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

ANNUAL REPORT **2007**

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

CONTENTS

Enric Energy Equipment Holdings Limited
Annual Report 2007

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhao Qingsheng *(Chairman)*
Jin Yongsheng *(Chief Executive Officer)*
Wu Fapei
Jin Jianlong
Yu Yuqun
Shi Caixing
Qin Gang

Non-executive Director

Yang Yu

Independent Non-executive Directors

Wong Chun Ho
Gao Zhengping
Shou Binan

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Cheong Siu Fai *CPA*

AUDIT COMMITTEE

Wong Chun Ho *CFA, CPA*
Gao Zhengping
Shou Binan

REMUNERATION COMMITTEE

Jin Jianlong
Gao Zhengping
Shou Binan

NOMINATION COMMITTEE

Jin Yongsheng
Wong Chun Ho
Gao Zhengping

AUTHORISED REPRESENTATIVES

Jin Yongsheng
Cheong Siu Fai

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

30 Hongrun Road
Langfang Economic and Technical Development Zone
Hebei Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3104, 31st Floor
Tower One, Lippo Centre
No. 89 Queensway
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

LEGAL ADVISOR

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Communications
Bank of China (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

3899

COMPANY WEBSITE

www.enricgroup.com

ENCOURAGING GROWTH

We will continue to strengthen our leading market position and develop new products and markets to bring the best returns to our shareholders.

On behalf of Enric Energy Equipment Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present to shareholders the annual results of the Group for the year ended 31 December 2007.

RESULTS OF THE YEAR

The prosperous natural gas market in the PRC and our effective business strategies yielded encouraging growth for the year.

Net profit attributable to equity shareholders for the year rose to RMB118,876,000 from RMB96,504,000 for 2006, representing an increase of 23.2%. Basic and diluted earnings per share were RMB0.264 and RMB0.260 (2006: RMB0.217 and RMB0.212) respectively.

Turnover of the Group during the year increased by 22.2% to RMB940,991,000 from RMB769,952,000 for 2006. Our compressed natural gas ("CNG") trailers, seamless pressure cylinders and CNG refueling station systems received positive market response and therefore experienced a robust turnover growth. Turnover for the segments of pressure vessels and integrated business solutions ("IBS") increased by 19.1% to RMB537,255,000 (2006: RMB451,192,000) and 28.9% to RMB242,129,000 (2006: RMB187,886,000) respectively over last year. The compressors segment has been revitalised and recorded a 23.5% rise in turnover to RMB161,607,000 (2006: RMB130,874,000).

Our efforts at expansion of the overseas markets were rewarded. Export sales reached a record high of RMB70,815,000, representing a surge of 118.6% over 2006. Products were sold to new markets, including Indonesia, Nigeria and Taiwan.

The customer base has been broadened and diversified. In addition to our long-term customers in traditional oil and gas sector, a number of international atmospheric gases corporations such as Air Products and Air Liquide first placed order with us in 2007.

CHAIRMAN'S STATEMENT

FUTURE PLAN AND STRATEGIES

In August 2007, Charm Wise Limited ("Charm Wise"), a wholly-owned subsidiary of China International Marine Containers (Group) Co., Ltd. ("CIMC") became the controlling shareholder of the Company under a share transfer agreement between Charm Wise and Xinao Group International Investment Limited ("XGII"), the then controlling shareholder. In view of CIMC'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 and will seek further opportunity of business collaboration with a view to enhance the long term growth potential of the Group.

Our roadmap objective to become a world leading energy equipment manufacturer and integrated business solutions provider remain concrete. In 2008, we will continue our 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 by 2009 from the current 8,000 units to fulfill growing market demand driven by global natural gas boom.

We will capitalise on the budding trend of coalbed methane ("CBM") and energy conservation in the PRC to develop new revenue drivers. The research and development ("R&D") team will continue to focus on the R&D of new products and manufacturing technologies, especially of CBM liquefaction system and light-weight pressure 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.

APPRECIATION

I would like to take this opportunity to express my sincere thanks to Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen, Zhou Kexing, Yu Jianchao and Cheong Siu Fai and Ms. Zhao Baoju, who resigned as Director in October 2007, for their contribution to the Group. I must also thank all employees for their dedication and good work, without which we would not have achieved the remarkable results in 2007. Finally, my appreciation goes to our loyal customers and shareholders for their continuing support and confidence in Enric.

