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

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 3899)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Board of Directors of Enric Energy Equipment Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") is pleased to announce the audited financial results of the Group for the year ended 31 December 2007 together with the comparative figures for the year 2006.

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*

| | *Note* | **2007** *RMB* | **2006** *RMB* |
|---|---|---|---|
| **Turnover** | *3* | 940,991,256 | 769,951,661 |
| Cost of sales | | (686,513,120) | (549,994,345) |
| **Gross profit** | | 254,478,136 | 219,957,316 |
| Other revenue | | 8,761,854 | 5,150,569 |
| Other net income/(expenses) | | 296,264 | (6,268,710) |
| Selling expenses | | (42,460,347) | (33,207,484) |
| Administrative expenses | | (85,188,282) | (68,341,794) |
| **Profit from operations** | | 135,887,625 | 117,289,897 |
| Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board | | – | (6,821,660) |
| Finance costs | *4(a)* | (11,716,448) | (8,677,246) |
| **Profit before taxation** | *4* | 124,171,177 | 101,790,991 |
| Income tax | *5(a)* | (5,295,118) | (5,287,472) |
| **Profit for the year attributable to equity shareholders of the Company** | | 118,876,059 | 96,503,519 |
| **Earnings per share** | *6* | | |
| – Basic | | 0.264 | 0.217 |
| – Diluted | | 0.260 | 0.212 |

## CONSOLIDATED BALANCE SHEET
*At 31 December 2007*

| | Note | 2007 RMB | 2006 RMB |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 208,092,809 | 173,563,440 |
| Construction in progress | | 15,074,608 | 39,501,800 |
| Lease prepayments | | 40,705,310 | 29,902,292 |
| Intangible assets | | 6,759,251 | 7,801,264 |
| Deposits for land use right | | 6,112,320 | 6,112,320 |
| Deferred tax assets | | 2,195,763 | 1,884,384 |
| | | 278,940,061 | 258,765,500 |
| **Current assets** | | | |
| Inventories | | 276,905,649 | 214,786,252 |
| Trade and bills receivable | *8* | 194,116,262 | 70,471,040 |
| Deposits, other receivables and prepayments | | 36,778,081 | 22,431,418 |
| Amounts due from related parties | | 300,000 | 21,017,425 |
| Cash at bank and in hand | | 273,875,471 | 318,721,317 |
| | | 781,975,463 | 647,427,452 |
| **Current liabilities** | | | |
| Bank loans | | 140,899,217 | 167,733,123 |
| Trade and bills payable | *9* | 168,618,289 | 115,198,434 |
| Other payables and accrued expenses | | 85,743,772 | 86,257,047 |
| Income tax payable | | 3,726,135 | 2,123,531 |
| Amounts due to related parties | | 12,080,449 | 26,750,838 |
| Provisions | | 2,605,539 | 2,605,539 |
| Deferred income | | 1,400,000 | – |
| | | 415,073,401 | 400,668,512 |
| **Net current assets** | | 366,902,062 | 246,758,940 |
| **Total assets less current liabilities** | | 645,842,123 | 505,524,440 |
| **NET ASSETS** | | 645,842,123 | 505,524,440 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | 4,768,770 | 4,630,080 |
| Reserves | | 641,073,353 | 500,894,360 |
| **TOTAL EQUITY** | | 645,842,123 | 505,524,440 |

*Notes:*

**1. Statement of compliance**

The consolidated financial statements for the year ended 31 December 2007 comprise the Group.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial Instruments: Disclosures* and the amendment to HKAS 1, *Presentation of Financial Statements: Capital Disclosures,* there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial Instruments: Disclosure and Presentation*.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**2. Basis of preparation of the financial statements**

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 recognized 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.

**3. 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 specialized 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.

