investigation into the businesses and affairs of the Group.

TERMS OF THE OFFERS

The terms set out below are summarised from the "Letter from China Merchants" set out in the Composite Document and Appendix I, with some additional comments from ourselves. Independent Shareholders and Independent Optionholders are encouraged to read the relevant sections in full.

1. The Share Offer

The Share Offer is being made for all the 261,397,000 issued Shares not held by the Offeror, CIMC (Group) and parties acting in concert with anyone of them on the following basis:

For each Offer Share .... HK$5.92 in cash

The Shares will be acquired free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and distributions declared, made or paid, if any, on or after the date of the Joint Announcement.

2. The Option Offer

(i) Outstanding Share Options

As at the Latest Practicable Date, the outstanding Share Options granted by the Company under its pre-GEM listing share option plan were as follows:

Optionholders	Number of the Share Options	Exercise period	Exercise price per share *HK$*
Seven executive Directors	5,550,000	18 October 2007 to 25 September 2015	1.5
Four members of senior management	1,100,000	18 October 2007 to 25 September 2015	1.5
One employee	250,000	18 October 2007 to 25 September 2015	1.5
	6,900,000		

Pursuant to the terms of the pre-GEM listing share option plan of the Company, in the event of a general offer being made to all the Shareholders, the Optionholders are entitled to exercise the outstanding Share Options in full by notice in writing to the Company, at any time within 21 days of the date on which the Offeror gives notice that the offer becomes or is declared unconditional, to the extent which the outstanding Share Options have become exercisable on the date when the Offeror gives such notice. Hence, if the Share Offer becomes or is declared unconditional prior to 18 October 2007, being the first date on which the outstanding Share Options become exercisable, the Independent Optionholders will not be entitled to exercise their outstanding Share Options and all the outstanding Share Options will lapse upon the expiry of the 21 days of the notice given by the Offeror as mentioned above. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional.

(ii) Terms of the Option Offer

The Option Offer is being made to the Independent Optionholders for the outstanding Share Options they surrender for cancellation on the following basis:

For cancellation of each outstanding Share Option .... HK$4.42 in cash

Under Rule 13 of the Takeovers Code, where an offer is made for shares and there are options outstanding, the Offeror must make an appropriate offer or proposal to the holders of the options to ensure that their interests are safeguarded. Equality of treatment is required. The formula set out above, which is the "see through" price, i.e. the Share Offer Price less the exercise price in respect of the Share Options, is the normal basis adopted in Hong Kong.

By accepting the Option Offer, the Independent Optionholders will surrender and agree to the cancellation of relevant outstanding Share Options. All rights under the outstanding Share Options shall thereupon lapse and be fully discharged and be of no further effect.

3. Stamp duty

Ad valorem stamp duty arising from acceptance of the Share Offer at a rate of HK$1.00 for every HK$1,000 or part thereof of the consideration for acceptance of the Share Offer will be deducted from the amount payable to the Shareholders who accept the Share Offer in the event the Share Offer becomes unconditional. The Offeror will use the amount so deducted to pay the relevant stamp duty on behalf of the accepting Shareholders. On this basis, a holder of a board lot of 2,000 Shares would receive HK$11,828 net from the Offeror.

There is no stamp duty payable by the Optionholders who accept the Option Offer for the cancellation of their Share Options.

4. Conditions

The Offers are conditional (the "Condition") on valid acceptances being received which, when taken together with any Shares acquired or agreed to be acquired before or during the Offer Period, would result in the Offeror and parties acting in concert with it holding more than 50% of the issued voting share capital of the Company by 4:00 p.m. on the First Closing Date. There are no other conditions. As at the Latest Practicable Date, the Vendor holds 43,441,000 Shares, representing approximately 9.61% of the entire issued share capital of the Company. The Vendor has undertaken not to accept the Share Offer in respect of these Shares.

The Offeror shall publish an announcement on the First Closing Date stating whether the Offers have been revised or extended or expired. In the event that the offer period is not extended beyond the First Closing Date and the 50% threshold is not reached by 4:00 p.m. on the First Closing Date, the Share Offer cannot become unconditional and the Offers will lapse forthwith.

Further details of the terms and conditions of the Offers are set out in Appendix I to the Composite Document and in the Forms of Acceptance.

5. Maintaining of the listing of the Company

As at the Latest Practicable Date, the Offeror together with parties acting in concert with it, holds about 42.18% of the issued share capital of the Company. Shareholders should be aware that, if the number of Shares held by the public, as defined in the Listing Rules, falls below 25% of the issued shares of the Company, trading in the Shares may be suspended. It is stated in the "Letter from China Merchants" of the Composite Document that the Offeror and the Company will take appropriate steps to ensure there is sufficient public float of the Shares. The Offeror has also stated that it does not intend to apply any right which may be available to it to acquire compulsorily the balance of the Shares and it intends to maintain the listing of the Shares on the Stock Exchange.

6. CIMC (Group) and its intentions for the Group

The Offeror is a wholly owned subsidiary of CIMC (Group), a company incorporated in the PRC and the shares of which are listed on Shenzhen Stock Exchange.

CIMC (Group) is principally engaged in the design, manufacturing, sale and provision of repairing services for dry container, reefers, special containers, road transportation vehicles, tank equipment, and airport facilities. It is the mission of CIMC (Group) to become a world-class enterprise in the industry, and it targets to achieve such mission through building up a globalized operation system based on Chinese advantages. CIMC (Group) is dedicated to providing advanced transportation equipment and services.

As stated in the Composite Document, if the Offer becomes unconditional, it is the intention of CIMC (Group) that the Company will continue its principal business activities. CIMC (Group) will explore other business opportunities with a view to enhance the long term growth potential of the Group. CIMC (Group) has no intention to inject any assets or businesses into the Company, and does not intend to redeploy any material assets of the Group, including fixed assets, outside the business of the Group. It is intended that all executive Directors, except Mr. Jin Yongsheng, and the non-executive Director will resign on the First Closing Date or the date on which the Share Offer becomes or is declared unconditional, whichever is the later. The Offeror intends to nominate at least six executive Directors and one non-executive Director to the Board. Independent Shareholders are reminded that under the new management proposed by CIMC (Group), the emphasis of the Group's business activities may also be changed.

7. Undertakings

Mr. Wang Yusuo, Ms. Zhao Baoju, the Vendor and Xinao Group Company Limited (the "Covenantors") have undertaken in favour of the Offeror and CIMC (Group) (the "Covenantees") on the date of Completion that they would use their best endeavors to procure and guarantee that (i) the level of transactions, as specified in the "Letter from the Board", between the Group and the Covenantors and their subsidiaries (the "Relevant

Parties") for the three financial years ending 31 December 2007, 2008 and 2009, respectively, shall not be less than 70% of the respective transaction amounts for the financial year of 2006 of the Company; (ii) within five years from the date of Completion, the Relevant Parties will continue to support the technology development of the Group in respect of gas, coal chemicals and gasification mining equipment and equipment integration business (the "Relevant Business"); and (iii) within five years from the date of Completion, the Relevant Parties shall purchase from the Group products and services in relation to the Relevant Business with priority, provided that the price and quality of such products and services offered by the Group are competitive or similar to those offered by other suppliers.

The Covenantors have also entered into a deed of non-competition, undertaking in favour of the Covenantees on the date of Completion that within five years from the date of Completion, they would not, except with the prior written consent of the Covenantees (i) engage in any businesses that are in competition with the Restricted Business in any place which the Group has carried on business within one year prior to the date of Completion, save for holdings of not more than 5% of the issued share capital of any member of the Group or any company listed on a recognised stock exchange; (ii) solicit the customers or potential customers of the Group; (iii) solicit or entice any staff of the Group; (iv) disclose any trade secrets and confidential information of the Group; and (v) use or register any names or logos which are same or similar to certain names or logos in relation to the business of the Group, except for non-commercial purposes, or take any actions in contravention of the intellectual properties of the Group.

The aforesaid undertakings reflect ongoing support by the Covenantors for the Group and also serve to protect the interests of the Group by minimizing potential competition between the Covenantors and the Group.

8. Timetable and procedures under the Offers

The First Closing Date of the Offers is Friday, 12 October 2007. This date may be extended at the option of the Offeror, but not beyond 60 days after the posting of the Composite Document, unless the Offers have previously become unconditional, except with the consent of the Executive. If the Offers become unconditional, they should remain open for acceptance for not less than 14 days after the date they become unconditional.

Procedures for acceptance of the Offers are set out in Appendix I to the Composite Document and in the accompanying Forms of Acceptance. Most Shareholders hold their Shares through the Central Clearing and Settlement System ("CCASS") established and operated by Hong Kong Securities Clearing Company Limited ("HKSCC"), in which case some prior action needs to be taken to ensure acceptance on time. If Shares are lodged with a broker/custodian bank through CCASS, subject to the terms of the agreement between Shareholders and their broker/custodian bank, or lodged with an Investor Participant Account with CCASS, instructions should be given to them to authorise HKSCC to take the necessary action on or before the deadline set by HKSCC.

To accept the Option Offer, the Independent Optionholders should forward the Pink Form of Acceptance, together with the relevant Share Option certificate(s) (if any) for the whole of his holding of Share Options, or for the number of Share Options in respect of which the Option Offer is accepted, by post or by hand to the head office and principal place of business of the Company in Hong Kong as soon as practicable but in any event so as to reach the company secretary of the Company by not later than 4:00 p.m. on Friday, 12 October 2007, or such later time and/or date as the Offeror shall determine and announce with the consent of the Executive.

An acceptance, once submitted, cannot be withdrawn at least until Friday, 2 November 2007 (being the 21st date from the First Closing Date), except in the circumstances set out in Appendix I to the Composite Document, after which time an acceptor would have the right to withdraw but only until such time as the Offers have become or been declared unconditional.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee with regard to the Offers, we have taken into account the following principal factors and reasons:

1. Business and prospects of the Group

The business of the Group was founded by the Chairman Mr. Wang Yusuo who has extensive experience and in-depth knowledge of the gas business in the PRC. In 2002, the Group expanded its compressor business through acquisition and organic growth. In February 2005, the Group commenced its operation of integrated business solutions. In order to enhance its services and product capabilities to its customers, the Group established Beijing Enric Energy Technologies Limited ("Beijing Enric") in December 2005 as a focused arm for the purpose of carrying out research and development in manufacturing technology and integrated business solutions in addition to strengthening technical service support to its customers.

In October 2005, the Shares were listed on the Growth Enterprise Market of the Stock Exchange ("GEM") and migrated to the Main Board of the Stock Exchange in July 2006. Since listing and up to the Completion, the Chairman, Mr. Wang Yusuo together with his spouse, Ms. Zhao Baoju, non-executive Director, retained 234,144,000 Shares, representing 51.79% of the entire issued share capital of the Company. They still hold 43,441,000 Shares, representing approximately 9.61% of the entire issued share capital of the Company, and they have undertaken not to accept the Offers in respect of these Shares. As the beneficial owners of the Vendor are Mr. Wang Yusuo and Ms. Zhao Baoju who also are members of the Board, the Shares held by the Vendor are not counted as public float of the Company.

The Group has grown to become one of the leading specialised gas equipment manufacturers and integrated business solutions providers in the gas energy industry in the PRC. Its products and services are represented in over 29 provinces, autonomous regions and municipalities throughout the PRC. The Group has an established sales network, covering major cities in the PRC including Bengbu, Chongqing, Guangzhou, Langfang, Shanghai, Shenyang, Urumqi, Xi'an and Wuhan. Products were exported directly to Brazil, Indonesia, Taiwan and Korea and, through dealers, to Algeria, Angola, Iran, Kazakhstan, Pakistan, Sudan and Thailand. The Company also plans to export its pressure vessels to the United States. In this connection, the Group has already obtained the relevant certificates from the U.S. Department of Transportation and the American Society of Mechanical Engineers. The Group has a very strong client base including PetroChina Company Limited, China Petroleum & Chemical Corporation, CNOOC Limited and The Hong Kong and China Gas Company Limited.

Natural gas is a safe, clean and economical fuel. Under the 11th Five-Year Plan, the PRC Government has adopted a series of policies to encourage the use of natural gas for commercial, industrial, residential and vehicular purposes, targeting to increase the proportion of natural gas in the overall primary energy consumption mix. The substantial investments made by the PRC Government in respect of the construction of gas pipelines and LNG import terminals and port infrastructure should have a significant impact on the supply and promote the widespread usage of natural gas in regions where such source of energy was generally unavailable before. To fulfill growing market needs, the Group is committed to enhancing its productivity and research and development ("R&D") capacity. The Group has started to construct an R&D complex in order to centralize the R&D division and ensure an effective allocation of R&D resources. Beijing Enric has become operational in June 2006 as the Group's research centre having its own pool of expertise in the energy equipment industry.

In October 2006, the Company was awarded the "Chinese Business 500" and the "Top 20 Business of Assets Growth" by Asian Magazine for the first time. The Company was also listed in "2007 China's Potential 100" in January 2007 by Forbes China. The ranking is based on the rate of return to shareholders, profitability and potential growth rate of these companies. The Group was awarded the "Chinese Customers Quality and Services Satisfaction Entity" jointly by the Chinese Association for Quality, the China Quality Service Science Association and the China Product Safety Evaluating and Monitoring Centre in 2006.