Zhao Qingsheng
Chairman

Hong Kong, 14 March 2008

FINANCIAL SUMMARY

	For the year ended 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	**940,991**	769,952	513,014	252,376	68,943
Profit from operations	**135,887**	117,290	78,402	46,461	15,051
Main Board listing expenses	**–**	(6,822)	–	–	–
Finance costs	**(11,716)**	(8,677)	(7,814)	(6,082)	(4,444)
Profit before taxation	**124,171**	101,791	70,588	40,379	10,607
Income tax	**(5,295)**	(5,287)	(1,882)	(1,815)	–
Profit for the year	**118,876**	96,504	68,706	38,564	10,607
Attributable to:					
Equity shareholders of the Company	**118,876**	96,504	68,706	36,191	10,607
Minority interests	**–**	–	–	2,373	–
	118,876	96,504	68,706	38,564	10,607
Earnings per share – basic	**RMB0.264**	RMB0.217	RMB0.225	RMB0.139	RMB0.041
– diluted	**RMB0.260**	RMB0.212	RMB0.224	N/A	N/A

	At 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Total assets	**1,060,915**	906,193	722,957	319,787	204,211
Total liabilities	**(415,073)**	(400,669)	(317,699)	(266,026)	(164,045)
Net assets	**645,842**	505,524	405,258	53,761	40,166

FINANCIAL HIGHLIGHTS

	At 31 December		
	2007 RMB'000	2006 RMB'000	+/-
FINANCIAL POSITION			
Total assets	**1,060,915**	906,193	17.1%
Net assets	**645,842**	505,524	27.8%
Net current assets	**366,902**	246,759	48.7%
Cash balances	**273,875**	318,721	-14.1%
Bank loans	**140,899**	167,733	-16.0%
Gearing ratio[1]	**21.8%**	33.2%	-11.4%

	For the year ended 31 December		
	2007 RMB'000	2006 RMB'000	+/-
OPERATING RESULTS			
Turnover	**940,991**	769,952	22.2%
Gross profit	**254,478**	219,957	15.7%
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**154,445**	119,221	29.5%
Profits from operations	**135,887**	117,290	15.9%
Profit attributable to equity shareholders	**118,876**	96,504	23.2%
PER SHARE DATA			
Earnings per share – basic	**RMB0.264**	RMB0.217	21.7%
Earnings per share – diluted	**RMB0.260**	RMB0.212	22.6%
Net asset value per share	**RMB1.407**	RMB1.136	23.9%
KEY STATISTICS			
GP ratio	**27.0%**	28.6%	-1.6%
EBITDA margin	**16.4%**	15.5%	0.9%
Operating profit margin	**14.4%**	15.2%	-0.8%
Net profit margin	**12.6%**	12.5%	0.1%
Return on equity[2]	**18.4%**	19.1%	-0.7%
Interest coverage – Times	**12.1**	21.1	-9.0
Inventory turnover days[3]	**120**	101	19
Debtor turnover days	**51**	34	17
Creditor turnover days	**75**	70	5
KEY OPERATIONAL DATA (units sold)			
CNG trailers	**376**	299	25.8%
Compressed specialty gas trailers	**20**	6	233.3%
Seamless pressure cylinders	**484**	335	44.5%
LNG trailers and tanks	**65**	96	-32.3%
LPG tank trucks	**97**	150	-35.3%
CNG refueling system			
– Hydraulic power units	**56**	50	12.0%
– Refueling station trailers	**123**	100	23.0%
– LCNG refueling station systems	**3**	1	200.0%
Natural gas compressors	**120**	154	-22.1%
Special-purpose compressors	**159**	127	25.2%

1 Gearing ratio = Bank loans / Total equity
2 Return on equity = Net profit / Total equity
3 Excludes inventory in-transit

BOOMING INDUSTRY

Energy equipment is indispensable for the PRC to promote its energy diversification. We are fully confident that the energy equipment industry will lead another prosperous year in 2008.

INDUSTRY OVERVIEW

The outlook of gas equipment industry in the PRC remained rosy last year and is expected to continue in coming years, thanks to the unshaken support from the government in the use of natural gas and the energy thirst caused by the dramatic economic boom of the nation.