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 2007 | | | | | Year ended 31 December 2006 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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* |
| Segment revenue | 163,152,413 | 539,525,330 | 242,262,886 | (3,949,373) | 940,991,256 | 132,036,508 | 451,210,429 | 187,885,521 | (1,180,797) | 769,951,661 |
| Segment result | 25,584,934 | 74,785,766 | 50,997,948 | (518,665) | 150,849,983 | 17,673,005 | 70,356,914 | 44,146,778 | (290,004) | 131,886,693 |
| Unallocated operating income and expenses | | | | | (14,962,358) | | | | | (14,596,796) |
| Profit from operations | | | | | 135,887,625 | | | | | 117,289,897 |
| Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board | | | | | – | | | | | (6,821,660) |
| Finance costs | | | | | (11,716,448) | | | | | (8,677,246) |
| Taxation | | | | | (5,295,118) | | | | | (5,287,472) |
| Profit for the year | | | | | 118,876,059 | | | | | 96,503,519 |
| Depreciation and amortisation for the year | 4,219,032 | 12,463,472 | 2,421,725 | | 19,104,229 | 3,183,951 | 7,969,645 | 1,202,543 | | 12,356,139 |
| Segment assets | 228,894,225 | 456,590,059 | 229,820,724 | (21,446,949) | 893,858,059 | 184,286,656 | 348,894,802 | 138,597,251 | (9,408,063) | 662,370,646 |
| Unallocated assets | | | | | 167,057,465 | | | | | 243,822,306 |
| Total assets | | | | | 1,060,915,524 | | | | | 906,192,952 |
| Segment liabilities | 106,456,167 | 118,445,314 | 101,275,310 | (20,928,284) | 305,248,507 | 103,334,049 | 111,256,473 | 45,010,167 | (9,118,059) | 250,482,630 |
| Unallocated liabilities | | | | | 109,824,894 | | | | | 150,185,882 |
| Total liabilities | | | | | 415,037,401 | | | | | 400,668,512 |
| Capital expenditure incurred during the year | 7,420,498 | 29,618,780 | 44,266,537 | | 81,305,815 | 14,214,785 | 73,354,513 | 47,894,571 | | 135,463,869 |

## 4. Profit before taxation

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

*(a) Finance costs*

| | **2007** *RMB* | **2006** *RMB* |
|---|---|---|
| Interest on bank loans | 11,169,710 | 5,888,154 |
| *Less:* borrowing costs capitalised* | – | (814,525) |
| | 11,169,710 | 5,073,629 |
| Foreign exchange (gain)/loss | (10,512) | 2,774,727 |
| Finance charges | 557,250 | 828,890 |
| | 11,716,448 | 8,677,246 |

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

*(b) Staff costs#*

| | **2007** *RMB* | **2006** *RMB* |
|---|---|---|
| Salaries, wages and allowances | 71,356,538 | 47,276,345 |
| Contributions to retirement schemes | 5,058,819 | 3,789,307 |
| Equity-settled share-based payment expenses | 1,349,822 | 3,762,871 |
| | 77,765,179 | 54,828,523 |

*(c) Other items*

| | **2007** *RMB* | **2006** *RMB* |
|---|---|---|
| Cost of inventories# | 686,513,120 | 549,994,345 |
| Auditors' remuneration | 2,212,560 | 2,745,652 |
| Depreciation of property, plant and equipment# | 17,304,734 | 10,767,086 |
| Amortisation of intangible assets | 1,105,513 | 924,861 |
| Amortisation of lease prepayments | 693,982 | 664,192 |
| Impairment losses for: | | |
| – Trade receivables | 1,718,169 | 187,515 |
| – Other receivables | – | 748,291 |
| Write-back of impairment losses for trade receivables | (21,344) | (521,601) |
| Write-back of inventory provision | (413,516) | (451,506) |
| Research and development costs | 15,052,518 | 7,433,103 |
| Operating lease charges for property rental | 1,831,762 | 2,162,147 |
| Provision for product warranties | 6,704,427 | 6,748,284 |

\# Cost of inventories includes RMB35,389,900 (2006: RMB26,817,786) relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

## 5. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

| | 2007<br>*RMB* | 2006<br>*RMB* |
|---|---|---|
| **Current tax** | | |
| Provision for the year | 5,606,497 | 7,171,856 |
| **Deferred tax** | | |
| Origination of temporary differences | (311,379) | (1,884,384) |
| | 5,295,118 | 5,287,472 |

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

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

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

During the year ended 31 December 2007, the Company's subsidiaries in the PRC were either enjoying the aforesaid tax relief or did not have taxable income and accordingly were subject to state income tax at 0% to 15% (2006: 0% to 15%).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("**new tax law**") which takes effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company's subsidiaries in the PRC changes to 25% from 1 January 2008.