2. Past results of the Group

A full statement of the financial results of the Group with accompanying notes is set out in Appendix II to the Composite Document, to which Independent Shareholders' and Independent Optionholders' attention is drawn. Some principal points are summarized below:

Consolidated income statement

The following are summaries of the financial results of the Group for the three years ended 31 December 2006 and the six months periods ended 30 June 2006 and 2007:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	audited	audited	audited	unaudited	unaudited
Turnover	252,376	513,014	769,952	326,745	402,608
Gross profit	74,585	150,060	219,957	101,212	117,231
Gross profit margin	29.6%	29.3%	28.6%	31.0%	29.1%
Profit before interest, tax, depreciation and amortisation ("EBITDA")	53,767	90,214	119,221	54,350	79,370
Profit attributable to Shareholders	36,191	68,706	96,504	41,908	60,052
Earning per Share – Basic	0.139	0.225	0.217	0.094	0.134
Dividends per Share	–	–	–	–	–

In 2004, the Group's revenue increased by 266.1% to RMB252.4 million when compared to 2003. This was mainly attributable to the increase in the sales volume of compressors and pressure vessels, as well as the commencement of the integrated business solutions for gas equipment in 2004. The EBITDA and profit attributable to Shareholders for 2004 showed growth of 212.6% and 241.2% respectively when compared to 2003. The improved financial performance for 2004 was primarily attributable to the strong growth in sales volume and the general increase in the unit selling price of compressors driven by the stronger market demand.

Revenue in 2005 jumped further by 103.3% to RMB513.0 million from RMB252.4 million in 2004. The growth in gross profit was in-line with the increase in turnover, and the gross profit margin of the Group remained at about 29.3% in 2005. EBITDA and profit attributable to Shareholders increased by 67.8% and 89.8% respectively when compared to 2004. The encouraging financial performance for 2005 was mainly brought about by the rapid growth of sales in CNG hydraulic daughter refueling station systems and pressure vessels, resulting from the high demand for specialised gas equipment for gas refueling stations and for the storage, transportation, and distribution of natural gas.

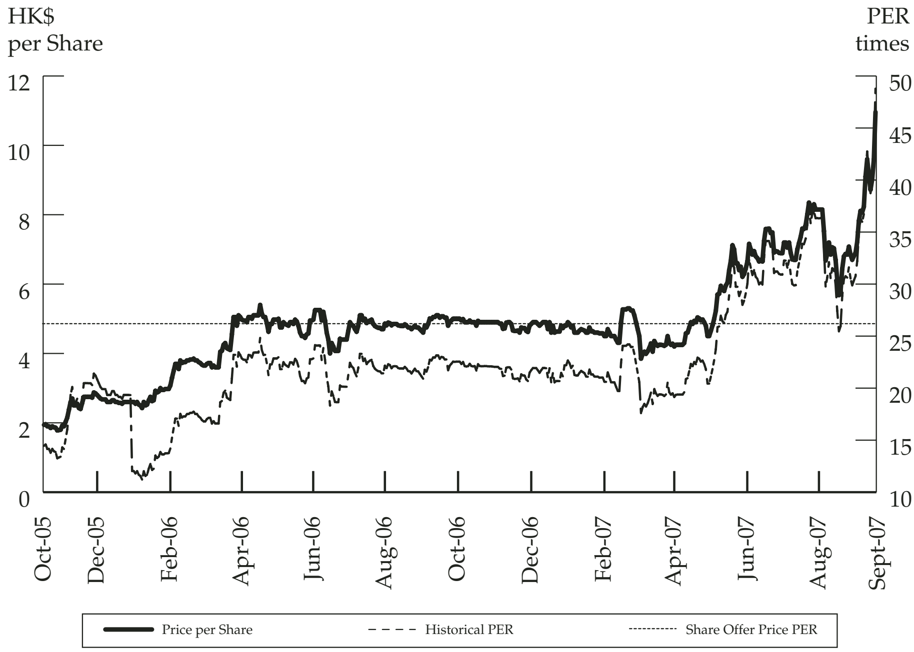
During 2006, the Group's turnover rose from RMB513.0 million in 2005 to RMB770.0 million in 2006, representing growth of 50.1%. The increase in gross profit was slightly less (approximately 46.6%) than the increase in turnover, and the gross profit margin of the Group dropped slightly from 29.3% in 2005 to 28.6% in 2006. This was principally due to a change in product mix. EBITDA rose by 32.2% when compared to 2005. Profit attributable to Shareholders for 2006 amounted to approximately RMB96.5 million, representing an increase of 40.5% when compared to RMB68.7 million for 2005.

For the first half of 2007, the Group's revenue experienced a growth of 23.2% to RMB402.6 million when compared to the corresponding period in 2006. The EBITDA and profit attributable to Shareholders also jumped by 46.0% and 43.3% respectively. The net profit margin for the six months ended 30 June 2007 increased by 2.1 percentage points to 14.9% from 12.8% for the same period in 2006. Such an improvement in the net profit margin was mainly attributable to the economies of scale enjoyed by the Group, with a smaller increase in selling and administrative expenses when compared to the significant growth in turnover. Disposal of certain properties and production facilities in the first half of 2006, which incurred a loss on disposal of RMB4.3 million, did not recur in the first half of 2007.

3. Share Offer Price compared to earnings

Based on the net profit attributable to Shareholders for the year ended 31 December 2006 of RMB96.5 million and the weighted average number of 445.2 million Shares in issue during the year, basic earnings per Share ("EPS") were RMB0.217 (equivalent to approximately HK$0.2237). On this basis, the Share Offer Price of HK$5.92 per Share represents a price-earnings ratio ("PER") of 26.46 times.

The chart below shows how the PER of the Company has varied since its listing on the Stock Exchange in October 2005. The average PER of the Company since its listing on the Stock Exchange on 18 October 2005 up to the Latest Practicable Date was approximately 22.58 times. During 2006, the average PER was 20.52 times and remained at about that level during the first quarter of 2007. The PER rose sharply in the second quarter of 2007 on the basis of the increasing market price of the Shares in line with the movement of the overall stock market. Since the commencement of the second quarter of 2007 up to the Latest Practicable Date, the average PER was 29.88 times.



Source: Bloomberg

4. Financial position

The following is a summary of the Group's assets and liabilities as at 31 December 2006 and 30 June 2007.

	31 December 2006	30 June 2007
	(RMB'000)	*(RMB'000)*
	audited	unaudited
Non-current assets		
Property, plant and equipment	173,564	187,826
Construction in progress	39,502	49,759
Lease prepayments	29,902	29,555
Intangible assets	7,801	7,462
Deposits for land use right	6,112	6,112
Deferred tax assets	1,884	1,522
	258,765	282,236
Current assets		
Inventories	214,786	354,361
Trade and bills receivable	70,471	97,474
Deposits, other receivables and prepayments	22,431	46,971
Amounts due from related parties	21,018	20,323
Cash at bank and in hand	318,721	200,349
	647,427	719,478

	31 December 2006 *(RMB'000)* audited	30 June 2007 *(RMB'000)* unaudited
Current liabilities		
Bank loans	167,733	198,906
Trade and bills payable	115,198	154,194
Other payables and accrued expenses	86,257	51,463
Income tax payable	2,123	5,710
Amount due to related parties	26,751	11,575
Provisions	2,606	2,434
	400,668	424,282
Net current assets	246,759	295,196
Non-current liabilities		
Deferred tax liabilities	–	614
	–	614
Net assets	505,524	576,818
Equity		
Share capital	4,630	4,699
Reserves	500,894	572,119
	505,524	576,818

Property, plant and equipment

As at 31 December 2006, property, plant and equipment of the Company amounted to RMB173.6 million, representing approximately 19.2% of the Group's total assets. As set out in the notes to the consolidated financial information on the Group in Appendix II to the Composite Document, included in the property, plant and equipment of the Group are buildings amounting to RMB83.0 million and machinery amounting RMB75.1 million, representing approximately 91% of the total property, plant and equipment of the Group. As at 30 June 2007, the property, plant and equipment remained at approximately 18.8% of the Group's total assets.

Cash and borrowings

As at 31 December 2006, there was cash of RMB318.7 million, and bank borrowings of RMB167.7 million. As at 30 June 2007, the Group had cash balance and bank borrowings of RMB200.3 million and RMB198.9 million respectively. The annual rate of interest charged on the bank loans ranged from 5.6% to 6.8%.

Inventories

As at 31 December 2006, inventories were RMB214.8 million, mainly seamless steel pipes and steel slabs of RMB104.5 million, work in progress of RMB64.2 million and finished goods (pressure vessels, compressors and integrated business solutions equipment) amounting to RMB46.1 million. As at 30 June 2007, the inventories increased by approximately 65% to RMB354.4 million.

Based on the balances as at 31 December 2006 and 30 June 2007, the Group had current ratio of about 1.6–1.7 times and a net gearing ratio of zero, as there was no net debt.

5. Share Offer Price compared to net assets value

Based on the audited consolidated net assets of the Group as at 31 December 2006 of RMB505.5 million and the 452.1 million Shares in issue as at the Latest Practicable Date, the net book value per Share as at 31 December 2006 amounted to RMB1.12. On this basis, the Share Offer Price represents a price per book ratio ("PBR") of approximately 5.13 times. The table below sets out the comparison of the Group's net assets with the Share Offer Price of HK$5.92 per Share:

		Per Share
	RMB million	*RMB* *(Note)*
Net assets of the Group	505.5	1.12
Value of the issued Shares at the Share Offer Price of HK$5.92	2,596.1	5.74
Premium of Share Offer Price over net assets	2,090.6	4.62
Percentage premium over net assets	413%	413%

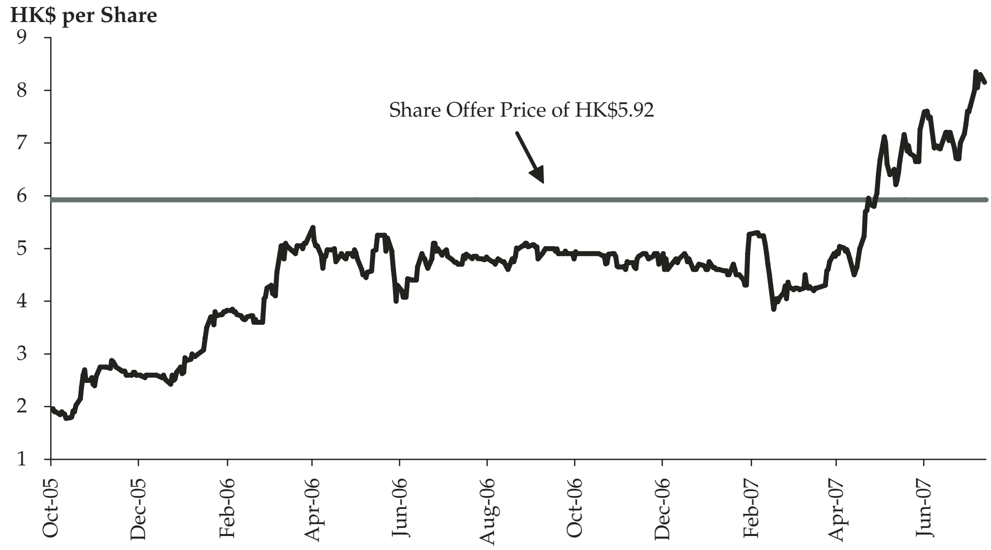
Note: Based on 452,100,000 Shares in issue at the Latest Practicable Date.

As shown in the above table, the Share Offer Price of HK$5.92 per Share values the Company at a premium of RMB2.1 billion (approximately 413%) over the net assets of the Group.

6. Historical market price and liquidity of the Shares

(i) Share price

The chart below illustrates the movement of the closing price for the Shares during the period from the commencement of trading of the Shares on the Stock Exchange on 18 October 2005 up to 30 July 2007:



Source: Bloomberg

The Company went public in October 2005 by listing on the GEM at an initial public offering price ("IPO Price") of HK$1.5 per Share. The Shares closed at HK$1.94 on the first trading day.

During the first six months of trading, from 18 October 2005 to 18 April 2006, the closing price of the Shares ranged between HK$1.78 and HK$5.4. On 18 April 2006, the Share price closed at HK$5.4, representing an increase of approximately 220% over the IPO Price of HK$1.5. During the same period, the Hang Seng China Enterprises Index ("HSCE Index") increased by 41.5%.

From 19 April 2006 up to 19 July 2006, the last trading day of the Shares on the GEM, the closing prices of the Share were between HK$4.0 and HK$5.25. The Shares closed at HK$4.95 on 19 July 2006.

On 20 July 2006, being the first trading day of the Shares on the Main Board of Stock Exchange, the Share closed at HK$4.975, representing a slight increase of approximately 0.5% compared to its last trading day on the GEM. From 20 July 2006 to 10 April 2007, the closing price of the Shares varied between HK$3.85 and HK$5.30.

On 11 April 2007, the Company announced its annual results for the year 2006 with a growth in profit of approximately 40% compared to 2005. The Share price reached a record high of HK$8.35 on 24 July 2007. During the same period, the HSCE Index had increased by 32.8%.