It is predicted that the PRC economy will grow with an estimated rise in GDP at 8% in 2008. Realising that a sufficient and balanced energy source is the backbone of sustainable economic growth, the PRC government has put much effort in diversifying in energy portfolio, which is presently dominated by coal and oil. Natural gas, a green and abundant resource, has been recognised as the first choice for energy diversification.

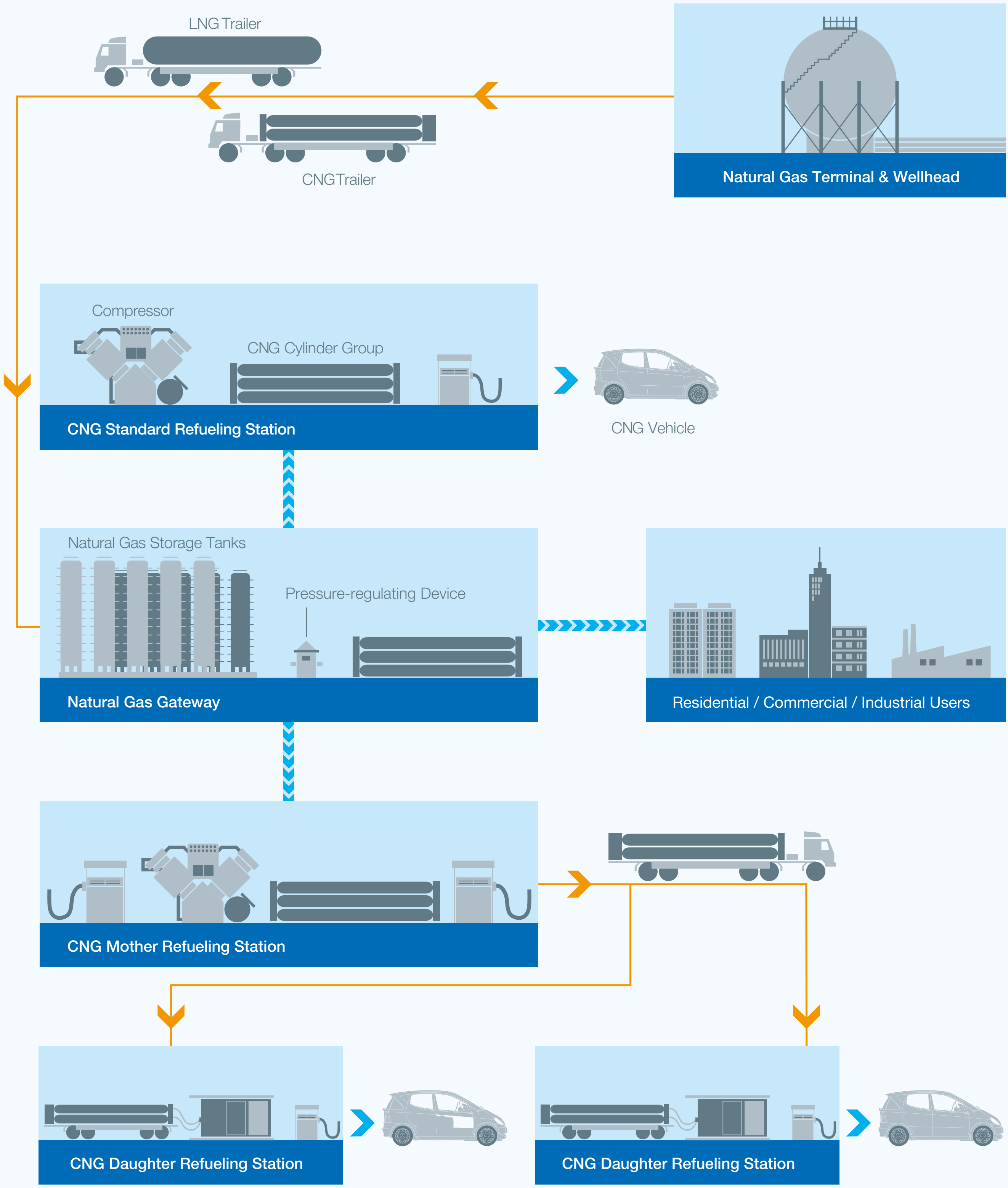
The PRC government targets to increase the proportion of natural gas in the overall primary energy consumption mix to 5.3% (or 93.8 bcm) by 2010 and 10% (or 203.7 bcm) by 2020 from the current 2.7% (or 55.6 bcm), signifying a huge development potential for the natural gas market. In 2006, total consumption of the gas in the PRC amounted to 55.6bcm, a jump of 21.6% over 2005.