According to the new tax law, the existing preferential tax rate currently enjoyed by the Group is gradually transited to the new standard rate of 25% over a five-year transitional period. The applicable income tax rate under the preferential tax policy of the Company's subsidiaries in the PRC expires at the shorter of the existing preferential tax period and the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the financial statements of the Group for the year ended 31 December 2007.

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

| | 2007<br>*RMB* | 2006<br>*RMB* |
|---|---|---|
| Profit before taxation | 124,171,177 | 101,790,991 |
| Notional tax on profit before taxation, calculated at the applicable rates | 28,816,583 | 27,443,530 |
| Tax effect of tax holiday granted | (14,719,670) | (21,699,355) |
| Tax incentives granted | (8,955,468) | (1,106,171) |
| Tax effect of non-deductible expenses | 153,673 | 649,468 |
| Actual tax expense | 5,295,118 | 5,287,472 |

## 6. Earnings per share

*(a) Basic earnings per share*

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to ordinary equity shareholders of the Company of RMB118,876,059 (2006: RMB96,503,519) and the weighted average number of ordinary shares of 451,059,041 (2006: 445,200,000) in issue during the year, calculated as follows:

| | 2007 | 2006 |
|---|---|---|
| Issued ordinary shares at 1 January | 445,200,000 | 445,200,000 |
| Effect of share options exercised | 5,859,041 | – |
| Weighted average number of ordinary shares at 31 December | 451,059,041 | 445,200,000 |

*(b) Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB118,876,059 (2006: RMB96,503,519) and the weighted average number of ordinary shares of 457,308,467 (2006: 454,406,023), calculated as follows:

| | 2007 | 2006 |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share at 31 December | 451,059,041 | 445,200,000 |
| Effect of dilutive potential ordinary shares in respect of the Company's share options scheme | 6,249,426 | 9,206,023 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share at 31 December | 457,308,467 | 454,406,023 |

## 7. Dividends

No dividend has been paid or declared by the Company during the year ended 31 December 2007 (2006: Nil).

## 8. Trade and bills receivable

| | 2007<br>*RMB* | 2006<br>*RMB* |
|---|---|---|
| Trade debtors and bills receivable | 199,484,176 | 74,142,129 |
| *Less:* allowance for doubtful debts | (5,367,914) | (3,671,089) |
| | 194,116,262 | 70,471,040 |

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

| | 2007<br>*RMB* | 2006<br>*RMB* |
|---|---|---|
| Current | 92,505,026 | 36,135,353 |
| Less than 1 month past due | 43,036,686 | 20,566,615 |
| 1 to 3 months past due | 27,339,189 | 2,512,839 |
| More than 3 months but less than 12 months past due | 31,235,361 | 11,256,233 |
| Amounts past due | 101,611,236 | 34,335,687 |
| | 194,116,262 | 70,471,040 |

Trade and bills receivable are expected to be recovered within one year. 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.

## 9. Trade and bills payable

| | 2007<br>*RMB* | 2006<br>*RMB* |
|---|---|---|
| Trade creditors | 99,118,289 | 75,248,434 |
| Bills payable | 69,500,000 | 39,950,000 |
| | 168,618,289 | 115,198,434 |

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

| | 2007<br>*RMB* | 2006<br>*RMB* |
|---|---|---|
| Due within 3 months or on demand | 151,118,289 | 103,884,783 |
| Due after 3 months but within 6 months | 17,500,000 | 11,149,664 |
| Due after 6 months but within 1 year | – | 163,987 |
| | 168,618,289 | 115,198,434 |

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

**10. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

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

The following developments may result in new or amended disclosures in the financial statements:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 8, Operating Segments | 1 January 2009 |
| Revised HKAS 23, Borrowing Costs | 1 January 2009 |

# BUSINESS REVIEW

## Operational performance

During the year ended 31 December 2007, revenue contribution from natural gas and specialty gas storage and transportation equipment increased significantly to RMB481,607,000, representing a 24.5% growth over 2006 (2006: RMB386,764,000). However, the performance of the pressure vessels segment was dragged down by the decline of 13.6% in sale of low-end chemical storage and transportation equipment of RMB55,648,000 (2006: RMB64,428,000).

