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: 8289)**

## RESULTS ANNOUNCEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2005

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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

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

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



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

# EXECUTIVE SUMMARY

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

Net proceeds from the Listing amounted to approximately HK$175,000,000. Together with the funds injected by institutional investors before the Listing, the net fund raised after deduction of listing and issuance expenses during the year 2005 reached approximately HK$227,000,000, which laid a solid financial foundation for the Group to implement its development plans in forthcoming years.

**Principal activities**

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

**Results of the year**

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

**Financial position**

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

**Share price performance**

The placing price of the Company's shares at the Listing Date was HK$1.50 per share and the placing shares were overwhelmingly over-subscribed. As at 22 March 2006, the share price closed at HK$4.125, 175% above the placing price and the market capitalisation grew from approximately HK$667,800,000 to approximately HK$1,836,450,000. The outperforming share price reflects investors' support and trust to the Group as well as their confidence in the future of the energy equipment industry.

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

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

The board of Directors (the "Board") of Enric Energy Equipment Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005 together with the comparative figures for the corresponding year in 2004.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2005*
*(Expressed in Renminbi)*

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

## CONSOLIDATED BALANCE SHEET

*At 31 December 2005*

*(Expressed in Renminbi)*

| | Notes | **2005** | 2004 |
|---|---|---|---|
| | | **RMB** | RMB |
| **Non-current assets** | | | |
| Property, plant and equipment | | **89,496,679** | 85,520,041 |
| Construction in progress | | **12,333,721** | 4,355,382 |
| Lease prepayments | | **30,566,484** | 31,260,587 |
| Intangible assets | | **6,806,125** | 7,714,985 |
| | | **139,203,009** | 128,850,995 |
| **Current assets** | | | |
| Inventories | | **124,998,815** | 79,651,766 |
| Trade and bills receivable | 9 | **72,407,090** | 48,796,630 |
| Deposits, other receivables and prepayments | | **26,731,532** | 21,830,654 |
| Amounts due from related parties | | **20,297,299** | 9,047,159 |
| Cash at bank and in hand | | **339,319,669** | 31,610,556 |
| | | **583,754,405** | 190,936,765 |
| **Current liabilities** | | | |
| Bank loans | | **125,000,000** | 132,860,000 |
| Trade and bills payable | 10 | **95,167,162** | 41,748,715 |
| Other payables and accrued expenses | | **86,174,220** | 24,779,850 |
| Amounts due to related parties | | **9,147,663** | 65,198,732 |
| Provisions | | **1,281,780** | 912,619 |
| Income tax payable | | **928,539** | 526,409 |
| | | **317,699,364** | 266,026,325 |
| **Net current assets/(liabilities)** | | **266,055,041** | (75,089,560) |
| **Total assets less current liabilities** | | **405,258,050** | 53,761,435 |
| **NET ASSETS** | | **405,258,050** | 53,761,435 |
| **CAPITAL AND RESERVES** | 11 | | |
| Share capital | | **4,630,080** | 8 |
| Reserves | | **400,627,970** | 53,761,427 |
| **TOTAL EQUITY** | | **405,258,050** | 53,761,435 |

## NOTES

*(Expressed in Renminbi unless otherwise indicated)*

## 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 completed on 26 September 2005 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on GEM on 18 October 2005.

## 2. STATEMENT OF COMPLIANCE

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

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

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

The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

## 3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

## 4. TURNOVER AND SEGMENT INFORMATION

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.

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

## 5. PROFIT BEFORE TAXATION

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

### (i) Finance costs

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

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

### (ii) Staff costs #

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

### (iii) Other items

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

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

## 6. INCOME TAX

(i) Taxation in the consolidated income statement represents:

| | 2005 RMB | 2004 RMB |
|---|---|---|
| Current taxation for the year | **1,882,093** | 1,814,458 |

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

The statutory state income tax rates applicable to Enric Compressor, Enric Gas Equipment and Enric Integration are 30%, 15% and 30% respectively (2004: 30%, 24% and 30% respectively). As Enric Compressor, Enric Gas Equipment and Enric Integration are foreign-invested enterprises, commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, each of Enric Compressor, Enric Gas Equipment and Enric Integration is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in state income tax rate for the third to fifth years.

The statutory local income tax rate applicable to Enric Compressor, Enric Gas Equipment and Enric Integration is 3%. Commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, Enric Gas Equipment is entitled to a tax holiday of a tax-free period for the first to fifth years and a 50% reduction in local income tax rate for the sixth to tenth years. Enric Compressor and Enric Integration are exempted from local income taxes.

Enric Compressor is subject to PRC state income tax at 15% for the year ended 31 December 2005 (2004: 15%).

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

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

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

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

## 7. EARNINGS PER SHARE

### (i) Basic earnings per share

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

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

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

### (ii) Diluted earnings per share

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

| | **2005** |
|---|---|
| Weighted average number of ordinary shares (diluted) | |
| Weighted average number of ordinary shares at 31 December | **305,283,288** |
| Effect of potential dilutive ordinary shares in respect of the Company's share options scheme | **1,397,875** |
| Weighted average number of ordinary shares (diluted) at 31 December | **306,681,163** |

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

## 8. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. The Directors do not recommend the payment of any dividend for the year ended 31 December 2005 (2004: nil).

## 9. 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:

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

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.

## 10. TRADE AND BILLS PAYABLE

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

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

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

## 11. CAPITAL AND RESERVES

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Business Performance

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

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

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

### Sales and Marketing

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

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

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

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

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

## Research and Development

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

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

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

## Productivity

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

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

## Qualifications

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

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

## Customer Service

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

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

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

### Human Resources

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

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

## FINANCIAL RESOURCES REVIEW

### Liquidity and Financial Resources

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

Shares of the Company were listed on the GEM of the Stock Exchange on 18 October 2005. The Listing raised funds with net proceeds of approximately HK$175,000,000 (equivalent to RMB182,000,000). Together with the funds injected by institutional investors before the Listing, the total funds raised after deduction of listing and issuance expenses during 2005 was approximately HK$227,000,000 (equivalent to RMB236,000,000). As at 31 December 2005, the number of shares issued by the Company was 445,200,000. Apart from providing capital required for the Group's development, the Listing has also enlarged the Group's shareholder base and capital base.

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

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

### Assets and liabilities

As at 31 December 2005, the total assets of the Group was RMB722,957,000 (2004: RMB319,788,000). The total liabilities amounted to RMB317,699,000 (2004: RMB266,026,000). The net assets value increased to RMB405,258,000 (2004: RMB53,761,000), mainly due to the net proceeds from the Listing, pre-listing funds injected by institutional investors and the increase in retained profits. The net assets value per share was RMB0.910 as at 31 December 2005.

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

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

### Contingent Liabilities

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

### Capital Commitments

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

### Foreign Exchange Exposure

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

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

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

Save as disclosed therein, the Group did not have any other plans for significant investments, acquisitions or capital assets as at the date of this announcement. However, the Group will constantly look for investment opportunities for the best interests of its shareholders.

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

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

## PROSPECTS

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

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

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

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

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 15 to the GEM Listing Rules. In addition, the Company has also further considered and complied with most of the recommended best practices in the CG Code.

## AUDIT COMMITTEE

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

By Order of the Board
**Wang Yusuo**
*Chairman*

Hong Kong, 22 March 2006

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

*This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its posting.*