Proven natural gas reserves in China reached 2.45 trillion cubic metres at the end of 2006, up 109.4% in ten years. In order to ensure a healthy and sustainable growth of the natural gas industry, the government has budgeted huge investment in the natural gas storage and transportation infrastructure. State-owned oil and gas giants have made significant progress in exploring new gas fields in the country. Import of liquefied natural gas ("LNG") from overseas and negotiations of piped natural gas with Russia and central Asian countries are also proactive measures taken by the PRC government for securing stable and sufficient natural gas supply.

High oil price and the abundance of coal resource in the PRC have made CBM an emerging energy resource in the PRC. Other than conventional gas market, the Group is also a storage and transportation equipment supplier in the CBM market in the PRC, where CBM is often transported by trucks rather than pipelines to downstream users. The Group believes that a substantial amount of investment will be spent on the storage, transportation and liquefaction of CBM in the forthcoming years, which will bring another long term growth opportunity to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

CNG REFUELING STATION SOLUTIONS



In response to high fuel price and environmental concerns, natural gas has been heavily promoted for use in vehicles, in particular taxies and buses, in China through favourable government policies. In 2005, there were approximately 130,000 natural gas vehicles ("NGV(s)") in China. Nevertheless, the number of NGV per 1,000 Chinese citizens is merely 0.18. This reflects that room for further development of its NGV market is enormous and a substantial growth is expected. Motivated by the price edge of natural gas over gasoline, more and more gasoline-powered public vehicles in the Mainland have been converted into NGVs. It is anticipated that both NGVs and CNG refueling stations will enter a rapid growth stage in the PRC in coming years.

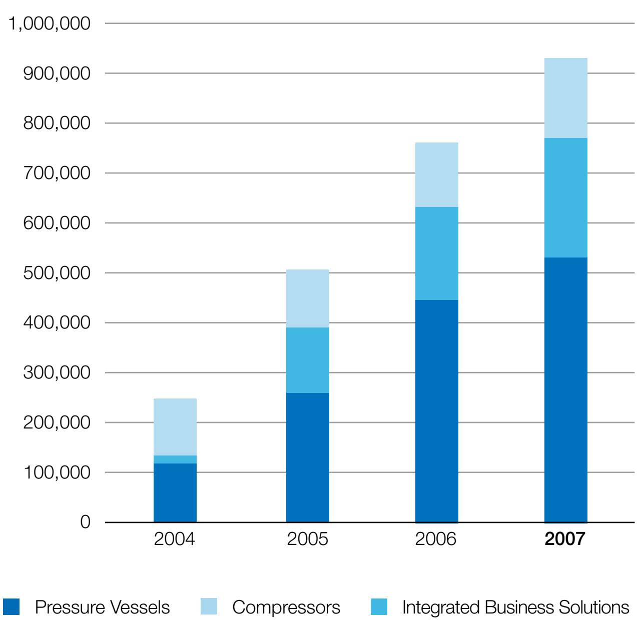
In view of the macro-energy policies and development trend, the Group is fully confident that the gas equipment industry in the PRC will lead another prosperous year in 2008.