The Group successfully launched the "Series 2000 HPU" in the year, which enhances the compressed natural gas ("**CNG**") refueling capacity over the first generation hydraulic power unit ("**HPU**"). The average selling price ("**ASP**") of HPU accordingly increased by 18.2% to approximately RMB1,298,000 over the previous year. In the fourth quarter of 2006, the Group debuted a newly-developed liquefied-compressed natural gas refueling station system to the market and sold one set of it. In 2007, another three sets were sold in China, which contributed RMB14,758,000 in revenue to the Group. Accordingly, the revenue from the integrated business solutions ("**IBS**") segment for the year recorded a remarkable growth of 28.9% to RMB242,129,000 over 2006.

Natural gas compressors are indispensable for the set up of CNG refueling stations. The Group has successfully implemented its product strategy to produce and sell high capacity natural gas compressors with higher ASP for coping with the development of the industry. The revenue from natural gas compressors for the year remained stable at RMB72,043,000 (2006: RMB71,542,000) since the export of these compressors slowed down during the latter part of 2007. However, the revenue from special-purpose compressors, which are primarily used for facilitating crude oil extraction, recorded a strong growth to RMB64,146,000, representing a surge of 61.9% over 2006 and boosted the overall performance of this segment.

**Research and development**

In anticipation of China's mounting emphasis on the importance of conservation and effective utilization of energy, in 2007, several projects in relation to energy-efficient equipment, coalbed methane ("**CBM**") liquefaction system, light-weight composite cylinders and 45MPa pressure cylinders for hydrogen fuel are under development. In the year, the Group devoted RMB15,053,000 (2006: RMB7,433,000) to the research and development ("**R&D**") of new products and manufacturing technologies.

**Production capacity**

During the year, the Group invested RMB81,306,000 in capital expenditure. The expansion of production plant in Langfang commenced in late 2006 was completed in 2007 upon which the R&D resource and production capacity of natural gas refueling system were further strengthened.

Currently, the production plant of seamless pressure cylinders has an annual output of approximately 8,000 units. For coping with surging market demand in coming years, the Group has decided to increase the annual production capacity to approximately 12,000 units by 2009.

**Qualifications**

All the superior manufacturing certificates and qualifications are subject to periodical review by industry bodies. The Group relies on advanced technologies and stringent manufacturing processes to obtain renewal of such qualifications.

The Group possesses qualifications from both local and international industry authorities such as the China Classification Society and the China Machinery Industry Federation ("CMIF"), the American Society of Mechanical Engineers ("**ASME**"), the Ministry of Commerce, Industry and Energy of Korea and the U.S. DOT as well as the ISO9001 and ISO14001 certificates. All these have strengthened the Group's prime position over competitors and its ability to export its products to the global market as evidenced by the encouraging growth in export during the year.

**Sales and marketing**

The Group delivers its products and services to 29 provinces, autonomous regions and municipalities and runs sales offices in nine cities in the PRC.

During the year, the Group officially signed a product supply agreement with Air Products and has become one of its global equipment suppliers. Other international atmospheric gases corporations such as Air Liquide have also placed orders with the Group. A number of customers are energy giants, including PetroChina, Sinopec, CNOOC, Hong Kong and China Gas, Xinao Gas, Zhengzhou Gas, Jincheng Anthracite Mining Group, Liaohe Oil Field and Shengli Oil Field.

The Group has opened up Indonesia, Nigeria and Taiwan markets during the year and products were also exported to Brazil, Pakistan, and Thailand with total export amounted to RMB70,815,000, representing a 118.6% boost over 2006. The Group has activated development plan to launch products to emerging markets such as India and the Philippines.

