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) (於開曼群島註冊成立之有限公司)

Stock code 股份代號: 3899

Interim Report 中期報告 2006

Contents

1 Interim Results
2 Consolidated Income Statement
3 Consolidated Balance Sheet
4 Consolidated Statement of Changes in Equity
5 Condensed Consolidated Cash Flow Statement
6 Notes to the Unaudited Interim Financial Report
18 Independent Review Report
19 Financial and Operational Highlights
20 Management Discussion and Analysis
26 Supplementary Information

INTERIM RESULTS

The board of Directors (the "Board") of Enric Energy Equipment Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is pleased to announce the unaudited financial results of the Group for the six months ended 30 June 2006 together with the comparative figures for the corresponding period in 2005.

The interim financial report set out on pages 2 to 17 is expressed in Renminbi unless otherwise specified.

Consolidated Income Statement

For the six months ended 30 June 2006

		Six months ended 30 June	
		2006	2005
		Unaudited	Unaudited
	Note	***RMB***	*RMB*
Turnover	*5*	**326,744,510**	209,724,253
Cost of sales		**(225,532,291)**	(143,756,435)
Gross profit		**101,212,219**	65,967,818
Other revenue	*6*	**2,899,672**	575,290
Selling expenses		**(14,493,212)**	(8,966,704)
Administrative expenses		**(29,075,020)**	(19,834,140)
Other net (expenses)/income	*7*	**(5,827,080)**	3,440
Profit from operations		**54,716,579**	37,745,704
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board		**(5,250,881)**	–
Finance costs	*7*	**(3,791,614)**	(4,048,792)
Profit before taxation	*7*	**45,674,084**	33,696,912
Income tax	*8*	**(3,765,733)**	(1,375,662)
Profit for the period and attributable to equity shareholders of the Company		**41,908,351**	32,321,250
Earnings per share	*10*		
– Basic		**0.094**	0.124
– Diluted		**0.092**	N/A

The notes on pages 6 to 17 form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2006

	Note	**At 30 June 2006 Unaudited *RMB***	At 31 December 2005 Audited *RMB*
Non-current assets			
Property, plant and equipment	*11*	**103,461,296**	89,496,679
Construction in progress		**18,736,441**	12,333,721
Lease prepayments		**30,249,284**	30,566,484
Intangible assets		**6,351,695**	6,806,125
		158,798,716	139,203,009
Current assets			
Inventories	*12*	**161,280,576**	124,998,815
Trade and bills receivable	*13*	**106,621,527**	72,407,090
Deposits, other receivables and prepayments		**43,551,335**	26,731,532
Amounts due from related parties	*19(b)(I)*	**9,014,399**	20,297,299
Cash at bank and in hand	*14*	**247,226,287**	339,319,669
		567,694,124	583,754,405
Current liabilities			
Bank loans	*15*	**50,000,000**	125,000,000
Trade and bills payable	*16*	**111,998,317**	95,167,162
Other payables and accrued expenses		**62,417,139**	86,174,220
Amounts due to related parties	*19(b)(II)*	**47,990,637**	9,147,663
Provisions		**1,621,471**	1,281,780
Income tax payable		**2,368,585**	928,539
		276,396,149	317,699,364
Net current assets		**291,297,975**	266,055,041
Total assets less current liabilities		**450,096,691**	405,258,050
NET ASSETS		**450,096,691**	405,258,050
CAPITAL AND RESERVES			
Share capital		**4,630,080**	4,630,080
Reserves		**445,466,611**	400,627,970
TOTAL EQUITY		**450,096,691**	405,258,050

The notes on pages 6 to 17 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Note	**2006 Unaudited *RMB***	2005 Unaudited *RMB*
Total equity at 1 January		**405,258,050**	53,761,435
Net profit for the period		**41,908,351**	32,321,250
Movements in equity arising from capital transactions:			
Share premium		**–**	15,709,117
Change in share capital		**–**	819
Equity-settled share-based transactions	*17*	**2,930,290**	–
		2,930,290	15,709,936
Total equity at 30 June		**450,096,691**	101,792,621

The notes on pages 6 to 17 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Note	Six months ended 30 June **2006** **Unaudited** ***RMB***	 2005 Unaudited *RMB*
Cash generated from operations		**16,124,021**	16,090,754
Tax paid		**(2,325,687)**	(410,296)
Net cash from operating activities		**13,798,334**	15,680,458
Net cash used in investing activities		**(27,783,315)**	(6,496,397)
Net cash used in financing activities		**(77,652,891)**	(2,429,107)
Net (decrease)/increase in cash and cash equivalents		**(91,637,872)**	6,754,954
Cash and cash equivalents at 1 January		**313,066,247**	31,527,056
Effect of foreign exchange rate changes		**(275,471)**	–
Cash and cash equivalents at 30 June	*14*	**221,152,904**	38,282,010