The Share Offer Price of HK$5.92 per Share represents:

(i) a discount of approximately 27.36% to the closing price of HK$8.15 per Share as quoted on the Stock Exchange on 30 July 2007, being the last trading day prior to the release of the Joint Announcement;

(ii) a discount of approximately 25.44% to the average closing price of HK$7.94 per Share as quoted on the Stock Exchange over the last 10 trading days up to and including 30 July 2007;

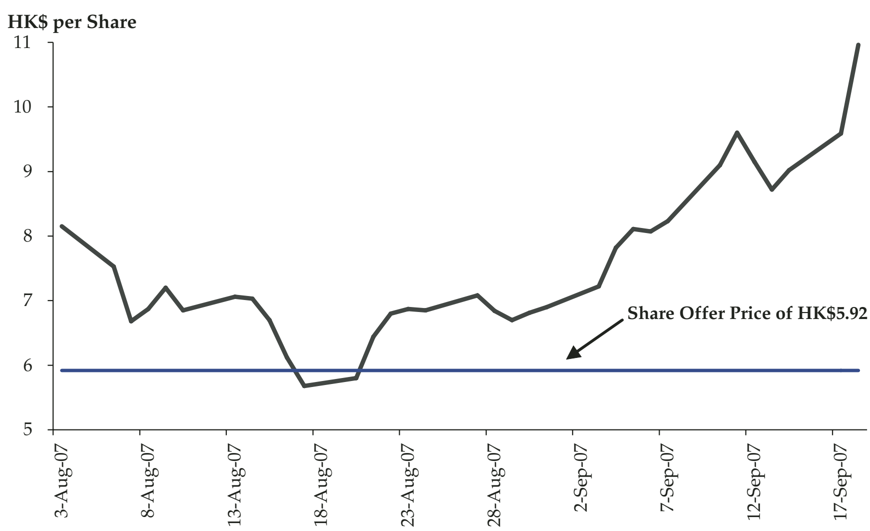
(iii) a discount of approximately 19.57% to the average closing price of HK$7.36 per Share as quoted on the Stock Exchange over the last 30 trading days up to and including 30 July 2007; and

(iv) a discount of approximately 4.21% to the average closing price of HK$6.18 per Share as quoted on the Stock Exchange over the last 90 trading days up to and including 30 July 2007.

On the trading days during the period from 15 May 2007 to 30 July 2007, being the last trading day of the Shares before the release of the Joint Announcement, the Share price closed within the range of HK$5.96 and HK$8.35, consistently above the Share Offer Price of HK$5.92.

After release of the Joint Announcement and up to the Latest Practicable Date, the Shares closed between HK$5.68 and HK$10.96 at an average of HK$7.51.

The following chart shows the movement of the closing price of the Shares after the release of the Joint Announcement up to and including the Latest Practicable Date:



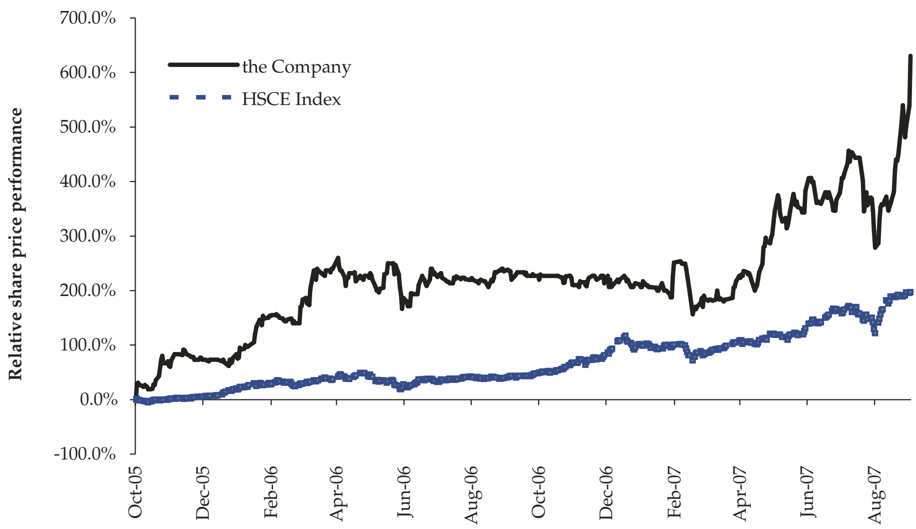
Source: Bloomberg

After the release of the Joint Announcement on 3 August 2007, global stock markets were affected by the turmoil in the credit markets . The HSCE Index dropped by 10.3% from 12,266.79 on 6 August 2007 to 11,002.52 on 17 August 2007. During the same period, the closing price of the Share fell by 24.6% from HK$7.53 to HK$5.68.

Accompanying the recovery of stock markets generally, the HSCE Index increased by 33.9% from 11,002.52 on 17 August 2007 to 14,733.62 on the Latest Practicable Date. The closing price of the Shares rose by 93.0% from HK$5.68 to HK$10.96 during the same period. The Share price has been substantially above the Share Offer Price during almost the entire period since the Joint Announcement.

(ii) Movement in Share price versus the HSCE Index from 18 October 2005 to the Latest Practicable Date

The following chart shows the movement in the Share price since commencement of trading of the Shares on the Stock Exchange on 18 October 2005 to the Latest Practicable Date relative to the movement in HSCE Index:

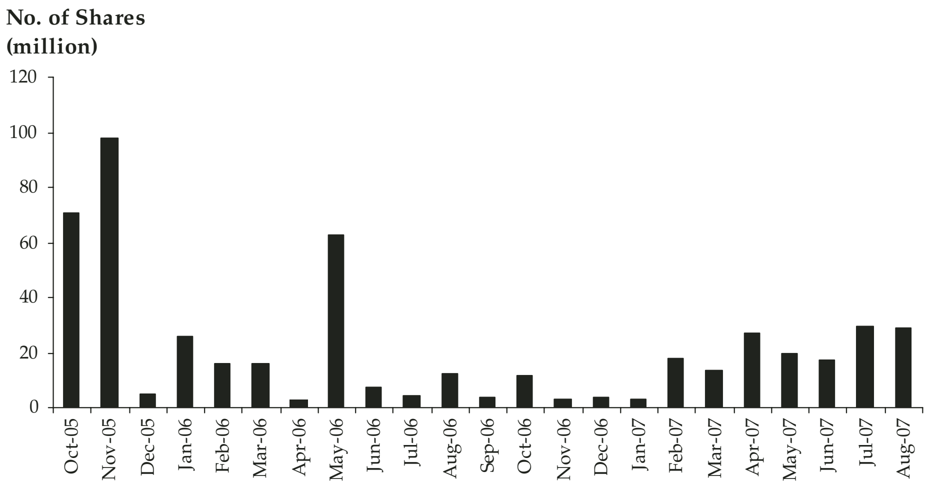


Source: Bloomberg

As shown in the above chart, the Share price outperformed the HSCE Index during most of the period since commencement of trading of the Shares on the Stock Exchange on 18 October 2005. The Share price closed at HK$10.96 on the Latest Practicable Date, representing an increase of approximately 630.7% from the IPO price of HK$1.50. The HSCE Index during the same period have increased by approximately 196.8% from 4,963.45 on 17 October 2005 to 14,733.62 on the Latest Practicable Date.

(iii) Trading volume of the Shares from 18 October 2005 to 31 August 2007

The chart below shows the monthly trading volume of the Shares from the date of listing up to and including 31 August 2007:



Source: Bloomberg

The following table sets out the monthly trading volume of Shares on the Stock Exchange to the issued share capital of the Company and of the Company's public float for the period commencing from October 2005 to August 2007:

	Monthly trading volume	**Monthly trading volume to public float**	**Monthly trading volume to issued Shares**
	Number of Shares	*% (Note 1)*	*% (Note 2)*
2005			
October	71,019,000	34.30	15.95
November	97,669,000	47.17	21.94
December	4,762,000	2.30	1.07
2006			
January	25,636,000	12.38	5.76
February	16,067,500	7.76	3.61
March	15,697,900	7.58	3.53
April	2,608,000	1.26	0.59
May	62,760,000	30.31	14.10
June	7,602,950	3.67	1.71
July	4,280,000	2.07	0.96
August	12,406,000	5.99	2.79
September	3,440,000	1.66	0.77
October	11,408,000	5.51	2.56
November	3,358,000	1.62	0.75
December	3,680,000	1.78	0.83

	Monthly trading volume	Monthly trading volume to public float	Monthly trading volume to issued Shares
	Number of Shares	*% (Note 1)*	*% (Note 2)*
2007			
January	3,048,000	1.47	0.68
February	18,138,000	8.66	4.06
March	13,622,000	6.50	3.05
April	26,959,000	12.81	6.03
May	19,958,934	9.24	4.41
June	17,126,403	7.93	3.79
July	29,675,000	13.74	6.56
August	28,953,000	13.41	6.47

Notes:

1. Based on the number of total issued Shares held by public Shareholders at the end of each month (October 2005 to January 2007: 207,056,000; February 2007 to March 2007: 209,512,000; April 2007: 210,486,000; May 2007 to August 2007: 215,956,000).

2. Based on the number of total issued Shares at the end of each month (October 2005 to December 2006: 445,200,000; January 2007 to April 2007: 447,200,000; May 2007 to August 2007: 452,100,000)

Based on the above table, the Shares were actively traded in the first two months after the IPO with an average monthly trading volume of approximately 40% of the total public float.

In May 2006, the trading volume surged which was caused mainly by the disposal of the 51,840,000 Shares on 3 May 2006 by a then substantial shareholder of the Company, which accounted for approximately 80% of the total trading volume of that month. After that, the Shares were in general thinly traded on the Stock Exchange during the period from June 2006 up to January 2007, with the monthly trading volumes of the Shares varying between 1.47% and 5.99% of the Company's public float as at the end of each corresponding month. Since February 2007 up to the last trading day prior to the release of the Joint Announcement, the trading volumes of the Shares increased significantly ranging from 6.50% to 13.74% of the Company's public float, which is in-line with the general increase in the overall turnover of the stock market. The monthly trading volume of the Shares in August 2007 was approximately 13.41% of the Company's public float which was similar to the monthly turnover in July 2007 before the publication of the Joint Announcement on 3 August 2007.

7. Comparison with Comparable Companies

For the purpose of assessing the Share Offer Price, we have reviewed and compared the market statistics of all other companies listed on the Stock Exchange which are principally engaged in the energy equipment manufacturing industry and have their production in the PRC (the "Comparable Companies"), on which basis we consider them similar to the Group.

The following table sets out the comparison of the Share Offer Price in terms of PER and PBR to those of the Comparable Companies:

Company	**Closing share price** *HK$* *(Note 1)*	**Market Capitalization** *HK$ billion* *(Note 2)*	**PER** *(Note 3)*	**PBR**
Shandong Molong Petroleum Machinery Company Limited (Stock code: 568)	1.93	2.38	8.69	3.71
Anhui Tianda Oil Pipe Company Limited (Stock code: 8241)	5.49	2.79	15.69	3.07
Emer International Group Limited (Stock code: 8149)	4.96	1.92	33.97	9.54
Jutal Offshore Oil Services Limited (Stock code: 3303)	3.56	1.77	27.38	3.49
Average for all companies			**21.43**	**4.95**
The Company @ Share Offer Price	**5.92**	**2.68**	**26.46**	**5.13**
The Company @ closing price of the Share on the Latest Practicable Date	**10.96**	**4.96**	**48.99**	**9.53**

Source: Bloomberg

Notes:

1. Being the closing share prices of the companies as at the Latest Practicable Date.

2. Market capitalisation of the companies as at the Latest Practicable Date quoted by Bloomberg.

3. Calculated based on the closing share prices of the companies as at the Latest Practicable Date and the published financial information contained in the latest annual reports of the companies.

PER

As shown in the above table, the PER represented by the Share Offer Price of about 26.46 times is close to the average PER for the Comparable Companies of about 21.43 times.

PBR

As shown in the above table, the Comparable Companies are trading at PBR in the range of 3.07 to 9.54 times. The PBR of 5.13 represented by the Share Offer Price is close to the average PBR of the Comparable Companies of 4.95 times.

DISCUSSION AND ANALYSIS

In respect of the Share Offer

The business of the Group was founded by Mr. Wang Yusuo and the Company was listed on the GEM in October 2005 and migrated to the Main Board of the Stock Exchange in July 2006. The Group is a leading specialised energy equipment manufacturer and integrated business solutions provider in the PRC. The Group has been expanding its turnover levels, and the net profit attributable to Shareholders grew by approximately 89.8% for 2005 and 40.5% for 2006. In general, the sales level and profitability of the Group seem to us solidly based. We believe certain factors, such as reputation for quality and extensive distribution network, favour the Group's prospects. However, pressures on margins may grow if the price of steel, which is one of the principal raw materials of the Group's products, keeps rising.

In assessing the Offers, we have looked principally at three factors – comparison of the Share Offer Price to market price of the Shares, the implied PER and the implied PBR.

- The Share Offer Price of HK$5.92 per share is higher than the historic levels at which the Shares have traded since its listing in October 2005 up to May 2007. After 15 May 2007 and up to 30 July 2007, the closing market price of the Shares exceeded HK$5.92. The Share Offer Price of HK$5.92 represents a 16.1% discount to the average price for this period of HK$7.06.

- Since the Joint Announcement, the Share price has been substantially above the Share Offer Price. The average price during the period is HK$7.51, a premium of 26.9% over the Share Offer Price. The closing price of the Share on the Latest Practicable Date was HK$10.96, a premium of 85.1% over the Share Offer Price.