**Domestic procurement**

Previously, most of the special steel pipes for the production of seamless pressure cylinders were imported from overseas suppliers. With the continuing technological advancement in the PRC, the Group has commenced to bulk source special steel pipes from Chinese steel suppliers since May 2007. As the domestic steel price is lower than that of overseas, the Group will gradually increase the proportion of sourcing Chinese special steel pipes to better control its cost of production in long run.

**Human resources**

The Group bases its competitive advantage on the excellence of its people, central to which is people development. Competence-based training programmes and a balanced score card tool were carried out in the year. Education and training aids are provided to motivate employees to take external training programmes for their self-improvement and career development. Award presentations are held every year to recognize the outstanding performance of employees of the year.

At 31 December 2007, the total number of employees of the Group was approximately 1,800. Total staff costs (including Directors' emoluments and retirement benefits schemes contributions) were approximately RMB77,765,000 (2006: RMB54,829,000). 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 prevailing market rate. Other benefits include contributions to statutory mandatory provident fund scheme to employees in Hong Kong and contributions to government pension schemes to employees in Mainland China.

**Customer service**

The Group values long-standing relationship with customers. Timely delivery of after-sales service is pledged to customers across the country. Company visits are arranged regularly for local and overseas customers who are interested in gaining a better understanding of the daily operation and production processes of the Group.

The Group also organizes regular conferences where customers are encouraged to share their opinions on the Group's products and services.

In the year, the Group, collaborating with the Chinese Institute of Specialty Equipment Inspection and Testing, established its first examination centre for high pressure cylinder trailers in Changzhou. CNG trailers and other high pressure cylinder trailers are required to pass certain safety examinations in accordance with relevant safety regulations in order to obtain special-vehicle license renewal. The centre is authorized to provide such examination services. The Group plans to establish more examination centres to optimize its after-sales service network across the PRC and expand its income stream.

## FINANCIAL ANALYSIS

### Turnover

Due to the continuous rise in the global demand for equipment for the storage and transportation of natural gas and specialty gases, the Group has experienced a robust growth during 2007. The Group's turnover for 2007 rose by 22.2% to RMB940,991,000 over last year (2006: RMB769,952,000).

The increased turnover was mainly contributed by the rise in sales of pressure vessels and provision of IBS. Pressure vessels' turnover rose by 19.1% to RMB537,255,000 (2006: RMB451,192,000), turnover of IBS was RMB242,129,000 (2006: RMB187,886,000), representing an increase of 28.9%, and compressors' turnover was RMB161,607,000 (2006: RMB130,874,000) which grew by 23.5%.

*Pressure vessels*

As the top grossing segment of the Group, the pressure vessels segment specializes in the manufacture and sale of a wide range of pressure vessels for the storage, transportation and distribution of natural gas and specialty gases such as CNG trailers, seamless pressure cylinders, compressed specialty gas trailers, liquefied natural gas ("**LNG**") trailers and LNG storage tanks. During 2007, this segment accounted for 57.1% (2006: 58.6%) of the overall turnover.

*Integrated business solutions*

The Group specializes in the provision of IBS to operators of gas refueling stations and city gas projects. The service covers the entire project life-cycle from design and manufacture of gas equipment system, on-site installation to staff training as well as after-sales services. During the year, this segment contributed 25.7% (2006: 24.4%) of the overall turnover and was the second top grossing segment of the Group.

*Compressors*

The Group builds its gas equipment business on the foundation of manufacture and sale of compressors. Natural gas compressors are key equipment for the operation of standard gas refueling stations and mother refueling stations, and are used to compress and dispense natural gas to CNG trailers and natural gas vehicles. For 2007, this segment made up 17.2% (2006: 17.0%) of the overall turnover.