The notes on pages 6 to 17 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

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 the 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. Basis of preparation

The Group is regarded as a continuing entity resulting from the Reorganisation and the condensed consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group throughout the six months ended 30 June 2005, rather than from 26 September 2005. Accordingly, the condensed consolidated financial statements of the Group for the six months ended 30 June 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 six months ended 30 June 2005. In the opinion of the directors, the condensed consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

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 14 September 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted by the Group in the preparation of the financial statements for the year ended 31 December 2005. Please refer to Note 3 for the discussion of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") adopted by the Group in 2006.

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 2005.

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 2005 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 Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 18.

The financial information relating to the financial year ended 31 December 2005 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 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2006.

3. 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 2006. 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 2006, 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 2006 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.

4. 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 2006 (Unaudited)					Six months ended 30 June 2005 (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*
Revenue from external customers	**59,378,033**	**192,576,475**	**74,842,852**	**(52,850)**	**326,744,510**	60,037,304	110,461,591	39,526,810	(301,452)	209,724,253
Segment result	**8,279,587**	**33,163,471**	**20,167,813**	**(22,951)**	**61,587,920**	8,798,656	18,917,983	10,926,929	(276,955)	38,366,613
Unallocated operating income and expenses					**(6,871,341)**					(620,909)
Profit from operations					**54,716,579**					37,745,704
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board					**(5,250,881)**					–
Finance costs					**(3,791,614)**					(4,048,792)
Taxation					**(3,765,733)**					(1,375,662)
Profit for the period					**41,908,351**					32,321,250

5. 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.

6. Other revenue

		Six months ended 30 June	
		2006	2005
		Unaudited	Unaudited
		RMB	*RMB*
Government grants	*(i)*	**400,000**	–
Other operating revenue	*(ii)*	**375,428**	435,990
Interest income from bank deposits		**2,124,244**	139,300
		2,899,672	575,290

Notes:

(i) Government grants represent incentives and subsidies given to a subsidiary by the local government.

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

7. Profit before taxation

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

(i) Other net expenses/(income)

	Six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB	*RMB*
Loss on disposal of property, plant and equipment	**4,288,415**	–
Charitable donations	**1,540,000**	–
Other net income	**(1,335)**	(3,440)
	5,827,080	(3,440)

(ii) Finance costs

	Six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB	*RMB*
Interest on bank loans	**2,652,891**	3,900,055
Finance charges	**568,316**	137,833
Exchange loss	**570,407**	10,904
	3,791,614	4,048,792

(iii) Other items

	Six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB	*RMB*
Depreciation of property, plant and equipment	**5,251,807**	4,662,642
Amortisation of intangible assets	**454,430**	454,430
Amortisation of lease prepayments	**317,200**	347,051
Impairment losses for:		
– Trade receivables	**–**	1,845,724
– Other receivables	**384,015**	–
Reversal of write-down of inventories	**(202,585)**	–
Research and development expenses	**2,750,420**	2,390,821
Operating lease charges for property rental	**990,613**	964,427
Provision for product warranties	**2,696,781**	1,119,950
Equity-settled share-based payment expenses	**2,930,290**	–

8. Income tax

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 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% (corresponding period in 2005: 0% to 15%).

No provision has been made for deferred taxation for the six months ended 30 June 2006 (corresponding period in 2005: Nil) as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

9. Dividends

No dividend has been paid or declared by the Company during the six months ended 30 June 2006 (corresponding period in 2005: Nil).

10. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to ordinary equity shareholders of the Company of RMB41,908,351 and the weighted average number of 445,200,000 ordinary shares of the Company outstanding during the six months ended 30 June 2006.

The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the profit attributable to ordinary equity shareholders of the Company of RMB32,321,250 and on 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 these shares were outstanding throughout the six months ended 30 June 2005.

The calculation of diluted earnings per share for the six months ended 30 June 2006 is based on the profit attributable to ordinary equity shareholders of the Company of RMB41,908,351 and the weighted average number of 454,013,730 ordinary shares, calculated as follows:

	Six months ended 30 June 2006 Unaudited
Weighted average number of ordinary shares used in calculating basic earnings per share	**445,200,000**
Effect of dilutive potential ordinary shares:	
– Share options	**8,813,730**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**454,013,730**

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2005.