BUSINESS REVIEW

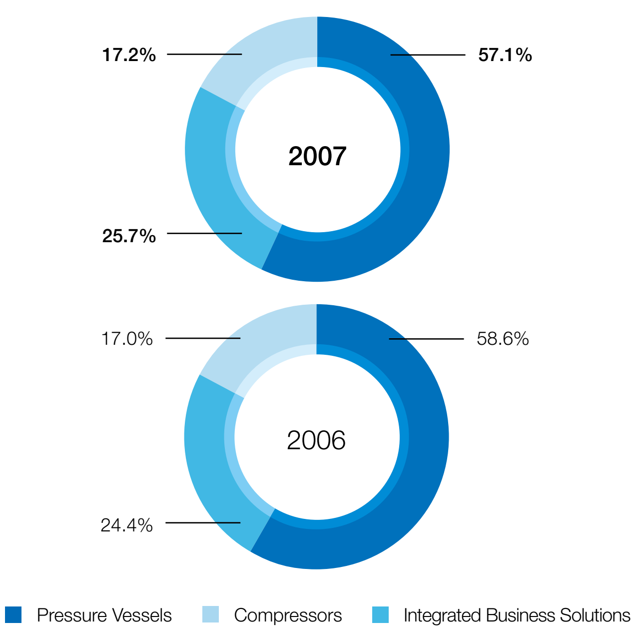
The Group is a leading specialised energy equipment manufacturer and integrated business solutions provider in the PRC. It designs, manufactures and sells specialised gas equipment including seamless pressure cylinders, CNG trailers, CNG refueling station systems, LNG storage tanks, LNG trailers and natural gas compressors. The Group also offers IBS, a one-stop service package that comprises the design and manufacture of gas equipment system, on-site installation, staff training and after-sales services. Products of the Group are essential for the transportation, storage and distribution of natural gas.

TURNOVER

RMB'000



SEGMENT TURNOVER CONTRIBUTION



MANAGEMENT DISCUSSION AND ANALYSIS

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. Nevertheless, 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 energy diversification, in 2007, several projects in relation to 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 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

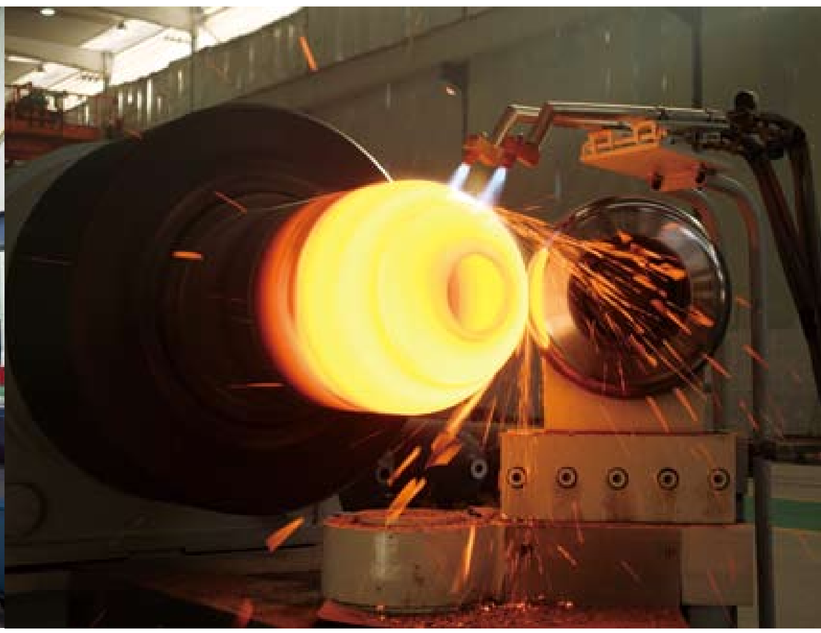
The Group delivers its products and services to 29 provinces, autonomous regions and municipalities and runs sales offices in nine cities in the PRC.

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 the U.S. and 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 recognise 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 organises 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 authorised to provide such examination services. The Group plans to establish more examination centres to optimise 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 specialises 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, 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 specialises in the provision of IBS to operators of gas refueling stations and city gas projects. The service covers the entire project life-cycle from design and manufacture of gas equipment system, on-site installation to staff training as well as after-sales services. During the year, this segment contributed 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.

Cost of sales

Cost of sales rose by 24.8% to RMB686,513,000 during 2007 (2006: RMB549,994,000). Within cost of sales, 88.5% (2006: 90.1%), 2.7% (2006: 2.8%), 1.6% (2006: 1.6%) and 7.2% (2006: 5.5%) were attributable to raw materials, wages, depreciation and factory overheads respectively. The cost structure has been stable over the past two years.

Cost analysis (expressed as percentage of turnover)

	2007	2006	+/–
Cost of sales	**73.0%**	71.4%	1.6%
Selling expenses	**4.5%**	4.3%	0.2%
Administrative expenses	**9.1%**	8.9%	0.2%
Finance costs	**1.2%**	1.1%	0.1%

Other revenue

Other revenue totalling RMB8,762,000 in 2007 (2006: RMB5,151,000) comprised of bank interest income of RMB3,534,000 (2006: RMB3,674,000), government grants of RMB2,035,000 (2006: RMB488,000) and other operating revenue of RMB3,193,000 (2006: RMB989,000). The rise in other operating revenue was mainly caused by a higher demand for the Group's maintenance service to products that have passed the warranty period and the sale of scrap metals.