### Gross profit margin and profitability

The pressure vessels segment's gross profit margin ("**GP margin**") slid by 3.8 percentage points to 20.2% (2006: 24.0%) due to the rise in the ASP being outstripped by the surge in the products' unit cost. In 2007, the compressors segment maintained the turnover of natural gas compressors at RMB72,043,000 (2006: 71,542,000) and increased the turnover of special-purpose compressors from RMB39,619,000 in 2006 to the current year's RMB64,146,000 while general-purpose compressors were stable at RMB12,661,000 (2006: RMB11,491,000). Due to the aforementioned change in product mix, compressors further raised its GP margin to 31.8% in 2007 (2006: 30.6%). In relation to the IBS segment, CNG hydraulic refueling station system remains the segment's bestselling product and a standard set of which comprises a HPU and two refueling station trailers. The Group introduced the "Series 2000 HPU" during the year which commands a higher GP margin than the first generation HPU, thus boosting the segment's GP margin by 1.0 percentage point to 39.1%.

In spite of the improved GP margins of both compressors and IBS segments, pressure vessels, which accounted for 57.1% of the Group's overall turnover, saw a fall in its GP margin which caused the Group's overall GP margin to decrease by 1.6 percentage points to 27.0% (2006: 28.6%).

The profit from operations expressed as a percentage of turnover dropped by 0.8 percentage point to 14.4% (2006: 15.2%) which is attributable to two main reasons, namely the increase in staff costs and R&D spending. Firstly, the Group's total staff costs surged by 41.8% to RMB77,765,000 (2006: RMB54,829,000). To cope with the Group's continuing expansion, the headcount has increased with the average number of staff rose by 10% over 2006 and the basic salary level up by an average of 36% in order to attract and retain talent. Secondly, R&D spending increased by 102.5% to RMB15,053,000 (2006: RMB7,433,000) as increased its R&D personnel as well as the number of research projects for both new products and enhancing existing products.

The net profit margin for the year increased by 0.1 percentage point to 12.6% (2006: 12.5%). The main reasons for such an increase are the lower effective tax rate and the absence of non-recurring expenses relating to (i) the loss on disposal of property, plant and equipment and (ii) Main Board listing which have more than offset the abovementioned rise in staff costs and R&D expenses.

## FINANCIAL RESOURCES REVIEW

### Liquidity and financial resources

At 31 December 2007, the Group recorded cash on hand of RMB273,875,000 (2006: RMB318,721,000) and bank loans of RMB140,899,000 (2006: RMB167,733,000). A portion of the Group's bank deposits totalling RMB16,684,000 (2006: RMB26,014,000), which have more than three months of maturity at acquisition, were restricted for securing letters of credit and bills payable. The Group has maintained sufficient cash on hand for repayment of bank loans as they fall due. The Group has continued to take a prudent approach in future development and capital expenditure. Accordingly, the Group has been cautious in managing its financial resources and will constantly review and maintain an optimal gearing level.

At 31 December 2007, all bank loans of the Group were guaranteed by the Company's subsidiaries, bearing interest at rates from 5.6% to 7.3% per annum and repayable within one year. The net gearing ratio, which is calculated by dividing net debt over equity, was zero times (2006: zero times) as the Group retained a net cash balance of RMB132,976,000 (2006: RMB150,988,000). The Group's interest coverage was 12.1 times for 2007 (2006: 21.1 times) which demonstrates that the Group is fully capable of meeting its interest expense commitments.

In order to fulfil sales orders on hand as of 31 December 2007, closing inventories level was increased by RMB62,119,000 (including inventories in-transit of RMB6,305,000) to RMB276,906,000, which occupied a portion of the Group's working capital. During 2007, net cash generated from operating activities amounted to RMB17,980,000 (2006: RMB74,705,000). The Group drew bank loans of RMB251,761,000 (2006: RMB167,733,000) and repaid RMB276,736,000 for 2007 (2006: RMB125,000,000). Apart from drawing bank loans, in 2007 the Group raised RMB20,092,000 from issuance of shares in connection with the exercise of the entire outstanding share options by the optionholders of the pre-GEM listing share option plan.

**Assets and liabilities**

At 31 December 2007, total assets of the Group amounted to RMB1,060,915,000 (2006: RMB906,193,000) while total liabilities were RMB415,073,000 (2006: RMB400,669,000). The net asset value rose by 27.8% to RMB645,842,000 (2006: RMB505,524,000) which was mainly caused by net profit of RMB118,876,000 recorded for the year and the increase in share capital and share premium of RMB139,000 and RMB26,897,000 respectively in relation to the exercise of share options. As a result, the net asset value per share increased to RMB1.407 at 31 December 2007 from RMB1.136 at 31 December 2006.