11. Property, plant and equipment

During the six months ended 30 June 2006, the addition of property, plant and equipment (including transfer from construction in progress) of the Group amounted to RMB24,266,551 (corresponding period in 2005: RMB5,035,641). Items of property, plant and equipment with net book value totalling RMB5,050,126 were disposed of during the six months ended 30 June 2006 (corresponding period in 2005: Nil), resulting in a loss on disposal of RMB4,288,415 (corresponding period in 2005: Nil).

12. Inventories

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Raw materials	**53,714,659**	40,909,809
Work in progress	**56,985,408**	31,681,844
Finished goods	**50,580,509**	52,407,162
	161,280,576	124,998,815

13. 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 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Aged within 3 months	**54,662,524**	32,898,075
Aged between 3 to 6 months	**20,040,974**	24,977,183
Aged between 6 months to 1 year	**26,114,089**	11,701,865
Aged over 1 year	**5,803,940**	2,829,967
	106,621,527	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.

14. Cash at bank and in hand

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Cash and cash equivalents		
– Cash in hand and demand deposits	**179,176,917**	288,502,470
– Restricted bank deposits for letters of credit and bills payable within three months of maturity	**41,975,987**	24,563,777
	221,152,904	313,066,247
Restricted bank deposits for letters of credit and bills payable with maturity of more than three months	**26,073,383**	26,253,422
	247,226,287	339,319,669

15. Bank loans

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Bank loans – guaranteed	**50,000,000**	125,000,000

At 30 June 2006, 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 2006 (corresponding period in 2005: 5.6% to 6.1% per annum).

16. Trade and bills payable

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Trade creditors	**56,168,317**	53,717,162
Bills payable	**55,830,000**	41,450,000
	111,998,317	95,167,162

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

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Due within 3 months or on demand	**61,974,602**	74,713,030
Due after 3 months but within 6 months	**50,023,715**	19,250,000
Due after 6 months but within 1 year	**–**	1,204,132
	111,998,317	95,167,162

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

17. 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 issue price of the Company's shares on 18 October 2005.

No options were exercised during the six months ended 30 June 2006.

The options outstanding as at 30 June 2006 had an exercise price of HKD1.50 and a weighted average remaining contractual life of 9.2 years.

18. Commitments

(a) Capital commitments outstanding at 30 June 2006 not provided for in the interim financial report were as follows:

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Contracted for	**20,779,247**	920,154
Authorised but not contracted for	**8,622,244**	40,000,000
	29,401,491	40,920,154

(b) At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Within 1 year	**1,519,297**	1,301,215
After 1 year but within 5 years	**950,274**	1,035,967
	2,469,571	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.

19. Material related party transactions

(a) *Transactions*

		Six months ended 30 June	
		2006 Unaudited *RMB*	2005 Unaudited *RMB*
(I) Trade			
Sales	*(i)*	**13,743,833**	47,610,967
Purchases	*(ii)*	**73,474**	73,282
(II) Non-trade			
Rental of property and office equipment and property management fee	*(iii)*	**742,286**	460,727
Repayments received in respect of loans to a related party and related interest	*(iv)*	**–**	814,191
Charitable donation	*(v)*	**500,000**	–
Other services	*(vi)*	**490,000**	–
Repayments of cash advances from related parties	*(vii)*	**–**	6,378,988

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 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) 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 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.

(vii) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment.

(b) Balances with related parties

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

		At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Trade balances	*(i)*	**8,524,399**	19,818,718
Non-trade balances			
– Prepayments for purchase of properties		**–**	478,581
– Prepayments for other services		**490,000**	–
		9,014,399	20,297,299

Note:

(i) This represents sale of the Group's products to related parties.

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

		At 30 June 2006 Unaudited *RMB*	At 31 December 2005 Audited *RMB*
Trade balances	*(i)*	**47,485,234**	8,967,663
Non-trade balances			
– Rental and property management fee payable		**505,403**	180,000
		47,990,637	9,147,663

Note:

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

20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2006

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

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.

INDEPENDENT REVIEW REPORT

To the Board of Directors of Enric Energy Equipment Holdings Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 17.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG
Certified Public Accountants

Hong Kong, 14 September 2006

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	At 30 June 2006 *(RMB'000)*	At 31 December 2005 *(RMB'000)*	+/-
FINANCIAL POSITION			
Total assets	**726,493**	722,957	0.5%
Net assets	**450,097**	405,258	11.1%
Net current assets	**291,298**	266,055	9.5%
Cash balances	**247,226**	339,320	-27.1%
Bank loans	**50,000**	125,000	-60.0%
Gearing ratio (Bank loans/Total equity)	**11.1%**	30.8%	-19.7%