Selling expenses

Selling expenses rose by 27.9% over 2006. Selling expenses consisted transportation expenses, provision for product warranty, royalty fee, human resources, commission and other expenses directly attributable to selling activities. Selling expenses increased at a faster pace than that of turnover as the Group has been expanding into the overseas markets and specialty gas industry.

Administrative expenses

Administrative expenses increased by 24.7% over 2006 which is at a rate faster than the growth in turnover. During 2007, increase in human resources and R&D expenditure was the major reason for rising administrative expenses.

Other net income

Other net income increased to RMB296,000 in 2007 (2006: other net expense of RMB6,269,000) which comprised various miscellaneous income. Last year's other net expenses were mainly attributable to the non-recurring loss on disposal of property, plant and equipment.

Finance costs

During 2007, finance costs rose by 35.0% to RMB11,716,000 (2006: RMB8,677,000). Finance costs mainly comprised bank loan interest of RMB11,170,000 (2006: RMB5,074,000). The surge in bank loan interest coincided with the higher average bank loan balance during 2007. The Group recorded an exchange gain of RMB11,000 in 2007 (2006: exchange loss of RMB2,775,000) which to some extent mitigated the rising interest expense on the overall finance costs. The exchange gain was primarily due to the appreciation of the Chinese currency Renminbi against the U.S. Dollar ("USD") and a portion of the Group's short term borrowings are denominated in the USD.

Taxation

Tax expenses for the Group totalled RMB5,295,000 in 2007 (2006: RMB5,287,000) which has remained almost unchanged over the two years despite the higher operating profit in 2007. The Group received tax incentives amounted to RMB8,955,000 which greatly reduced the Group's tax expenses during 2007. As a result, the Group's effective tax rate decreased by 0.9 percentage point to 4.3% during 2007 (2006: 5.2%).

Segment results

	2007 **RMB**	2006 RMB
Pressure Vessels	**74,786,000**	70,357,000
Integrated Business Solutions	**50,998,000**	44,147,000
Compressors	**25,585,000**	17,673,000
Inter-segment elimination	**(519,000)**	(290,000)
Total segment results	**150,850,000**	131,887,000

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

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 authorised 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 mainly 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 unutilised 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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Zhao Qingsheng

Chairman and Executive Director

Mr. Zhao, aged 55, was appointed an Executive Director in September 2007 and has become the chairman of the Board since October 2007. He graduated from Wuhan University of Water Transportation Engineering (now known as Wuhan University of Technology), major in vessel gas engineering. Mr. Zhao joined China Merchants Group Limited in 1983 and was the general manager of its enterprise department from 1991 to 1995, and the deputy general manager of China Merchants Holdings (International) Company Limited from 1995 to 1999. He is presently a vice-president of CIMC and also holds directorship in eight subsidiaries of the Company.

Mr. Jin Yongsheng

Executive Director and CEO, Nomination Committee chairman

Mr. Jin, aged 44, was appointed an Executive Director and the CEO in June 2006. Mr. Jin graduated from the Tianjin University of Finance and Economics in the PRC in 1986, specialising in finance and obtained an executive master's degree in Business Administration from the Guanghua School of Management of the Peking University in 2005. He is a qualified lawyer in the PRC and has over 18 years of legal work experience. Mr. Jin was an executive director of Xinao Gas Holdings Limited ("Xinao Gas") from 2001 to 2006 and is presently a non-executive director of such company. He holds directorship in four subsidiaries of the Company and is also a director of XGII, a substantial shareholder of the Company.

Mr. Wu Fapei

Executive Director

Mr. Wu, aged 49, was appointed an Executive Director in September 2007. He obtained a bachelor degree in Machinery Production and a master degree in Engineering from South China University of Technology. Mr. Wu was previously a lecturer and an associate professor of the School of Management of the university, and a vice general manager of Guangdong Zhaoqing Nanhua Bicycle Ronghui Co., Ltd. He joined CIMC in 1996 and served as the manager of information technology department, an assistant to the president and the secretary to the board of directors of CIMC. Mr. Wu is currently a director in Nantong CIMC Tank Equipment Co., Ltd. and a vice-president of CIMC.