- Based on the 2006 EPS of RMB0.217 (equivalent to HK$0.2237), the Share Offer Price of HK$5.92 per Share represents a PER of 26.46 times and the closing price of the Share on the Latest Practicable Date of HK$10.96 represents a PER of 48.99 times. The PER at the Latest Practicable Date is higher than the PER at which other Hong Kong listed energy equipment manufacturers stand.

- The Share Offer Price of HK$5.92 represents an approximately 413% premium over the net asset backing of approximately RMB1.12 per Share. However, we do not regard the net asset backing as a particularly significant factor in assessing the worth of a company in this sector, which in our view is better assessed by reference to earnings and growth prospects.

The Share Offer Price is equivalent to the purchase price of HK$5.92 per Sale Share under the Share Transfer Agreement. Based on the above analysis, in our opinion, the Share Offer Price of HK$5.92 per Share lies within a price range which we consider fair and reasonable to the Independent Shareholders in the context of an offer for their Shares. However, the market price of the Shares has exceeded the Share Offer Price in the period since the Joint Announcement up to the Latest Practicable Date, during which the average closing price has been HK$7.51, a premium of 26.9% over the Share Offer Price. On the Latest Practicable Date, the closing price of the Shares was HK$10.96, a premium of 85.1% over the Share Offer Price.

In respect of the Option Offer

Market practice in Hong Kong is to regard a proposal on a "see-through" price as appropriate for extinguishing management share options in the context of a bid. The "see-through" price for the share option is calculated by subtracting the price at which the option is exercisable from the Share Offer Price. This basis ignores any premium over the "see-through" value at which options would stand in the market if they were traded. The value of a traded option depends on such factors as exercise period and volatility of the underlying shares, as well as the exercise price. However, the Share Options are not freely transferable and are not tradable.

The Option Offer will only become available to Optionholders if the Share Offer becomes or is declared unconditional. As noted above, because the closing price of the Shares has recently exceeded the Share Offer Price of HK$5.92 by a substantial margin, it is not likely, in our opinion, that the Share Offer will become unconditional unless market conditions change abruptly.

OPINION AND ADVICE

Our opinion and advice to the Independent Board Committee, Independent Shareholders and Independent Optionholders is as follows:

In respect of the Share Offer:

- Based on the financial fundamentals of the Group, we consider the terms of the Share Offer are fair and reasonable to the Independent Shareholders.

- Independent Shareholders who prefer to dispose of their investment in the Company should **not** accept the Share Offer but take advantage of the strong market price of the Shares, which closed at HK$10.96 at the Latest Practicable Date, and sell in the market. Such Independent Shareholders are encouraged to monitor the market closely in the current volatile market conditions.

- Independent Shareholders who wish to sell but have not done so in the market at prices higher than the Share Offer Price should consider accepting the Share Offer as the First Closing Date of 12 October 2007 approaches if the market price of the Shares has dropped close to the Share Offer Price of HK$5.92. Turnover in the market was relatively thin before the Share Offer and may be thin again once the Offers close.

- Independent Shareholders who, after considering the information on the Offeror and the intention of the Offeror regarding the Group contained in the "Letter from China Merchants" of the Composite Document, are attracted by the future prospects of the Group following the Offers should consider retaining some or all of their Shares.

In respect of the Option Offer:

- We consider the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned. Independent Optionholders are advised to monitor the market price of the Shares carefully. If the market price drops toward the Share Offer Price of HK$5.92 and it seems possible that the Share Offer may become or be declared unconditional prior to 18 October 2007, being the first date on which the outstanding Share Options become exercisable, the Independent Optionholders should accept the Option Offer because, in such circumstances, their outstanding Share Options will lapse.

- If the Share Offer only becomes or is declared unconditional on or after 18 October 2007, we recommend the Independent Optionholders **not** to accept the Option Offer in circumstances where the net proceeds they will receive by exercising their outstanding Share Options (which they will then be able to do) and disposing of the Shares issued to them would exceed the proceeds from accepting the Option Offer.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

1. PROCEDURES FOR ACCEPTANCE

A. The Share Offer

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares are in your name, and you wish to accept the Share Offer, you must send the duly completed **WHITE** Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title and/or any indemnity or indemnities required in respect thereof, by post or by hand, in an envelope marked "**Enric Energy Equipment Holdings Limited Share Offer**" to the Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible, but in any event not later than 4:00 p.m. on Friday, 12 October 2007 or such later time(s) and/or date(s) as the Offeror may determine and announce in accordance with the Takeovers Code or as permitted by the Executive in accordance with the Takeovers Code.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are in the name of a nominee company or some name other than your own, and you wish to accept the Share Offer whether in full or in respect of part of your holding of Shares, you must either:

(a) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/ or any other document(s) of title to the Registrar; or

(b) arrange for the Shares to be registered in your name by the Company through the Registrar and send the **WHITE** Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title to the Registrar; or

(c) if your Shares have been lodged with your licensed securities dealer/ custodian bank through CCASS, instruct your licensed securities dealer/ custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or

(d) if your Shares have been lodged with your Investor Participant's Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, the **WHITE** Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar a letter of indemnity which, when completed in accordance with the instruction given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Share Offer, you should nevertheless complete the **WHITE** Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable instruction and authority to China Merchants and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Share Offer, as if it/they was/were delivered to the Registrar with the **WHITE** Form of Acceptance.

An acceptance may not be counted as valid unless:

(a) it is received by the Registrar on or before the latest time for acceptance at 4:00 p.m. on Friday, 12 October 2007 or such later time(s) and/or date(s) as the Offeror may determine and announce with the Takeovers Code or as permitted by the Executive in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and any relevant documents required under paragraph (b) below have been so received; and

(b) the **WHITE** Form of Acceptance is duly completed and is:

(i) accompanied by Share certificate(s) in respect of the relevant Share(s) and, if that/those Share certificate(s) is/are not in the name of the acceptor, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish the right of the acceptor to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under the other subparagraph of this paragraph (b)); or

(iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Acceptance is executed by a person other than the registered Shareholder, appropriate evidence of authority (e.g. grant of probate or certified copy of a power of attorney) must be produced.

No acknowledgement of receipt of any **WHITE** Form(s) of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title and/or any indemnity or indemnities required in respect thereof will be given.

B. The Option Offer

(a) If you accept the Option Offer, you should complete the **PINK** Form of Acceptance which has been separately despatched to each Optionholder and which is obtainable from the principal place of business of the Company in Hong Kong at Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong in accordance with the instructions printed thereon, which form part of the terms and conditions of the Option Offer.

(b) The completed **PINK** Form of Acceptance should be forwarded, together with the relevant letter(s) of offer and acceptance for options (if any) stating the number of outstanding Share Options in respect of which you intend to accept the Option Offer, by post or by hand to the principal place of business of the Company in Hong Kong, Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong, in an envelop marked "**Enric Energy Equipment Holdings Limited Option Offer**", as soon as possible, but in any event so as to reach the principal place of business of the Company in Hong Kong at aforesaid address by no later than 4:00 p.m. on Friday, 12 October 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code or as permitted by the Executive in accordance with the Takeovers Code). No acknowledgement of receipt of any **PINK** Form(s) of Acceptance or letter(s) of offer and acceptance for options will be given.

2. SETTLEMENT

A. The Share Offer

Provided that the **WHITE** Form(s) of Acceptance and relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title and/or any indemnity or indemnities required in respect thereof are completed and in good order and have been received by the Registrar by not later than 4:00 p.m. on Friday, 12 October 2007 being the latest time for acceptance of the Share Offer, a cheque for the amount due to the accepting Shareholders in respect of the Shares tendered by them under the Share Offer, less seller's ad valorem stamp duty payable by them, will be despatched to the accepting Shareholders to the addresses specified on the Forms of Acceptance by ordinary post at their own risk as soon as possible but in any event within ten days of the later of the Unconditional Date and the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

B. The Option Offer

Provided that the **PINK** Form(s) of Acceptance and letter(s) of offer and acceptance for options (if any) are completed and in good order and have been received by the Company not later than 4:00 p.m. on Friday, 12 October 2007, a cheque for the amount due to each of the accepting Optionholders in respect of the Share Options surrendered by the relevant Optionholders under the Option Offer will be despatched to each of them as soon as possible but in any event within ten days of the later of the Unconditional Date and the date on which all the relevant documents are received by the Company to render such acceptance complete and valid.

Settlement of the consideration to which any accepting Shareholder(s) or Optionholder(s) is/are entitled under the Offers will be implemented in full in accordance with the terms of the Offers, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder or Optionholder.

If the Offers do not become unconditional and lapse, the Share certificate(s) and/or letter(s) of offer and acceptance for options (if any) and/or any other document(s) of title tendered under the Offers will be returned to the Shareholders and/or Optionholders who accept the Offers as soon as possible but in any event within ten days thereof in accordance with the Takeovers Code.

3. ACCEPTANCE PERIOD AND REVISIONS

(a) Unless the Offers have been extended or have become or declared unconditional, all acceptances must be received by the Registrar at 4:00 p.m. on Friday, 12 October 2007, being the First Closing Date. Pursuant to the Takeovers Code, where the Offers become or are declared unconditional, they should remain open for acceptance for not less than 14 days thereafter. An announcement will be made by the Offeror as and when the Offers become, or are declared, unconditional.

(b) If in the course of the Offers, the Offeror revises its terms, all the Independent Shareholders and Independent Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document is posted. If the Offers are revised or extended in accordance with the Takeovers Code, an announcement of such revision or extension will be published stating the new closing date of the Offers.

4. ANNOUNCEMENTS

(a) By 6:00 p.m. on Friday, 12 October 2007, which is the First Closing Date, or such later time(s) and/or date(s) as the Executive may in exceptional circumstances permit, the Offeror must inform the Executive and the Stock Exchange of its decisions in relation to revision, extension, expiry or unconditionality of the Offers. The Offeror shall publish an announcement to be posted on the Stock Exchange's website at www.hkex.com.hk by 7:00 p.m. on the First Closing Date stating whether the Offers have been revised or extended, have expired or have become or been declared unconditional. Notification of such announcement will be published on the next business day. The announcement shall specify the number of Shares/Share Options (a) for which valid acceptances have been received; (b) held, controlled or directed by the Offeror and/or persons acting in concert with it before the period of the Offers; and (c) acquired or agreed to be acquired by the Offeror and/or any person acting in concert with it during the period of the Offers.

The announcement must specify the percentages of the relevant classes of share capital, and the percentages of voting rights of the Company represented by these numbers of Shares.

(b) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offers, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published on the website of the Stock Exchange and made in accordance with the requirements of the Listing Rules.

5. RIGHT OF WITHDRAWAL

(a) Acceptance of the Offers tendered by the Independent Shareholders or Independent Optionholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below or in compliance with Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his acceptance after 21 days from the First Closing Date, if the Offers have not by then become unconditional as to acceptances.

(b) If the Offeror is unable to comply with the requirements set out in the paragraph headed "Announcements" in this appendix, the Executive may require that the Shareholders and the Optionholders who have tendered acceptances to the Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

6. STAMP DUTY

Seller's ad valorem stamp duty arising in connection with acceptance of the Share Offer amounting to HK$1.00 for every HK$1,000.00 or part thereof of the amount payable in respect of relevant acceptances by the Independent Shareholders, or (if higher) the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to the Independent Shareholders who accept the Share Offer. The Offeror will then pay the stamp duty so deducted to the Stamp Office. The Offeror will bear buyer's ad valorem stamp duty. There is no stamp duty payable by the Optionholders who accept the Option Offer for the cancellation of their Share Options.

7. TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offers. It is emphasised that none of the Offeror or China Merchants or any of their respective directors or any persons involved in the Offers accept responsibility for any tax effects or liabilities of any person or persons as a result of their acceptance of the Offers.

8. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

The making of the Offers to Overseas Shareholders and Overseas Optionholders may be prohibited or affected by the laws of the relevant jurisdiction. Overseas Shareholders and Overseas Optionholders should obtain appropriate legal advice on, inform themselves about and observe any applicable legal requirement. It is the responsibility of each Overseas Shareholder and Overseas Optionholder who wishes to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements.

9. GENERAL

(a) All communications, notices, Forms of Acceptance, certificates of Shares, transfer receipts, letter(s) of offer and acceptance for options, other documents of title and remittances to be delivered by or sent to or from the Shareholders or the Optionholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Company, the Offeror, or any of their respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result.

(b) The provisions set out in the accompanying Forms of Acceptance form part of the terms of the Offers.

(c) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.

(d) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

(e) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares and the Share Options acquired under the Offers are sold by any such person or persons free from all third party rights, liens, claims, charges, options, adverse interests, equities and encumbrances and together with all rights accruing or attaching thereto including, without limitation, the rights to receive all dividends and distributions declared, made or paid on or after the date of transfer of their Shares.

(f) References to the Offers in this Composite Document and in the Forms of Acceptance shall include any revision and/or extension of the Offers the right of which is reserved by the Offeror subject to the Takeovers Code.

(g) Due execution of a Form of Acceptance will constitute an authority to the Offeror, any director of the Offeror, China Merchants or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares or the Share Options in respect of which such person or persons has/have accepted the Offers.

(h) The English text of this Composite Document and the Form(s) of Acceptance shall prevail over their respective Chinese text.