	Six months ended 30 June		
	2006 *(RMB'000)*	2005 *(RMB'000)*	+/-
OPERATING RESULTS			
Turnover	**326,745**	209,724	55.8%
Gross Profit	**101,212**	65,968	53.4%
Profit from operations	**54,717**	37,746	45.0%
EBITDA	**54,350**	43,061	26.2%
Profit attributable to equity shareholders	**41,908**	32,321	29.7%
PER SHARE DATA			
Earnings per share – basic	**RMB0.094**	RMB0.124	–24.2%
Earnings per share – diluted	**RMB0.092**	N/A	N/A
Net asset value per share	**RMB1.011**	RMB0.391	158.6%
KEY STATISTICS			
GP ratio	**31.0%**	31.5%	–0.5%
Operating profit margin	**16.8%**	18.0%	–1.2%
EBITDA margin	**16.6%**	20.5%	–3.9%
Net profit margin	**12.8%**	15.4%	–2.6%
Interest coverage – Times	**18.2**	9.6	8.6
Inventory turnover days	**115**	124	–9
Debtor turnover days	**50**	44	6
Creditor turnover days	**83**	79	4
KEY OPERATIONAL DATA (Units sold)			
CNG trailers	**142**	48	195.8%
Seamless pressure cylinders	**183**	157	16.6%
CNG hydraulic daughter refueling stations	**25**	17	47.1%
CNG refueling station trailers	**36**	16	125.0%
Natural gas compressors	**70**	46	52.2%
LPG tank trucks	**88**	90	–2.2%

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Main Board listing

The Group turned over a new leaf on 20 July 2006, the day the entire issued share capital of the Company commenced listing by way of introduction on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On the same date, the share price closed at HKD4.975 and the market capitalisation soared to approximately HKD2,214,870,000 from approximately HKD667,800,000 on 18 October 2005, the date of listing on the Growth Enterprise Market of the Stock Exchange ("GEM"). The strong share price reflects investors' confidence in the prospects of the Group and the energy equipment industry.

Results for the six months ended 30 June 2006

On the back of natural gas boom in the PRC and the Group's unshaken commitment to business expansion, the Group recorded a remarkable growth for the six months ended 30 June 2006.

Net profit attributable to equity shareholders for the six months ended 30 June 2006 rose to RMB41,908,000 from RMB32,321,000 for the corresponding period in 2005, representing an increase of 29.7%. Basic and diluted earnings per share were RMB0.094 and RMB0.092 (corresponding period in 2005: RMB0.124 and not applicable) respectively. As the Company was not listed during the corresponding period in 2005, figures for earnings per shares are not comparable.

Turnover of the Group during the six months ended 30 June 2006 was up 55.8% to RMB326,745,000 from RMB209,724,000 for the same period in 2005. The Group's seamless pressure cylinders, CNG trailers and CNG refueling station systems received very positive market response and therefore experienced high turnover growth. Turnover for the segments of pressure vessels and integrated business solutions rose by 74.3% to RMB192,559,000 and 89.4% to RMB74,862,000 respectively over the corresponding period in 2005. The segment of compressors remained stable and recorded turnover of RMB59,324,000 (corresponding period in 2005: RMB59,736,000).

Gross profit margin and profitability

The Group's overall gross profit margin ("GP margin") for the period slightly decreased by 0.5 percentage point to 31.0%.

The increase in the average selling price ("ASP") of CNG products and the change in product mix of the pressure vessels segment led to a rise in the GP margin of this segment to 26.2% for the first half of 2006 from 24.9% for the same period in 2005. The GP margin for the compressors segment declined to 32.4% from 35.4% for the same period in 2005 mainly because of the change in product mix of the compressors segment and further decrease in ASP and GP margin for traditional general-purpose compressors. In comparison with the GP margin of the compressors segment of 29.6% for the year 2005, the turn around increase of 2.8% proved it is a correct strategy for the Group to focus on high-end natural gas compressors over the recent years. Regarding the segment of integrated business solutions ("IBS"), the change in the sales proportion between CNG hydraulic daughter refueling stations and CNG refueling stations trailers saw the GP margin for IBS diluted by 1.7 percentage points to 42.1% for the period in comparison with the same period in 2005.

The profit from operations expressed as a percentage of turnover declined slightly by 1.2 percentage points to 16.8% for the six months ended 30 June 2006, which is attributable to two main reasons: (1) the fair value of share options granted to directors and employees of RMB2,930,000 was recognised as an expense during the period, while there was no such expense for the corresponding period in 2005 as the share options were granted in September 2005. It is worthwhile to note that this expense is non-cash in nature and does not have any effect on the shareholders' equity as the same amount was credited to the capital reserve account; (2) certain old buildings and production facilities were disposed of in connection with the construction of a new production line for seamless pressure cylinders and, accordingly, loss on disposal of property, plant and equipment of RMB4,271,000 was incurred during the period.