Mr. Jin Jianlong

Executive Director, Remuneration Committee chairman

Mr. Jin, aged 54, was appointed an Executive Director in September 2007. He graduated from Maanshan University of Iron and Steel Technology, major in accounting and has over 30 years of experience in accounting and finance. Mr. Jin worked in Hangzhou Iron and Steel Factory since 1975 and served as a vice manager of its accounting department from 1985 to 1989. He joined CIMC in 1989 and served as the manager of the finance department of Shenzhen Southern CIMC Containers Manufacture Co., Ltd. Mr. Jin is presently a director of Nantong CIMC Tank Equipment Co., Ltd. and is also the general manager of the finance management department of CIMC. He holds directorship in seven subsidiaries of the Company.

Mr. Yu Yuqun

Executive Director

Mr. Yu, aged 42, was appointed an Executive Director in September 2007. He obtained a bachelor degree and a master degree in Economics from Beijing University. Mr. Yu had worked in the State Bureau of Commodity Price before he joined CIMC in 1992. He is the secretary to the board of directors of CIMC, responsible for investor relations and financing management. Mr. Yu holds directorship in eight subsidiaries of the Company.

Mr. Shi Caixing

Executive Director

Mr. Shi, aged 44, was appointed an Executive Director in September 2007. He graduated from a master course of the School of Economics, Beijing University. Mr. Shi was the head of the general office of and the manager of Zhangjiagang Hualing Chemical Machinery Works from 1994 to 1997 and the general manager of Zhangjiagang ABC Gas Equipment Co., Ltd. from 1998 to 2001. He was a vice general manager and an executive vice general manager of Zhangjiagang Sanctum Chemical Machinery Co., Ltd. from 2001 to 2003. Mr. Shi is currently the general manager of Zhangjiagang CIMC Sanctum Cryogenic Equipment Co., Ltd.

Mr. Qin Gang

Executive Director

Mr. Qin, aged 49, was appointed an Executive Director in September 2007. He obtained a bachelor degree in Foundry Engineering from South China University of Technology and a master degree in Business Administration from the School of Management, State University of New York at Buffalo. Mr. Qin served as a deputy director of the business and planning department of Guangzhou Heavy Machinery Works from 1988 to 1992 and a vice general manager of Fonda Development Ltd. from 1993 to 1999. Mr. Qin joined CIMC in 1999 as an assistant to the manager of its research and development department and is currently the manager of its strategy development department.

Mr. Yang Yu

Non-executive Director

Mr. Yang, aged 50, was appointed a Non-executive Director in September 2007. He graduated from the Petroleum Pipeline Vocational and Technical School in 1985 and obtained a master degree in Currency Banking from Renmin University of China in 1999 and a master degree in Business Administration from Nanyang Technological University in Singapore in 2005. He worked at the China Oil and Gas Pipeline Bureau and has over 20 years of experience in the PRC's oil and gas industry. He is currently an executive director and the chief executive officer of Xinao Gas, the chairman of board of directors of Hebei Veyong Biochemical Joint Stock Company Limited and a director of XGII, a substantial shareholder of the Company. Mr. Yang also holds directorship in three subsidiaries of the Company.

Mr. Wong Chun Ho

Independent Non-executive Director, Audit Committee chairman and member of Nomination Committee

Mr. Wong, aged 35, has joined the Board since February 2005. He holds a bachelor degree in Business (Accounting) and a bachelor degree in Computing (Information System) from Monash University, Australia. Mr. Wong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Certified Practising Accountant of CPA Australia and a Chartered Financial Analyst. Mr. Wong is currently a vice-president of N M Rothschild & Sons (Hong Kong) Limited and prior to that he worked in KPMG. Mr. Wong has over 10 years of corporate finance and audit experience in the Hong Kong and China region.