I. SUMMARY OF PUBLISHED FINANCIAL RESULTS AND POSITION FOR THE THREE YEARS ENDED 31 DECEMBER 2006

The following is a summary of the audited consolidated results of the Group for the three years ended 31 December 2004, 2005 and 2006 as extracted from the annual reports of the Group for the years ended 31 December 2005 and 2006.

	For the year ended 31 December		
	2004	**2005**	**2006**
	RMB	*RMB*	*RMB*
Turnover	252,375,698	513,013,890	769,951,661
Cost of sales	(177,790,799)	(362,953,734)	(549,994,345)
Gross profit	74,584,899	150,060,156	219,957,316
Other revenue	5,109,203	3,537,864	5,150,569
Selling expenses	(12,803,532)	(23,150,938)	(33,207,484)
Administrative expenses	(23,110,803)	(51,441,412)	(68,341,794)
Other net expense	2,681,210	(603,924)	(6,268,710)
Profit from operations	46,460,977	78,401,746	117,289,897
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board *(Note)*	–	–	(6,821,660)
Finance costs	(6,082,089)	(7,813,959)	(8,677,246)
Profit before taxation	40,378,888	70,587,787	101,790,991
Income tax	(1,814,458)	(1,882,093)	(5,287,472)
Profit for the year	38,564,430	68,705,694	96,503,519
Attributable to:			
Equity Shareholders of the Company	36,191,118	68,705,694	96,503,519
Minority interests	2,373,312	–	–
Profit for the year	38,564,430	68,705,694	96,503,519
Earnings per share			
– Basic	0.139	0.225	0.217
– Diluted	N/A	0.224	0.212

No dividend were paid or declared by the Company during the years ended 31 December 2004, 2005 and 2006.

The consolidated financial statements of the Group for the years ended 31 December 2004, 2005 and 2006 were audited by the Company's auditors, KPMG. The auditors expressed an unqualified audit opinion for each of such financial statements.

Note: The only extraordinary item for the year ended 31 December 2006 was the "*Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board*". There had been no exceptional and extraordinary items for the years ended 31 December 2004 and 2005.

II. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2006

The following is the audited consolidated accounts of the Group for the year ended 31 December 2006 together with the comparative figures for the corresponding year 2005, as extracted from the annual report of the Group for the year ended 31 December 2006.

Consolidated Income Statement
For the year ended 31 December 2006

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

Consolidated Balance Sheet
At 31 December 2006

	Note	**2006** *RMB*	**2005** *RMB*
Non-current assets			
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	–
		258,765,500	139,203,009
Current assets			
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
		647,427,452	583,754,405
Current liabilities			
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
		400,668,512	317,699,364
Net current assets		246,758,940	266,055,041
Total assets less current liabilities		505,524,440	405,258,050
NET ASSETS		505,524,440	405,258,050
CAPITAL AND RESERVES			
Share capital	*27*	4,630,080	4,630,080
Reserves	*27*	500,894,360	400,627,970
TOTAL EQUITY		505,524,440	405,258,050

Balance Sheet
At 31 December 2006

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2006

	Note	**2006** *RMB*	**2005** *RMB*
Total equity at 1 January	*27*	405,258,050	53,761,435
Net profit for the year attributable to equity shareholders of the Company	*27*	96,503,519	68,705,694
Movements in equity arising from capital transactions:			
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*	3,762,871	1,830,928
		3,762,871	282,790,921
Total equity at 31 December		505,524,440	405,258,050

Consolidated Cash Flow Statement
For the year ended December 2006

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

	Note	2006 RMB	2005 RMB
Financing activities			
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		167,733,123	140,000,000
Repayment of bank loans		(125,000,000)	(147,860,000)
Interest paid		(5,073,629)	(8,304,468)
Repayments of advances received from related parties	*31(a)(vii)*	–	(9,678,988)
Share issue expenses	*27(a)*	–	(27,862,743)
Net cash from financing activities		37,659,494	210,116,537
Net (decrease)/increase in cash and cash equivalents		(18,680,320)	281,748,065
Cash and cash equivalents at 1 January		313,066,247	31,527,056
Effect of foreign exchange rate changes		(1,678,610)	(208,874)
Cash and cash equivalents at 31 December	*20*	292,707,317	313,066,247

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.

(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.

(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.

(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.

(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.

(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.

(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.

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.

(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;

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

Notes:

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

(ii) Other operating revenue consists mainly of income earned from the sale of steel materials left-over from production.

5. PROFIT BEFORE TAXATION

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

(a) Other net expense

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

(b) Finance costs

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

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

(c) Staff costs#

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

(d) Other items

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

Cost of inventories includes RMB26,817,786 (2005: RMB16,374,819) relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 5(c) for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

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

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

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

7. DIRECTORS' REMUNERATION

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

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

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

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

Note:

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 24, and on pages 53 to 55 of the annual report for the year ended 31 December 2006.

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

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

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

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

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

10. DIVIDENDS

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

11. EARNINGS PER SHARE

(a) Basic earnings per share

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

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to ordinary equity shareholders of the Company of RMB68,705,694 and the weighted average number of 305,283,288 ordinary shares, after taking into account the 260,160,000 ordinary shares of the Company in issue and issuable as at the date of the prospectus on 10 October 2005 in relation to the listing on the GEM, as if the shares were outstanding throughout the year ended 31 December 2005, and the issuance of ordinary shares by conversion of convertible redeemable bonds and placing during the year ended 31 December 2005. The weighted average number of ordinary shares is calculated as follows:

	2006	2005
Issued and issuable ordinary shares at 1 January	445,200,000	260,160,000
Effect of conversion of convertible redeemable bonds	–	17,753,425
Effect of placing	–	27,369,863
Weighted average number of ordinary shares at 31 December	445,200,000	305,283,288

(b) Diluted earnings per share

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

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

12. PROPERTY, PLANT AND EQUIPMENT

The Group

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

13. CONSTRUCTION IN PROGRESS

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

14. LEASE PREPAYMENTS

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

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

15. INTANGIBLE ASSETS

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

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

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

16. INVESTMENTS IN SUBSIDIARIES

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

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

Name of company	Place and date of establishment/ incorporation and operation	Authorised/ registered/ paid-in capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Enric (Bengbu) Compressor Company Limited	PRC 14 March 2002	Registered and paid-in capital of HKD21,320,000	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited	PRC 30 September 2003	Registered and paid-in capital of USD7,000,000	–	100%	Manufacture and sale of pressure vessels
Enric Langfang Investment Limited ("Langfang BVI")	British Virgin Islands 14 September 2004	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric (Langfang) Energy Equipment Integration Company Limited	PRC 28 December 2004	Registered and paid-in capital of HKD50,000,000	–	100%	Provision of integrated business solutions for gas equipment
Beijing Enric Energy Technologies Limited	PRC 16 December 2006	Registered and paid-in capital of HKD40,000,000	–	100%	Research and development of technology for application in natural gas equipment

17. INVENTORIES

(a) Inventories in the balance sheet comprise:

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

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

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

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

18. TRADE AND BILLS RECEIVABLE

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

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

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

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

19. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

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

20. CASH AT BANK AND IN HAND

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

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

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

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

21. BANK LOANS

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

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

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

At 31 December 2006, all the bank loans are guaranteed by subsidiaries of the Company. At 31 December 2005, bank loans of RMB40,000,000 were guaranteed by Xinao Group Company Limited, a related party controlled by Mr. Wang Yusuo ("Mr. Wang"), and the remaining bank loans of RMB85,000,000 were guaranteed by subsidiaries of the Company.

The annual rate of interest charged on the bank loans ranged from 5.6% to 6.8% for year ended 31 December 2006 (2005: 5.6% to 6.8%).

22. TRADE AND BILLS PAYABLE

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

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

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

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

23. OTHER PAYABLES AND ACCRUED EXPENSES

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

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

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

24. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

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

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

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to Directors:			
– on 26 September 2005	4,200,000	Six months after the Listing Date	10 years
– on 26 September 2005	4,200,000	Two years after the Listing Date	10 years
Options granted to employees:			
– on 26 September 2005	2,700,000	Six months after the Listing Date	10 years
– on 26 September 2005	2,700,000	Two years after the Listing Date	10 years
Total share options	13,800,000		

No options were exercised during the year.

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

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

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

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

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

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

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

25. PROVISION FOR PRODUCT WARRANTIES

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

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

26. DEFERRED TAX ASSETS

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

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

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

27. CAPITAL AND RESERVES

(a) The Group

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

(b) The Company

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

(c) Share capital

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

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

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

(ii) On 21 January 2005, a share subscription agreement was entered into between Symbiospartners Private Equity Limited ("Symbiospartners") as subscriber, EIGL, and XGII as warrantor, pursuant to which 10 shares of USD1 each, representing 10% of the enlarged issued share capital of EIGL, were allotted and issued on 31 January 2005 to Symbiospartners at a total subscription price of USD1,900,000. In addition, 89 shares of EIGL were issued to XGII at par value. Accordingly, the share premium arising from the share subscription was USD1,899,990 (equivalent to RMB15,709,117).

(iii) On 26 September 2005, pursuant to the deed for sale and purchase of the entire share capital of EIGL, XGII and Symbiospartners transferred 90 and 10 shares respectively in EIGL to the Company in consideration for which the Company allotted and issued 791 and 88 shares, credited as fully paid, to XGII and Symbiospartners respectively. The issuance of shares resulted in the Company becoming the holding company of the Group.

(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).

(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.

30. COMMITMENTS

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

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

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

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

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

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

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions

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

Notes:

(i) Sales to related parties mainly represent the sale of compressors, pressure vessels and integrated business solutions for gas equipment.

(ii) Purchases from related parties mainly represent purchases of raw materials and accessories for production.

(iii) These relate to:

- the lease of property and office equipment by the Group from Xinao Group Solar Energy Company Limited, a related party controlled by Mr. Wang, for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rental of RMB520,000;

- property management services provided by Langfang Xinao Property Management Company Limited, a related party controlled by Mr. Wang, to the Group for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rate of RMB180,000;

- the lease of property and office equipment by the Group from Xinao Gas Investment Group Limited, a related party in which Mr. Wang and Ms. Zhao Baoju (a Non-executive Director of the Company) have substantive interests through XGII, for a term of 3 years from 1 February 2005 to 31 January 2008, at an annual rental of HKD455,544; and

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

(iv) These relate to loans to Xinao Group Company Limited. These loans carried interest at rates ranging from 5.1% to 6.1% per annum, and the principal amounts of these loans were settled on 9 December 2004.

(v) This represents prepayments for the purchase of properties from Bengbu Xinao Property Company Limited, a related party controlled by Mr. Wang, during the year ended 31 December 2005.

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

(vii) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment, and the amounts were fully settled as at 31 December 2005.

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

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

(b) Balances with related parties

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

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

Notes:

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

(ii) This represents prepayments for the purchase of properties from Bengbu Xinao Property Company Limited, a related party controlled by Mr. Wang, during the year ended 31 December 2005.

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

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

Notes:

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

(ii) This represents rental and property management fee payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited, and Langfang Xinao Property Management Company Limited.

32. AMOUNTS DUE FROM A SUBSIDIARY

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

33. FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

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

(b) Liquidity risk

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

(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.

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

35. NON-ADJUSTING POST BALANCE SHEET EVENTS

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

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

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

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

36. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2006, the Directors consider the parent of the Company to be XGII, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

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

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

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

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

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

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

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

III. FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following is the unaudited consolidated accounts of the Group for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006, as extracted from the interim report of the Group for the six months ended 30 June 2007. No dividend was paid or declared by the Company during the six months ended 30 June 2007.

There had been no exceptional and extraordinary items and minority interests for the six months ended 30 June 2007.