The net profit margin for the six months ended 30 June 2006 decreased by 2.6 percentage points to 12.8%. In addition to the aforesaid non-cash share options expenses and non-recurring loss on disposal of buildings and facilities, the decrease in net profit margin was resulted from the non-recurring professional and other expenses of RMB5,251,000 incurred in connection with the Company's Main Board listing.

Financial Resources Review

Liquidity and capital resources

At 30 June 2006, the Group recorded cash on hand of RMB247,226,000 (31 December 2005: RMB339,320,000) and bank loans of RMB50,000,000 (31 December 2005: RMB125,000,000). The Group will continue to take a prudent approach in future development and capital expenditures. Accordingly, the Group will constantly review and maintain an optimal gearing level.

At 30 June 2006, all bank loans of the Group were guaranteed by the Company's subsidiaries, bearing interest at rates from 5.6% to 6.8% per annum and repayable within one year. The net gearing ratio, which is calculated by dividing net debt over equity, was zero times (31 December 2005: zero times) as the Group retained a net cash balance of RMB197,226,000 at 30 June 2006 (31 December 2005: RMB214,320,000). The interest coverage for the period was 18.2 times (corresponding period in 2005: 9.6 times).

In order to fulfil the sales orders on hand as of 30 June 2006, closing inventories level increased by RMB36,282,000 to RMB161,281,000 at 30 June 2006, which occupied a portion of the Group's working capital. During the period, net cash from operating activities amounted to RMB13,798,000 (corresponding period in 2005: RMB15,680,000). The Group drew bank loans of RMB20,000,000 (corresponding period in 2005: RMB45,000,000) and repaid RMB95,000,000 during the period (corresponding period in 2005: RMB52,860,000), therefore, bank interest expenses were reduced significantly.

Assets and liabilities

At 30 June 2006, the total assets of the Group was RMB726,493,000 (31 December 2005: RMB722,957,000) and the total liabilities was RMB276,396,000 (31 December 2005: RMB317,699,000). The net asset value increased to RMB450,097,000, mainly due to the net profit of RMB41,908,000 recorded for the period and the increase in capital reserve of RMB2,930,000 for the recognition of fair value of share options granted to directors and employees. The net asset value per share increased to RMB1.01 at 30 June 2006 from RMB0.91 at 31 December 2005.

Contingent liabilities

At 30 June 2006, the Group did not have any significant contingent liabilities.

Capital commitments

At 30 June 2006, the Group had contracted but not provided for capital commitments of RMB20,779,000 (31 December 2005: RMB920,000), and authorised but not contracted for capital commitments of RMB8,622,000 (31 December 2005: RMB40,000,000).

Foreign exchange exposure

The Group earns revenue and incurs cost mainly in Renminbi ("RMB") and Hong Kong dollars ("HK dollars"). In the PRC, RMB is subject to a managed float against a basket of currencies. Even though the exchange rate between HK dollars and RMB was generally stable over the past few years, the Group controls its exchange rate risks by raising funds in the denominations of its principal operating assets and revenue. Borrowings are also denominated in RMB. Thus the Directors consider that the impact of foreign exchange exposure on the Group is minimal. During the period, RMB has experienced a slight appreciation and the Group believes that RMB will continue to appreciate in the future at a gradual pace. As the Group's assets are substantially denominated in RMB, the Group will benefit from an RMB appreciation in the long run.

Future plans for material investments and expected source of funding

Currently, the Group's operating and capital expenditures are mainly financed by operating cash flow, bank loans and shareholders' equity. The Group has sufficient sources of funding and unutilised banking facilities to meet future capital expenditure and working capital requirement. Details of the Group's future plans of material investments and expected source of funding are set out in the sections headed "Use of Proceeds from the Placing in October 2005" and "Future Plans and Prospects" of the Listing Document of the Company dated 27 June 2006.

Operational Review

During the six months ended 30 June 2006, the Group's operational performance was remarkable on the back of overwhelming market demand and ongoing technological enhancements.

Under the 11th Five-Year Plan, the PRC government has been actively promoting the use of natural gas in vehicles, households and the commercial sector. The prevalence of natural gas vehicle ("NGV") accelerates the Group's IBS business, which experienced an encouraging growth during the period. In the first half of 2006, a total of 25 sets of CNG hydraulic daughter refueling station and 36 CNG refueling station trailers were sold, contributing RMB70,376,000 to the Group's turnover, a surge of 99.4% over the corresponding period in 2005. Turnover of the IBS segment accounted for approximately 22.9% of the Group's total turnover (corresponding period in 2005: 18.8%). The IBS segment also recorded the highest GP margin among the segments at 42.1%. It is no question that IBS, a one-stop gas equipment package, is regarded as a short payback and one of the most efficient choices for gas station operators and city gas operators. With a positive market outlook, the demand for IBS will remain strong.