**Contingent liabilities**

At 31 December 2007, the Group did not have any significant contingent liabilities.

**Capital commitments**

At 31 December 2007, the Group had contracted but not provided for capital commitments of RMB4,792,000 (2006: RMB36,069,000), and authorized but not contracted for capital commitments of RMB700,000 (2006: RMB537,000). The contracted but not provided for commitments include, amongst others, RMB3,100,000 for the expansion of the CNG production plant.

**Foreign exchange exposure**

The Group earns revenue and incurs cost mainly in RMB and HKD. In the PRC, RMB is subject to a managed float against a basket of unspecified currencies. Despite the exchange rate between HKD and RMB had no drastic fluctuation in the past few years, the Group controls its exchange rate risks by raising funds in the denominations of its principal operating assets and revenue. Borrowings are also primarily denominated in RMB. During the year, RMB has appreciated against HKD and USD which caused aggregately an exchange gain of RMB11,000 mainly because a portion of the Group's trade finance short term borrowings are denominated in USD. Since the Group's assets and liabilities are primarily denominated in RMB and the Group earns revenue and incurs cost in RMB, the Group thus considers the impact of foreign exchange exposure on the Group to be minimal.

**Future plans for material investments and expected source of funding**

Currently, the Group's operating and capital expenditures are mainly financed by its internal resources such as operating cash flow and shareholders' equity, and to an extent by bank loans. The Group has sufficient resources of funding and unutilized banking facilities to meet future capital expenditure and working capital requirement. As of 31 December 2007, the Group had total capital commitments of RMB5,492,000.

## PROSPECTS

In August 2007, Charm Wise Limited ("**Charm Wise**"), a wholly-owned subsidiary of China International Marine Containers (Group) Co., Ltd. ("**CIMC (Group)**") became the controlling shareholder of the Company under a share transfer agreement between Charm Wise and Xinao Group International Investment Limited, the then controlling shareholder. In view of CIMC (Group)'s solid experience and world-leading position in containers manufacturing, we have carried out expertise and technology exchange in respect of our pressure vessels products with CIMC (Group) and will seek further opportunity of business collaboration with a view to enhance the long term growth potential of the Group.

Our roadmap objectives to become a world leading energy equipment manufacturer and integrated business solutions provider remain concrete. In 2008, the Group will continue its commitment to broadening the overseas market with a special focus on export to the U.S. and emerging markets.

Productivity of pressure vessels is set to increase to 12,000 units per year from the current 8,000 units to fulfill growing market demand driven by global natural gas boom.

We will capitalize on the budding trend of CBM and energy conservation in the PRC to develop new revenue drivers. The R&D team will continue to focus on the R&D of new products and manufacturing technologies, especially of energy-efficient equipment, CBM liquefaction system and specialty gas cylinders.

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

## CORPORATE GOVERNANCE

The Company complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the year, except that the former chairman of the Board was unable to attend the annual general meeting of the Company held on 29 May 2007 due to an unexpected business commitment.

The Company's corporate governance report will be set out in the soon published Annual Report 2007. Details of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are also given in the report.

The Audit Committee has reviewed and discussed with management the annual results and the audited financial statements for the year ended 31 December 2007.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## DIRECTORS

As at the date of this announcement, the Board consists of Mr. Zhao Qingsheng *(Chairman)*, Mr. Jin Yongsheng *(Chief Executive Officer)*, Mr. Wu Fapei, Mr. Jin Jianlong, Mr. Yu Yuqun, Mr. Shi Caixing and Mr. Qin Gang as executive Directors, Mr. Yang Yu as a non-executive Director and Mr. Wong Chun Ho, Mr. Gao Zhengping and Mr. Shou Binan as independent non-executive Directors.

By order of the Board
**Enric Energy Equipment Holdings Limited**
**Zhao Qingsheng**
*Chairman*

Hong Kong, 14 March 2008

The Annual Report 2007 will be dispatched to the shareholders and published on the websites of the Company and the Stock Exchange.