Consolidated Income Statement
For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	**2006**
		Unaudited	Unaudited
	Note	*RMB*	*RMB*
Turnover	*4*	402,608,436	326,744,510
Cost of sales		(285,377,859)	(225,532,291)
Gross profit		117,230,577	101,212,219
Other revenue	*5*	3,523,824	2,899,672
Selling expenses		(15,570,186)	(14,493,212)
Administrative expenses		(34,814,950)	(29,075,020)
Other net income/(expenses)	*6*	75,826	(5,827,080)
Profit from operations		70,445,091	54,716,579
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board		–	(5,250,881)
Finance costs	*6*	(4,808,900)	(3,791,614)
Profit before taxation	*6*	65,636,191	45,674,084
Income tax	*7*	(5,584,237)	(3,765,733)
Profit for the period and attributable to equity shareholders of the Company		60,051,954	41,908,351
Earnings per share	9		
– Basic		0.134	0.094
– Diluted		0.132	0.092

Consolidated Balance Sheet
At 30 June 2007

	Note	At 30 June 2007 Unaudited RMB	At 31 December 2006 Audited RMB
Non-current assets			
Property, plant and equipment	10	187,825,389	173,563,440
Construction in progress		49,759,348	39,501,800
Lease prepayments		29,555,301	29,902,292
Intangible assets		7,461,608	7,801,264
Deposits for land use right		6,112,320	6,112,320
Deferred tax assets		1,521,998	1,884,384
		282,235,964	258,765,500
Current assets			
Inventories	11	354,360,995	214,786,252
Trade and bills receivable	12	97,474,239	70,471,040
Deposits, other receivables and prepayments		46,971,484	22,431,418
Amounts due from related parties	19(b)(I)	20,322,896	21,017,425
Cash at bank and in hand	13	200,348,898	318,721,317
		719,478,512	647,427,452
Current liabilities			
Bank loans	14	198,905,642	167,733,123
Trade and bills payable	15	154,194,193	115,198,434
Other payables and accrued expenses		51,462,892	86,257,047
Income tax payable		5,710,296	2,123,531
Amounts due to related parties	19(b)(II)	11,575,445	26,750,838
Provisions		2,433,543	2,605,539
		424,282,011	400,668,512
Net current assets		295,196,501	246,758,940
Total assets less current liabilities		577,432,465	505,524,440
Non current liabilities			
Deferred tax liabilities		614,385	–
NET ASSETS		576,818,080	505,524,440
CAPITAL AND RESERVES			
Share capital	17	4,699,424	4,630,080
Reserves	17	572,118,656	500,894,360
TOTAL EQUITY		576,818,080	505,524,440

Consolidated Statement of Changes in Equity
For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	**2006**
		Unaudited	Unaudited
	Note	*RMB*	*RMB*
Total equity at 1 January		505,524,440	405,258,050
Net profit for the period		60,051,954	41,908,351
Movements in equity arising from capital transactions:			
Equity-settled share-based transactions	*16*	839,937	2,930,290
Exercise of share options	*17*	10,401,749	–
		11,241,686	2,930,290
Total equity at 30 June		576,818,080	450,096,691

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	**2006**
		Unaudited	Unaudited
	Note	*RMB*	*RMB*
Cash (used in)/generated from operations		(123,213,149)	16,124,021
Tax paid		(3,433,050)	(2,325,687)
Net cash (used in)/generated from operating activities		(126,646,199)	13,798,334
Net cash used in investing activities		(31,606,544)	(27,783,315)
Net cash generated from/(used in) financing activities		36,860,703	(77,652,891)
Net decrease in cash and cash equivalents		(121,392,040)	(91,637,872)
Cash and cash equivalents at 1 January		292,707,317	313,066,247
Effect of foreign exchange rate changes		933,621	(275,471)
Cash and cash equivalents at 30 June	*13*	172,248,898	221,152,904

Notes to the Unaudited Interim Financial Report

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 12 September 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted by Enric Energy Equipment Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") in the preparation of the financial statements for the year ended 31 December 2006. Please refer to Note 2 for the discussion of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") adopted by the Group in 2007.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2006.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 24 of the interim report for the six months ended 30 June 2007.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 April 2007.

2. New and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs, which term collectively includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, that are effective or available for early adoption for accounting periods beginning on or after 1 January 2007. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2007, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2007 may be affected by the issue of additional interpretations or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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 periods presented.

3. 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 People's Republic of China ("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.

	Six months ended 30 June 2007 (Unaudited)					Six months ended 30 June 2006 (Unaudited)				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Consolidated
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Segment revenue	71,522,225	237,428,817	96,278,563	(2,621,169)	402,608,436	59,378,033	192,576,475	74,842,852	(52,850)	326,744,510
Segment result	12,830,421	41,961,925	23,825,296	(574,314)	78,043,328	8,279,587	33,163,471	20,167,813	(22,951)	61,587,920
Unallocated operating income and expenses					(7,598,237)					(6,871,341)
Profit from operations					70,445,091					54,716,579
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board					–					(5,250,881)
Finance costs					(4,808,900)					(3,791,614)
Taxation					(5,584,237)					(3,765,733)
Profit for the period					60,051,954					41,908,351

4. Turnover

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

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

5. Other revenue

	Six months ended 30 June 2007 Unaudited *RMB*	2006 Unaudited *RMB*
Government grants *(see note (i))*	970,000	400,000
Other operating revenue *(see note (ii))*	1,147,320	375,428
Interest income from bank deposits	1,406,504	2,124,244
	3,523,824	2,899,672

Notes:

(i) Government grants represent incentives and subsidies given to subsidiaries by the local governments.

(ii) Other operating revenue includes mainly income earned from the sale of steel materials left-over from production.

6. Profit before taxation

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

(i) Other net (income)/expenses

	Six months ended 30 June 2007 Unaudited *RMB*	2006 Unaudited *RMB*
Loss on disposal of property, plant and equipment	3,200	4,288,415
Charitable donations	–	1,540,000
Other net income	(79,026)	(1,335)
	(75,826)	5,827,080

(ii) Finance costs

	Six months ended 30 June 2007 Unaudited *RMB*	2006 Unaudited *RMB*
Interest on bank loans	4,556,849	2,652,891
Foreign exchange (gain)/loss	(137,692)	570,407
Finance charges	389,743	568,316
	4,808,900	3,791,614

(iii) Other items

	Six months ended 30 June 2007 Unaudited *RMB*	2006 Unaudited *RMB*
Depreciation of property, plant and equipment	8,276,851	5,251,807
Amortisation of intangible assets	553,157	454,430
Amortisation of lease prepayments	346,992	317,200
Impairment losses for other receivables	–	384,015
Reversal of write-down of inventories	(24,009)	(202,585)
Research and development expenses	4,892,352	2,750,420
Operating lease charges for property rental	1,033,698	990,613
Provision for product warranties	2,374,012	2,696,781
Equity-settled share-based payment expenses	839,937	2,930,290

7. Income tax

	Six months ended 30 June 2007 Unaudited *RMB*	2006 Unaudited *RMB*
Current tax – PRC	4,607,467	3,765,733
Deferred taxation – PRC	976,770	–
	5,584,237	3,765,733

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 period. 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.

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 six months ended 30 June 2007, 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% (corresponding period in 2006: 0% to 15%).

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. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and its subsidiaries will change to 25% effective from 1 January 2008.

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. Subject to the finalisation of the abovementioned detailed implementation rules, the existing preferential tax rate currently enjoyed by the Group will be gradually transited to the new standard rate of 25% from 1 January 2008 over a five-year transitional period. As the detailed instruction for the transition to the new tax rate is yet to be issued, the Group estimated that the applicable income tax rate under the preferential tax policy will be expired at the shorter of the existing preferential tax period and the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the financial statements of the Group for the six months ended 30 June 2007.

8. Dividends

No dividend has been paid or declared by the Company during the six months ended 30 June 2007 (corresponding period in 2006: Nil).

9. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the profit attributable to ordinary equity shareholders of the Company of RMB60,051,954 (corresponding period in 2006: RMB41,908,351) and the weighted average number of 448,546,409 (corresponding period in 2006: 445,200,000) ordinary shares of the Company outstanding during the six months ended 30 June 2007.

The calculation of diluted earnings per share for the six months ended 30 June 2007 is based on the profit attributable to ordinary equity shareholders of the Company of RMB60,051,954 (corresponding period in 2006: RMB41,908,351) and the weighted average number of 456,121,914 (corresponding period in 2006: 454,013,730) ordinary shares, calculated as follows:

	Six months ended 30 June	
	2007	**2006**
	Unaudited	Unaudited
Weighted average number of ordinary shares used in calculating basic earnings per share	448,546,409	445,200,000
Effect of dilutive potential ordinary shares:		
– Share options	7,575,505	8,813,730
Weighted average number of ordinary shares used in calculating diluted earnings per share	456,121,914	454,013,730

10. Property, plant and equipment

During the six months ended 30 June 2007, the addition of property, plant and equipment (including transfer from construction in progress) of the Group amounted to RMB22,543,199 (corresponding period in 2006: RMB24,266,551). Items of property, plant and equipment with net book value totalling RMB4,399 were disposed of during the six months ended 30 June 2007 (corresponding period in 2006: RMB5,050,126), resulting in a loss on disposal of RMB3,200 (corresponding period in 2006: RMB4,288,415).

11. Inventories

	At 30 June 2007 Unaudited *RMB*	At 31 December 2006 Audited *RMB*
Raw materials	150,020,637	69,539,206
Goods in transit	38,880,642	34,970,492
Work in progress	89,319,218	64,219,038
Finished goods	76,140,498	46,057,516
	354,360,995	214,786,252

12. 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:

	At 30 June 2007 Unaudited *RMB*	At 31 December 2006 Audited *RMB*
Aged within 3 months	61,569,288	37,227,516
Aged between 3 to 6 months	17,178,099	8,171,579
Aged between 6 months to 1 year	7,631,946	19,455,599
Aged over 1 year	11,094,906	5,616,346
	97,474,239	70,471,040

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.

13. Cash at bank and in hand

	At 30 June 2007 Unaudited *RMB*	At 31 December 2006 Audited *RMB*
Cash and cash equivalents		
– Cash in hand and demand deposits	147,902,634	260,786,347
– Restricted bank deposits for letters of credit and bills payable within three months of maturity	24,346,264	31,920,970
	172,248,898	292,707,317
Restricted bank deposits for letters of credit and bills payable with maturity of more than three months	28,100,000	26,014,000
	200,348,898	318,721,317

14. Bank loans

	At 30 June 2007	At 31 December 2006
	Unaudited	Audited
	RMB	*RMB*
Bank loans – guaranteed	198,905,642	167,733,123

At 30 June 2007, the bank loans 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 the six months ended 30 June 2007 (corresponding period in 2006: 5.6% to 6.8%).

15. Trade and bills payable

	At 30 June 2007	At 31 December 2006
	Unaudited	Audited
	RMB	*RMB*
Trade creditors	86,294,193	75,248,434
Bills payable	67,900,000	39,950,000
	154,194,193	115,198,434

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

	At 30 June 2007	At 31 December 2006
	Unaudited	Audited
	RMB	*RMB*
Due within 3 months or on demand	134,147,500	103,884,783
Due after 3 months but within 6 months	20,046,693	11,149,664
Due after 6 months but within 1 year	–	163,987
	154,194,193	115,198,434

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

16. Equity-settled share-based transactions

The Company adopted the Pre-GEM Listing Share Option Plan which was approved by the then sole shareholder on 26 September 2005 whereby 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 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.

The movements in the number of share options pursuant to the Pre-GEM Listing Share Option Plan during the period are as follows:

			Number of share options		
Category	**Date of grant**	**Exercisable period**	**outstanding at 1 January 2007**	**exercised during the period**	**outstanding at 30 June 2007**
Directors	26 September 2005	18 April 2006 – 25 September 2015	5,550,000	5,550,000	–
	26 September 2005	18 October 2007 – 25 September 2015	5,550,000	–	5,550,000
Employees	26 September 2005	18 April 2006 – 25 September 2015	1,350,000	1,350,000	–
	26 September 2005	18 October 2007 – 25 September 2015	1,350,000	–	1,350,000
			13,800,000	6,900,000	6,900,000

No options were exercised during the corresponding period in 2006.

During the six months ended 30 June 2007, options were exercised to subscribe for 6,900,000 ordinary shares in the Company at a consideration of HKD10,350,000 (equivalent to RMB10,401,749) of which HKD69,000 (equivalent to RMB69,344) was credited to share capital and HKD10,281,000 (equivalent to RMB10,332,405) was credited to the share premium account. In addition, RMB3,494,926 has been transferred from the capital reserve to the share premium account.

The options outstanding at 30 June 2007 had an exercise price of HKD1.50 and a weighted average remaining contractual life of 8.2 years.

17. Capital and reserves

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Contributed surplus	Capital reserve	General reserve fund	Retained profits	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
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 16)*	–	–	–	2,930,290	–	–	2,930,290
Profit for the period	–	–	–	–	–	41,908,351	41,908,351
Transfer between reserves *(i)*	–	–	–	–	5,323,937	(5,323,937)	–
At 30 June 2006	4,630,080	260,619,986	15,709,935	4,761,218	15,167,669	149,207,803	450,096,691
At 1 January 2007	4,630,080	260,619,986	15,709,935	5,593,799	21,484,479	197,486,161	505,524,440
Equity-settled share-based transactions *(note 16)*	–	–	–	839,937	–	–	839,937
Exercise of share options *(note 16)*	69,344	13,827,331	–	(3,494,926)	–	–	10,401,749
Profit for the period	–	–	–	–	–	60,051,954	60,051,954
Transfer between reserves *(i)*	–	–	–	–	6,970,109	(6,970,109)	–
At 30 June 2007	4,699,424	274,447,317	15,709,935	2,938,810	28,454,588	250,568,006	576,818,080

(i) 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.

18. Commitments

(a) Capital commitments outstanding at 30 June 2007 not provided for in this announcement were as follows:

	At 30 June 2007	At 31 December 2006
	Unaudited	Audited
	RMB	*RMB*
Contracted for		
– Land and buildings	9,704,506	28,069,180
– Investment in subsidiary	8,000,000	8,000,000
	17,704,506	36,069,180
Authorised but not contracted for		
– Land and buildings	–	536,500
	–	536,500

Beijing Enric Energy Efficiency Equipment & Technology Limited ("Enric Energy Efficiency") is a joint venture established in Beijing in the PRC by Enric Langfang Investment Limited, a subsidiary of the Company, 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 30 June 2007, the Group has not made the required capital contribution of RMB8,000,000 into Enric Energy Efficiency.

(b) At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2007	At 31 December 2006
	Unaudited	Audited
	RMB	*RMB*
Within 1 year	947,944	1,555,559
After 1 year but within 5 years	16,800	126,901
	964,744	1,682,460

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.