As city gas projects are being implemented inevitably in the PRC, city gas operators, gas station operators and public transportation corporations are showing huge demand for CNG storage and transportation equipment. During the period, the Group sold 142 CNG trailers and 183 seamless pressure cylinders whereas 48 and 157 were sold respectively for the same period in 2005. Driven by the significant growth in CNG products, turnover of the pressure vessels segment increased by 74.3% to RMB192,559,000.

To bring the highest return to shareholders, the Group focused on more profitable business in recent years. While the contributions to turnover from segments of pressure vessels and IBS increased to 58.9% and 22.9% from 52.7% and 18.8% for the same period in 2005 respectively, the compressors segment fell to 18.2% of the overall turnover from 28.5% for the corresponding period in 2005. Nevertheless, the compressors segment remained to bring a steady turnover of RMB59,324,000 (corresponding period in 2005: RMB59,736,000) to the Group. In order to stand out from the competitive compressor market and attain larger profit, the Group has put more weight on natural gas compressors. During the period, the Group sold 70 sets of natural gas compressor which contributed RMB30,718,000 in turnover, up 55.4% over the turnover of 46 sets in the corresponding period in 2005. Given that natural gas compressors are indispensable for the set up of CNG mother and standard refueling stations, a steady growth of this product is anticipated.

Sales and marketing

The Group's products and services have presence in over 28 provinces, autonomous regions and municipalities throughout the PRC. At 30 June 2006, the Group ran sales offices in nine cities, namely Shanghai, Bengbu, Chongqing, Guangzhou, Langfang, Shenyang, Xi'an, Wuhan and Urumqi. With sound reputation and proven record, the Group has attracted a pool of well-established enterprises in the energy sector as its customers, including PetroChina Company Limited, China Petroleum and Chemical Corporation, Shengli Oil Field, Liaohe Oil Field, Xinao Gas Holdings Limited and The Hong Kong and China Gas Company Limited.

To further raise the brand awareness, a broad and active marketing strategy has been adopted. During the period, the Group participated in exhibitions and conventions in relation to the gas equipment industry in the PRC and placed advertisements in professional magazines.

With the aim to establish itself as an international brand and further boost sales volume, the Group strives to expand its overseas market. During the period, products amounted to approximately RMB13,700,000 were exported to Brazil and Pakistan. Manufacturing licenses have been granted by the American Society of Mechanical Engineers and the United States Department of Transportation, which allow the Group's products to reach the U.S. and South-east Asia countries. The European Union ("EU") CE certification is also under application to open the door to EU affiliates. The Group is also upgrading the function of its website to serve as an e-commerce platform, bridging with potential customers worldwide.

Research and development

In April 2006, Beijing Enric Energy Technologies Limited, a wholly owned subsidiary of the Company, commenced operations as a research and development arm of the Group. Apart from gas transportation equipment used on land, the Group has successfully developed a new product – LNG containers – which can be used for the transportation of LNG by ships. The relevant certificate has been obtained from China Classification Society. The product is expected to receive a positive market response as an increasing number of LNG plants and LNG terminals are being built along coastal cities.

After years of efforts, the liquefied-compressed natural gas ("LCNG") refueling station system has proceeded to the site-testing phase. As the LCNG system uses LNG as feedstock and can refuel natural gas to vehicles either in LNG and CNG form, an array of advantages over conventional gas refueling stations are offered, such as higher refueling efficiency and lower transportation cost for natural gas. It is believed that it will become an exclusive and competitive product in the PRC.

Productivity

During the period, the Group had capital expenditures of approximately RMB30,522,000 for productivity enhancement. In particular, a brand new production line of seamless pressure cylinders is scheduled to come into operation this year and production capacity will by then be increased to 6,000 units per annum. This sets to boost production efficiency, reduce production cost and, most importantly, meet market demand in coming years.

Human resources

The Group steps up efforts to attract and retain capable and dedicated staff through investing in people development. Training programmes and a performance management scheme were carried out in the first half of 2006. Significant progress has been made in enhancing employees' skills and job knowledge as well as strengthening their commitment to attaining the Group's objectives.

At 30 June 2006, the total number of employees of the Group was 1,568 and there have been no material changes in respect of employee remuneration, remuneration policies, bonus, share option scheme and training scheme as disclosed in the Annual Report 2005.

Prospects

The rapid growth of the PRC economy is expected to continue with an estimated GDP growth of 9.5% in 2006. Realising that sufficient and diversified energy sources are the backbone of sustainable economic growth, the PRC government is constantly looking for renewable and environmental-friendly alternatives to alleviate the nation's heavy reliance on traditional energy sources like oil and coal. Natural gas – green, efficient and price competitive – has become an important energy in the country.

Under the 11th Five-Year Plan of the PRC central government on the state's energy structure, a series of favourable policies is promulgated to promote the utilisation of natural gas. The PRC central and local governments have issued a series of policies and blueprints, for example "Opinion concerning the speeding up of the development of market economy in the public utilities sector" (《關於加快市政公用行業市場化進程的意見》), "Blueprint of the development of gas industry in Shenzhen in 2006-2020" (《深圳市燃氣行業發展規劃 (2006-2020年)》) and "Report on the promotion of natural gas vehicles in Guangdong region" (《廣東地區推廣天然氣汽車的研究報告》), demonstrating the strategic and long-term development of gas industry. These favourable policies secure a healthy and sustainable growth of the gas equipment industry in the long run.

The International Energy Agency forecasted that the annual investment in PRC natural gas equipment market would rocket over five times from USD0.6 billion in 2000 to USD3.2 billion in 2020. The West-East Pipeline Project, the Zhong-Wu Pipeline Project and the Shaanxi-Beijing Pipeline Project have all commenced operations over past two years. Supply of imported LNG has been realised with the commencement of operation of the first LNG terminal in Shenzhen in June this year, followed by more and more LNG terminals to be built in southern cities such as Shanghai, Zhuhai, Ningbo and Quanzhou. Coupled with the increasing proved natural gas reserves in China, which is 2.35 trillion cubic metres at the end of 2005 according to the BP Statistical Review of World Energy 2006, more and more cities and provinces in the PRC will have access to natural gas.

Natural gas is used as vehicle fuel because of its advantages over gasoline and diesel – lower cost, less exhaust emissions and safer. The number of NGV per 1,000 people in the PRC is only 0.18. It is expected that in the coming years both NGVs and CNG refueling stations will enter into a rapid growth stage in the PRC.

Favourable policies, substantial investment in natural gas infrastructure and increasing sufficiency of natural gas stimulate the growth of gas equipment market. The optimistic outlook of gas equipment market is forecasted to continue in forthcoming years, providing a solid foundation on which the Group further builds its business. The Group will spare no efforts on the best benefits for shareholders through prudent financial planning, technological enhancement and effective marketing strategies.

SUPPLEMENTARY INFORMATION

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Interests in shares and underlying shares of the Company

		Interests in shares			Interests in underlying shares subject to	Aggregate interests in shares and underlying	Approximate percentage of total issued
Name of Director	**Capacity**	**Personal**	**Corporate**	**Total interests in shares**	**share options**	**shares**	**share capital**
Mr. Wang Yusuo ("Mr. Wang")	Interest of controlled corporation and beneficial owner	–	234,144,000 *(Note 1)*	234,144,000	4,000,000 *(Note 2)*	238,144,000	53.49%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	234,144,000 *(Note 1)*	234,144,000	4,000,000 *(Note 2)*	238,144,000	53.49%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	2,000,000	2,000,000	0.45%
Mr. Cai Hongqiu	Beneficial owner	–	–	–	1,400,000	1,400,000	0.31%
Mr. Zhao Xiaowen	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Zhou Kexing	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Yu Jianchao	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%

Notes:

1. The two references to 234,144,000 shares relate to the same block of shares held by Xinao Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

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

Interests in shares and underlying shares of associated corporation

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

Directors' rights to acquire shares

Pursuant to the Pre-GEM Listing Share Option Plan adopted by the Company on 26 September 2005, certain Directors were granted share options to subscribe for one ordinary share in the Company for each option granted, details of which as at 30 June 2006 were as follows:

Name of Director	Date of grant	Exercisable period	Exercise price per share *(HKD)*	Number of underlying shares subject to share options	Approximate percentage of total issued share capital
Mr. Wang	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000 *(Note 2)*	0.90%
Ms. Zhao	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000 *(Note 2)*	0.90%
Mr. Jin Yongsheng	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,000,000	0.45%
Mr. Cai Hongqiu	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,400,000	0.31%
Mr. Zhao Xiaowen	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Zhou Kexing	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Yu Jianchao	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%

Notes:

1. Subject to certain vesting conditions as stated in the Pre-GEM Listing Share Option Plan, 50% of the options granted to any grantee become exercisable upon the expiry of 6 months after 18 October 2005 up to 10 years from the date of grant of the options; another 50% of the options granted to any grantee become exercisable upon the expiry of 24 months after 18 October 2005 up to 10 years from the date of grant of the options.