19. Material related party transactions

(a) Transactions

		Six months ended 30 June	
		2007	**2006**
		Unaudited	Unaudited
		RMB	*RMB*
Sales	*(i)*	100,213,830	13,743,833
Purchases	*(ii)*	1,097,528	73,474
Rental of property and office equipment and property management fee	*(iii)*	812,015	742,286
Connection fee	*(iv)*	27,164	–
Donations	(v)	–	500,000
Other services	*(vi)*	–	490,000

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 natural gas and raw materials 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 Yusuo ("Mr. Wang"), who is the Chairman and an Executive Director of the Company, 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 substantial interests, 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 substantial interests, 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) During the six months ended 30 June 2007, Shijiazhuang Xinao Gas Company Limited, a related party in which Mr. Wang and Ms. Zhao Baoju have substantive interests, provided gas connection services to the Group.

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

(vi) 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 six months ended 30 June 2006.

(b) *Balances with related parties*

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

		At 30 June 2007	At 31 December 2006
		Unaudited	Audited
		RMB	*RMB*
Trade balances	*(i)*	20,322,896	21,017,425

Note:

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

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

		At 30 June 2007	At 31 December 2006
		Unaudited	Audited
		RMB	*RMB*
Trade balances	*(i)*	10,733,833	26,190,838
Rental and property management fee payable		841,612	560,000
		11,575,445	26,750,838

Note:

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

20. Post balance sheet events

On 30 July 2007, Xinao Group International Investment Limited ("XGII") and Charm Wise Limited, a wholly-owned subsidiary of China International Marine Containers (Group) Company Limited, entered into a share transfer agreement pursuant to which Charm Wise Limited acquired, on 7 August 2007, from XGII a total of 190,703,000 shares in the Company, representing approximately 42.18% of the entire issued share capital of the Company. Since then, XGII holds approximately 9.61% of the entire issued share capital of the Company and has ceased to be the parent of the Company.

21. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2007

Up to the date of issue of this announcement, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2007:

	Effective for accounting periods beginning on or after
HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) 12, Service concession agreements	1 January 2008
HKFRS 8, Operating segments	1 January 2009
HKAS 23 (Revised), Borrowing costs	1 January 2009

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

IV. INDEBTEDNESS STATEMENT

Borrowings, securities and banking facilities

The Group's bank loans are denominated in Renminbi and USD and are principally applied by the Group for working capital purposes. As at the close of business on 30 June 2007, being the latest practicable date prior to the printing of this document for the purpose of ascertaining information contained in this indebtedness statement, the Group had total banking facilities amounting to approximately RMB425.0 million which consisted of term loans and trade finance facilities repayable within one year, and of which approximately RMB288.3 million was used up. As at 30 June 2007, the Group had bank loans of approximately RMB198.9 million with interest rate ranged from 5.6% to 6.8% per annum; while approximately RMB89.4 million was used in relation to bills payable and issuance of letters of credit.

Contingent liabilities

As at the close of business on 30 June 2007, being the latest practicable date prior to the printing of this document for the purpose of ascertaining information contained in this indebtedness statement, the Group had no contingent liabilities.

Disclaimer

Save as disclosed in the sections headed "Borrowings securities and banking facilities" and "Contingent liabilities" above, and apart from intra-group liabilities, at the close of business on 30 June 2007, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

Material changes

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 June 2007.

V. MATERIAL CHANGE

Save as disclosed in the Company's unaudited interim report for the six months ended 30 June 2007 in this Appendix, the Directors confirm that they are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror, CIMC (Group) and parties acting in concert with any of them, the terms and conditions of the Offers, the Offeror's intention regarding the Group and the proposed changes of the Board composition), and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this Composite Document (other than those relating to the Offeror, CIMC (Group) and parties acting in concert with any of them, the terms and conditions of the Offers, the Offeror's intention regarding the Group and the proposed changes of the Board composition) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document (other than those relating to the Offeror, CIMC (Group) and parties acting in concert with any of them, the terms and conditions of the Offers, the Offeror's intention regarding the Group and the proposed changes of the Board composition), the omission of which would make any such statement contained in this Composite Document misleading.

The directors of the Offeror and CIMC (Group) jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group and the Vendor) and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this Composite Document (other than those relating to the Group and the Vendor) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document (other than those relating to the Group and the Vendor), the omission of which would make any statement contained in this Composite Document misleading.

2. CORPORATE INFORMATION OF THE COMPANY

The Company was incorporated in the Cayman Islands under the Companies Law. Its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its head office in the PRC is at 30 Hongrun Road, Langfang Economic and Technical Development Zone, Hebei Province, the PRC. Its principal place of business in Hong Kong is at Rooms 3101–03, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong. The company secretary of the Company is Mr. Cheong Siu Fai.

3. SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Shares		*HK$*
Authorised:		
10,000,000,000	Authorised share capital of HK$100,000,000.00 divided into 10,000,000,000 Shares	100,000,000.00
Issued and fully paid:		
452,100,000	Paid up share capital of HK$4,521,000.00 divided into 452,100,000 Shares	4,521,000.00

Up to the Latest Practicable Date, 6,900,000 Shares have been issued by the Company since 31 December 2006 (being the date to which its latest published audited accounts were prepared). All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital.

As at the Latest Practicable Date, other than the outstanding 6,900,000 Share Options, the Company did not have any outstanding warrants or share options or other securities carrying rights of conversion into or exchange or subscription for Shares.

(b) Listing

The Shares are listed and traded on the Main Board of the Stock Exchange. No part of the issued share capital of the Company is listed or dealt in, nor is any listing of or permission to deal in the Shares being or proposed to be sought on, any other stock exchange.

4. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last trading day for each of the calendar months during the period commencing 6 months preceding the date of the Joint Announcement and ending on the Latest Practicable Date, (ii) the last day on which trading took place immediately preceding the date of the Joint Announcement, and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
28 February 2007	4.90
30 March 2007	4.28
30 April 2007	4.50
31 May 2007	6.45
29 June 2007	6.89
30 July 2007 (the last day on which trading took place immediately preceding the date of the Joint Announcement)	8.15
31 August 2007	6.90
Latest Practicable Date	10.96

The highest and lowest closing prices per Share, based on the Share price as quoted on the Stock Exchange, during the Relevant Period were HK$10.96 on 18 September 2007 and HK$3.85 on 5 March 2007, respectively. There are no other securities of the Company which are listed on the Stock Exchange.

5. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in Shares, underlying shares and debentures of the Company or any associated companies

As at the Latest Practicable Date, the interest of the Directors in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the

Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or required to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code were as follows:

Interest in the Shares and underlying Shares

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				
Wang Yusuo ("Mr. Wang")	Interest of controlled corporation and beneficial owner	–	43,441,000 *(Note 1)*	43,441,000	2,000,000 *(Note 2)*	45,441,000	10.05%
Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	43,441,000 *(Note 1)*	43,441,000	2,000,000 *(Note 2)*	45,441,000	10.05%
Jin Yongsheng	Beneficial owner	–		–	1,000,000	1,000,000	0.22%
Cai Hongqiu	Beneficial owner	–		–	700,000	700,000	0.15%
Zhao Xiaowen	Beneficial owner	–		–	500,000	500,000	0.11%
Zhou Kexing	Beneficial owner	–		–	500,000	500,000	0.11%
Yu Jianchao	Beneficial owner	–		–	500,000	500,000	0.11%
Cheong Siu Fai	Beneficial owner	–		–	350,000	350,000	0.08%

Notes:

1. The two references to 43,441,000 Shares relate to the same block of Shares held by the Vendor, which is beneficially owned as to 50% by Mr. Wang and as to 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 underlying Shares subject to Share Options granted to Mr. Wang.

Details of the Directors' interest in underlying Shares subject to Share Options granted by the Company are set out under the heading "Directors' rights to acquire Shares" below.

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 the Share Options to subscribe for one ordinary Share for each Share Option granted, details of the outstanding Share Options as at the Latest Practicable Date were as follows:

Director	Date of grant	Exercisable period	Exercise price per Share *HK$*	Number of underlying Shares subject to Share Options	Approximate percentage of total issued share capital
Mr. Wang	26.09.2005	18.10.2007 – 25.09.2015	1.50	2,000,000 *(Note)*	0.44%
Jin Yongsheng	26.09.2005	18.10.2007 – 25.09.2015	1.50	1,000,000	0.22%
Cai Hongqiu	26.09.2005	18.10.2007 – 25.09.2015	1.50	700,000	0.15%
Zhao Xiaowen	26.09.2005	18.10.2007 – 25.09.2015	1.50	500,000	0.11%
Zhou Kexing	26-09.2005	18.10.2007 – 25.09.2015	1.50	500,000	0.11%
Yu Jianchao	26.09.2005	18.10.2007 – 25.09.2015	1.50	500,000	0.11%
Cheong Siu Fai	26.09.2005	18.10.2007 – 25.09.2015	1.50	350,000	0.08%

Note: Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in the underlying Shares subject to the Share Options granted to Mr. Wang.

Save as disclosed above, as at the Latest Practicable Date, no other interests or short positions in the shares, options underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 or required to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code.

(b) Substantial Shareholders' interests in Shares and underlying Shares

As at the Latest Practicable Date, the following persons (other than the Directors or the chief executive of the Company), so far as was known to the Directors, had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Shareholder	Capacity	Number of Shares held	Approximate percentage of total issued share capital
Charm Wise Limited	Beneficial owner	190,703,000 *(Note)*	42.18%
China International Marine Containers (Hong Kong) Limited	Interest in controlled corporation	190,703,000 *(Note)*	42.18%
China International Marine Containers (Group) Co., Ltd.	Interest in controlled corporation	190,703,000 *(Note)*	42.18%
Commonwealth Bank of Australia	Interest in controlled corporation	45,855,000	10.14%
Xinao Group International Investment Limited	Beneficial owner	43,441,000	9.61%
INVESCO Hong Kong Limited	Investment manager	31,480,000	6.96%
Symbiospartners Private Equity Limited	Beneficial owner	26,016,000	5.75%
DnB Nor Asset Management (Asia) Limited	Investment manager	23,826,000	5.27%

Note: The three references to 190,703,000 Shares refer to the Sale Shares. Such Shares are held by the Offeror, which is beneficially owned by China International Marine Containers (Hong Kong) Limited. China International Marine Containers (Hong Kong) Limited is in turn wholly owned by CIMC (Group).

(c) Other persons having interests or short positions in the Shares and underlying Shares

So far as is known to the Directors, as at the Latest Practicable Date, no other persons (other than those the Directors, the chief executive and substantial Shareholders disclosed above) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any subsidiary of the Company.

(d) Other interests in the Company and in the Offeror

As at the Latest Practicable Date,

(i) none of the Directors intended, in respect of their own beneficial interest in the securities of the Company, to accept or reject the Offers;

(ii) none of the directors of the Offeror and CIMC (Group) had any interest in the Company;

(iii) save and except that the Vendor has irrevocably undertaken to the Offeror not to accept the Share Offer in respect of 43,441,000 Shares which it held, no other person who owned or controlled Shares or convertible securities, warrants, options or derivatives in respect of the Shares has irrevocably committed themselves to accept or not to accept the Share Offer;

(iv) China Merchants and the Independent Financial Adviser did not have any beneficial interest in any securities of the Company;

(v) there were no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror, or any person acting in concert with the Offeror, and any other person;

(vi) neither the Company nor any of the Directors had any interest in any securities of the Offeror;

(vii) no subsidiaries of the Company, nor any pension fund of any member of the Group, nor any adviser to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code had any interest in any securities of the Company; and

(viii) no fund managers (other than exempt fund managers) who managed funds on a discretionary basis connected with the Company had any interest in any securities of the Company.

During the period from 3 August 2007, the date of the Joint Announcement, up to the Latest Practicable Date, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between (i) the Company or an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code; and (ii) any other person.

Neither the Offeror, CIMC (Group), nor the parties acting in concert with any one of them owned any Shares or other securities of the Company immediately prior to Completion.

6. DEALINGS IN SECURITIES

The following table sets out the dealings in the securities of the Company by the Directors during the Relevant Period:

Director	**Date**	**Type of transaction**	**No. of Shares/ Share Options involved**	**Average price per Share/ Exercise price per Share Option** *HK$*
Wang Yusuo	5 February 2007	Disposal of Shares	6,000	4.70
	15 February 2007	Disposal of Shares	100,000	4.90
	16 February 2007	Disposal of Shares	304,000	5.24
	21 February 2007	Disposal of Shares	46,000	5.47
	16 April 2007	Disposal of Shares	180,000	4.89
	18 April 2007	Disposal of Shares	30,000	4.95
	20 April 2007	Disposal of Shares	120,000	5.04
	23 April 2007	Disposal of Shares	30,000	5.03
	24 April 2007	Disposal of Shares	494,000	4.97
	25 April 2007	Disposal of Shares	120,000	4.96
	4 May 2007	Disposal of Shares	370,000	5.00
	7 May 2007	Disposal of Shares	200,000	5.03
	30 July 2007 7 August 2007	Disposal of the Sale Shares *(Note)*	190,703,000	5.92
Jin Yongsheng	8 May 2007	Exercise of Share Options	1,000,000	1.50
	11 May 2007	Disposal of Shares	660,000	5.77
	14 May 2007	Disposal of Shares	150,000	5.82
	15 May 2007	Disposal of Shares	190,000	5.84
Cai Hongqiu	8 May 2007	Exercise of Share Options	700,000	1.50
	15 May 2007	Disposal of Shares	500,000	5.91
	16 May 2007	Disposal of Shares	200,000	5.95
Zhao Xiaowen	8 May 2007	Exercise of Share Options	500,000	1.50
	16 May 2007	Disposal of Shares	400,000	6.04
	17 May 2007	Disposal of Shares	40,000	6.41
	18 May 2007	Disposal of Shares	60,000	6.53
Zhou Kexing	8 May 2007	Exercise of Share Options	500,000	1.50
	18 May 2007	Disposal of Shares	460,000	6.61
	21 May 2007	Disposal of Shares	40,000	7.00
Yu Jianchao	8 May 2007	Exercise of Share Options	500,000	1.50
	4 June 2007	Disposal of Shares	380,000	7.16
	8 June 2007	Disposal of Shares	50,000	6.79
	11 June 2007	Disposal of Shares	70,000	6.85

Director	Date	Type of transaction	No. of Shares/ Share Options involved	Average price per Share/ Exercise price per Share Option *HK$*
Cheong Siu Fai	8 May 2007	Exercise of Share Options	350,000	1.50
	21 May 2007	Disposal of Shares	350,000	7.05
Zhao Baoju	30 July 2007 7 August 2007	Disposal of the Sale Shares *(Note)*	190,703,000	5.92

Note: The two references to the 190,703,000 Shares relate to the Sale Shares disposed by the Vendor, which is beneficially owned as to 50% by Mr. Wang Yusuo and as to 50% by his spouse Ms. Zhao Baoju pursuant to the Share Transfer Agreement. The Share Transfer Agreement was entered into on 30 July 2007 and completed on 7 August 2007.