2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 30 June 2006, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations were recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

Share option scheme

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

The purpose of the Main Board Share Option Scheme is to provide incentives for the participants to strive for the Group's objectives whilst strengthening the links between individual staff and shareholders' interests. Details of the terms thereof are set out in the Listing Document of the Company dated 27 June 2006. As at the date of this report, no options have been granted under the Main Board Share Option Scheme.

Pre-GEM listing share option plan

Pursuant to a written resolution passed by the then sole shareholder on 26 September 2005, the Company adopted a Pre-GEM Listing Share Option Plan. The purpose of which is to recognise the contribution of certain existing and past employees and directors of the Group to the growth of the Group. The Pre-GEM Listing Share Option Plan was valid from 26 September 2005 to 17 October 2005, after which no further options will be granted but its provisions remain in force until 25 September 2015 so as to give effect to the exercise of the options granted. The principal terms of which are set out in the Annual Report 2005 of the Company dated 22 March 2006.

Movements of share options during the six months ended 30 June 2006 were as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price per share (HKD)	Number of share options: outstanding at 1 January 2006	exercised during the period	outstanding at 30 June 2006
Mr. Wang	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000	–	4,000,000
Mr. Jin Yongsheng	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,000,000	–	2,000,000
Mr. Cai Hongqiu	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,400,000	–	1,400,000
Mr. Zhao Xiaowen	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Zhou Kexing	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Yu Jianchao	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	–	1,000,000
Employees	26.09.2005	18.04.2006 – 25.09.2015	1.50	3,400,000	–	3,400,000
				13,800,000	–	13,800,000

No share options were granted, lapsed or cancelled during the six months ended 30 June 2006.

Notes:

1. Subject to certain vesting conditions as stated in the Pre-GEM Listing Share Option Plan, 50% of the options granted to any grantee become exercisable upon the expiry of 6 months after 18 October 2005 up to 10 years from the date of grant of the options; another 50% of the options granted to any grantee become exercisable upon the expiry of 24 months after 18 October 2005 up to 10 years from the date of grant of the options.

2. The market value per share on the date of grant was not available since the Company was still a private company on the date of grant.

3. The valuation of fair value of share options granted was measured based on a binomial option pricing model. The fair value per share on the date of grant was HKD0.49.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the interests and short positions of every person, other than Directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of total issued share capital
XGII	Beneficial owner	234,144,000	52.59%
INVESCO Hong Kong Limited	Investment manager	43,784,000	9.83%
Symbiospartners Private Equity Limited	Beneficial owner	26,016,000	5.84%
JPMorgan Chase & Co.	Interests in controlled corporation	25,280,000	5.68%

Save as disclosed above, as at 30 June 2006, the register required to be kept by the Company under section 336 of the SFO recorded no other interests or short positions in the shares or underlying shares of the Company.

Save as disclosed above, the Directors are not aware of any persons or corporations who, as at 30 June 2006, were interested in 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Code on Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2006.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the Company's code of conduct regarding directors' transactions of the securities of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code in their securities transactions throughout the six months ended 30 June 2006.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. It has a membership comprising three independent non-executive Directors, namely Mr. Wong Chun Ho, Mr. Gao Zhengping and Mr. Shou Binan, among which Mr. Wong has been appointed as the chairman. The primary duties of the Audit Committee are, amongst other things, to review and supervise over the financial reporting procedures and internal control system of the Group. The Audit Committee has reviewed and discussed with management the unaudited interim financial report for the six months ended 30 June 2006.

Other Board Committees

On top of the Audit Committee, the Board has also established a Remuneration Committee and a Nomination Committee. A majority of members of both committees are independent non-executive Directors. Each of the committees has its defined scope of duties and written terms of reference in compliance with the Listing Rules.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Competing Interests

During the six months ended 30 June 2006, none of the Directors or the management shareholders or the substantial shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

Directors

As at the date of this report, the executive Directors of the Company are Mr. Wang Yusuo (Chairman), Mr. Jin Yongsheng (Chief Executive Officer), Mr. Cai Hongqiu, Mr. Zhao Xiaowen, Mr. Zhou Kexing and Mr. Yu Jianchao; the non-executive Director is Ms. Zhao Baoju; and the independent non-executive Directors are Mr. Wong Chun Ho, Mr. Gao Zhengping and Mr. Shou Binan.

By order of the Board
Wang Yusuo
Chairman

Hong Kong, 14 September 2006

安瑞科能源裝備控股有限公司
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