During the Relevant Period,

(a) save for the acquisition of the Sale Shares pursuant to the Share Transfer Agreement which was completed on 7 August 2007, none of the Offeror, CIMC (Group), or parties acting in concert with any one of them had dealt for value in any Shares, options, convertible securities, warrants and derivatives of the Company;

(b) the directors of the Offeror and CIMC (Group) had not dealt for value in any Shares, options, convertible securities, warrants and derivatives of the Company;

(c) save as disclosed in this section, none of the Directors had dealt for value in any securities of the Offeror or the Company;

(d) save for the disposal of the Sale Shares pursuant to the Share Transfer Agreement, the Vendor had not dealt for value in any securities of the Company; and

(e) the Company had not dealt for value in any securities of the Offeror.

During the period from 3 August 2007, the date of the Joint Announcement, to the Latest Practicable Date,

(a) no subsidiary of the Company, nor any pension fund of any member of the Group, nor any adviser to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code had dealt for value in any securities of the Company; and

(b) no fund managers (other than exempt fund managers) who managed funds on a discretionary basis connected with the Company had dealt for value in any securities of the Company.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, each of the following Directors had entered into a service contract with the Company, terms and conditions of which are set out below:

Director	Term of service contract (both dates inclusive)	Fixed annual remuneration
		HK$
Executive Director		
Wang Yusuo	From 1 October 2005 to 30 September 2008	900,000.00
Jin Yongsheng	From 5 June 2006 to 30 September 2008	600,000.00
Cai Hongqiu	From 1 October 2005 to 30 September 2008	600,000.00
Zhao Xiaowen	From 1 October 2005 to 30 September 2008	400,000.00
Zhou Kexing	From 1 October 2005 to 30 September 2008	400,000.00
Yu Jianchao	From 1 October 2005 to 30 September 2008	300,000.00
Cheong Siu Fai	From 11 January 2007 to 30 September 2008	720,000.00
Non-executive Director		
Zhao Baoju	From 18 October 2005 to 17 October 2008	120,000.00

Each of the above Directors, except Ms. Zhao Baoju, is also entitled to an annual management bonus of a sum to be determined by the Board at its absolute discretion having regard to the operating results of the Group and the performance of the respective Director, provided that the aggregate amount of management bonuses payable to all the executive Directors in respect of any financial year of the Company shall not exceed 10% of the consolidated net profits after taxation and minority interests but before extraordinary items as shown in the Group's audited consolidated accounts for the relevant financial year.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within 6 months before 3 August 2007, the date of the Joint Announcement; (ii) is a continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

Save as disclosed below, no contracts were entered into by the Company or its subsidiaries which were not in the ordinary course of business and were or might be material in the two years immediately preceding 3 August 2007, the date of the Joint Announcement, and up to the Latest Practicable Date:

(1) an agreement dated 29 August 2005 between Enric Investment Group Limited ("EIGL"), Investec Bank (UK) Limited ("Investec"), the Company, the Vendor and Symbiospartners Private Equity Limited ("Symbiospartners") in relation to the subscription by Investec of redeemable convertible bonds in the aggregate principal amount of US$5,000,000 issued by EIGL.

(2) a cancellation agreement dated 16 September 2005 entered into between Shijiazhuang Enric Gas Equipment Company Limited (石家莊安瑞科氣體機械有限公司) ("Enric Gas Equipment") and Xinao Group Shijiazhuang Chemical Machinery Company Limited (新奧集團石家莊化工機械股份有限公司) ("Xinao Shijiazhuang") whereby the three patent licence agreements all dated 3 July 2004 between Enric Gas Equipment and Xinao Shijiazhuang in relation to the exclusive right to apply technologies under the patent of seamless pressure cylinders (patent no. ZL.02.2.41723.0), gas storage cylinder group for use at gas refueling stations (patent no. ZL.02.2.41724.9) and containers for seamless pressure cylinders (patent no. ZL.02.2.41725.7) respectively were cancelled upon completion of the transfers of the three patents under the three patent transfer agreements all dated 10 March 2005 between Enric Gas Equipment and Xinao Shijiazhuang.

(3) a cancellation agreement dated 16 September 2005 entered into between Enric (Bengbu) Compressor Company Limited (安瑞科（蚌埠）壓縮機有限公司) ("Enric Compressor") and Xinao Group Company Limited (新奧集團股份有限公司) ("XGCL") whereby the trademark licence agreement dated 28 July 2004 between Enric Compressor and XGCL as regards the right to use the trademarks "Enric 安瑞科" (registration no. 3121213), "Enric" (registration no. 3121214) and "安瑞科" (registration no. 3121215) was cancelled upon completion of the transfers of the three trademarks under the trademark transfer agreement dated 10 October 2004 between Enric Compressor and XGCL.

(4) a cancellation agreement dated 16 September 2005 entered into between Enric Gas Equipment and XGCL whereby the trademark licence agreement dated 28 July 2004 between Enric Gas Equipment and XGCL as regards the right to use the trademarks "安瑞科" (registration no. 3121216), "Enric" (registration no. 3121217) and "Enric 安瑞科" (registration no. 3121218) was cancelled upon completion of the transfers of the trademarks under the trademark transfer agreement dated 10 October 2004 between Enric Gas Equipment and XGCL.

(5) a licence agreement dated 16 September 2005 (the "Licence Agreement") entered into between Xinao Shijiazhuang as licensor and Enric Gas Equipment and Enric (Langfang) Energy Equipment Integration Company Limited (安瑞科(廊坊)能源裝備集成有限公司) ("Enric Integration") jointly as licensees whereby it was agreed, during the remaining term of the agreement dated 6 May 2003 between Neogas Inc. ("Neogas") and Xinao Shijiazhuang (the "Neogas Agreement") and commencing on 18 October 2005, that (i) Xinao Shijiazhuang shall grant its rights under the Neogas Agreement to Enric Gas Equipment and Enric Integration exclusively at nil consideration; (ii) Xinao Shijiazhuang shall unconditionally and irrevocably undertake not to use its rights under the Neogas Agreement and not to grant any licences under the Neogas Agreement to any other parties outside the Group; (iii) any licence fees, royalties and other related fees (if any) payable under the Neogas Agreement shall be paid by Enric Gas Equipment and/or Enric Integration directly to Neogas; and (iv) Xinao Shijiazhuang shall fully indemnify the Group for any losses, damages and liabilities which may be suffered by any members of the Group as a result of the breach of the Licence Agreement and/or the Neogas Agreement by Xinao Shijiazhuang.

(6) a deed of non-competition undertaking dated 26 September 2005 (the "GEM Non-competition Undertaking") given by the Vendor, Mr. Wang and Ms. Zhao (collectively, the "Covenantors") in favour of the Company (for itself and as trustee of its subsidiaries) whereby each of the Covenantors has irrevocably given, in favour of the Company certain non-competition undertakings which undertaking will terminate on the date on which the Shares cease to be listed on the Growth Enterprise Market of the Stock Exchange.

(7) a deed for sale and purchase of the entire issued share capital of EIGL dated 26 September 2005 entered into between the Vendor and Symbiospartners as vendors, the Company as purchaser and Mr. Wang and Ms. Zhao as indemnifiers, pursuant to which the Company acquired 90% and 10% of the issued share capital of EIGL from the Vendor and Symbiospartners respectively in consideration of the allotment and issue of 791 and 88 Shares credited as fully paid to the Vendor and Symbiospartners respectively.

(8) a capitalisation agreement dated 26 September 2005 entered into between the Company and the Vendor whereby the Company allotted and issued a total of 260,159,120 Shares, as to 234,143,208 Shares to the Vendor and 26,015,912 Shares to Symbiospartners (as nominated by the Vendor) respectively, all credited as fully paid, on capitalisation of cash advances in the sum of RMB45,000,000 due and owing by the Company to the Vendor.

(9) a deed of indemnity dated 10 October 2005 entered into among the Vendor, Mr. Wang and Ms. Zhao (collectively, the "Indemnifiers") and the Company (for itself and as trustee for its subsidiaries), pursuant to which the Indemnifiers have given certain estate duty and tax-related indemnities.

(10) an underwriting and placing agreement dated 10 October 2005 entered into between, amongst other parties, the Company, China Everbright Securities (HK) Limited, the then executive Directors, Mr. Wang, Ms. Zhao, the Vendor and the underwriters named therein in relation to the placing of 133,200,000 Shares as referred to in the prospectus of the Company dated 10 October 2005.

(11) a registrar and transfer agent agreement dated 17 October 2005 entered into between Butterfield Fund Services (Cayman) Limited and the Company.

(12) a branch registrar agreement dated 18 October 2005 entered into between Computershare Hong Kong Investor Services Limited and the Company.

(13) a tenancy agreement dated 28 February 2006 entered into between Enric Integration as tenant and Langfang Xinao Gas Equipment Company Limited (廊坊新奧燃氣設備有限公司) as landlord whereby Enric Integration has rented from Langfang Xinao Gas Equipment Company Limited two floors of an office building and a workshop in a premises located in the Langfang Economic and Technical Development Zone in the PRC at a rent of approximately RMB466,209 per annum for a term of two years commencing on 1 March 2006.

(14) a deed of non-competition undertaking dated 23 June 2006 given by the Vendor, Mr. Wang and Ms. Zhao (collectively the "Covenantors") in favour of the Company (for itself and as trustee for its subsidiaries) whereby each of the Covenantors has irrevocably given certain non-competition undertakings in favour of the Company on terms similar to that of the GEM Non-competition Undertaking.

10. CONSENT AND QUALIFICATION

The following is the qualification of the professional advisers who have given opinions, letters or advice contained in this Composite Document:

Name	Qualification
China Merchants	A licensed corporation to carry on types 1, 2, 4, 6 and 9 regulated activities under the SFO
Somerley Limited	A licensed corporation to carry on types 1, 4, 6 and 9 regulated activities under the SFO

Each of China Merchants and the Independent Financial Adviser has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion herein of its letter and references to its name in the form and context in which they appear.

11. GENERAL

(a) as at the Latest Practicable Date, no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;

(b) as at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the outcome of the Offers or otherwise connected therewith;

(c) as at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers;

(d) as at the Latest Practicable Date, there was no material contract to which the Offeror was a party in which any Director had a material personal interest save for the Share Transfer Agreement;

(e) the registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;

(f) the registered office of CIMC (Group) is at CIMC R&D Center, No. 2 Gangwan Avenue, Shekou Industrial Zone, Shenzhen, Guangdong, PRC;

(g) the registered office of China Merchants is at 48th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong;

(h) the registered office of Somerley Limited is at 10th Floor, Hong Kong Club Building, 3A Chater Room, Central, Hong Kong;

(i) the Offeror has no intention and there is no agreement, arrangement or understanding to transfer, charge or pledge the Offer Shares to be acquired pursuant to the Share Offer to any other person; and

(j) the English text of this Composite Document shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (from 9:00 a.m. to 5:00 p.m.) at (i) the principal place of business in Hong Kong of the Company at Rooms 3101-03, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong; (ii) the website of the SFC (www.sfc.hk); and (iii) the website of the Company (http://www.irasia.com/listco/hk/enric/index.htm) from the date of this Composite Document up to and including the closing date of the Offers:

(a) the memorandum and articles of association of the Company and the memorandum and articles of association of the Offeror;

(b) the annual reports of the Group for the two years ended 31 December 2005 and 2006;

(c) the interim report of the Group for the six months ended 30 June 2007;

(d) a copy of the letter from China Merchants containing details of the Offers, the full text of which is set out on pages 10 to 18 of this Composite Document;

(e) a copy of the letter from the Independent Board Committee as set out on pages 19 to 20 of this Composite Document;

(f) a copy of the letter from the Independent Financial Adviser as set out on pages 21 to 42 of this Composite Document;

(g) the written consents referred to in the paragraph headed "Consent and Qualification" in this Appendix; and

(h) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix.

Form(s) of Acceptance will be available for collection from the Registrar and the Company.