Mr. Gao Zhengping

Independent Non-executive Director, members of Audit Committee, Remuneration Committee and Nomination Committee

Mr. Gao, aged 53, has joined the Board since February 2005. Mr. Gao received a doctorate degree in Management from Tianjin University of Finance and Economics in 2002 and is the deputy vice chancellor and a professor of the university. Mr. Gao is also a standing director of the Financial Talents Committee of Talents Research Association of the PRC, a member of the editorial board of financial publications of China Financial Publishing House, the vice chairman of the Tianjin Finance Association and a member of the Professional Committee of the Tianjin Venture Investment Promotion Association. Mr. Gao is an independent director of Tianjin Xinmao Technology Co., Ltd.

Mr. Shou Binan

Independent Non-executive Director, members of Audit Committee and Remuneration Committee

Mr. Shou, aged 50, has joined the Board since February 2005. Mr. Shou obtained a bachelor degree in Engineering from Dalian University of Technology in 1982 and a master's degree in Engineering from Tsinghua University in 1995. Mr. Shou is a senior engineer of the Research Institute of China's Petrochemical Industry Economy and Technology. He is appointed by the Management Committee of the Standardisation Administration of China as a member and is the chief secretary of the China Standardisation Committee on Boilers and Pressure Vessels. Mr. Shou is a committee member of the Special Equipment Safety Technology Committee of the General Administration Bureau of Quality Supervision, Inspection and Quarantine of the PRC. He is also appointed by the Hefei General Machinery Research Institute as a member of the academic committee of post-doctorate scientific research working station.

SENIOR MANAGEMENT

Mr. Zhao Xiaowen

Chief Marketing Officer

Mr. Zhao, aged 44, has joined the Group since 2003 and is responsible for the sales and marketing strategy of the Group. Mr. Zhao is experienced in sales and marketing and has over 22 years of experience in corporate management, of which ten years were in the manufacturing industry. Mr. Zhao was an Executive Director from October 2005 to October 2007.

Mr. Zhou Kexing

Chief Accountant

Mr. Zhou, aged 45, is responsible for the Group's accounting and finance operations. Mr. Zhou graduated from Tianjin University of Finance and Economics and obtained a bachelor degree in Economics in 1982 and a master's degree in Business Administration in 2001. Prior to joining the Group in 2002, Mr. Zhou lectured at the university as a deputy research officer. Mr. Zhou specialises in accounting and finance and is experienced in capital operation. Mr. Zhou was an Executive Director from October 2005 to October 2007. He holds directorship in one subsidiary of the Company.

Mr. Cheong Siu Fai

Financial Controller, Company Secretary

Mr. Cheong, aged 36, is responsible for financial management, corporate finance, implementation of corporate governance practices and investor relations. He holds a bachelor degree in Business Administration from Thames Valley University in the United Kingdom. Mr. Cheong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of International Accountants in the United Kingdom. Prior to joining the Group in 2004, Mr. Cheong worked in an international firm of certified public accountants and has more than 12 years of experience in accounting, financial management and corporate finance. Mr. Cheong was an Executive Director from January 2007 to October 2007.

Mr. Ren Yingjian

General manager of Enric Gas Equipment

Mr. Ren, aged 52, is responsible for the overall management of Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment"), a wholly-owned subsidiary of the Company. Mr. Ren completed his study in Tsinghua University's School of Economics and Management in 1996 and is an engineer. Prior to joining the Group in 2003, Mr. Ren was the general manager at Mudanjiang Sanxing Knitwear Factory and the managing director of Mudanjiang Gold Peony Knitwear Company. He is experienced in the management of industrial enterprises.

Mr. Liu Wenxiang

General manager of Enric Integration

Mr. Liu, aged 44, is responsible for the overall management of Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration"), a wholly-owned subsidiary of the Company. Mr. Liu graduated from Tianjin Polytechnic University, major in Mechanical Design in 1986. Prior to joining the Group in 2006, Mr. Liu was a marketing manager at Beijing Weihong New-tech Development Company Limited and the head of sales department and senior engineer of Handan Textile Machinery Factory. He is experienced in sales and marketing.

Mr. Wang Fenglin

General manager of Enric Compressor

Mr. Wang, aged 50, is responsible for the overall management of Enric (Bengbu) Compressor Company Limited ("Enric Compressor"), a wholly-owned subsidiary of the Company. Mr. Wang obtained a bachelor degree in Engineering from Gansu University of Technology in 1982 and a master's degree in Business Administration from Lancaster University, United Kingdom in 1990. He is a certified engineer and a senior economist. Prior to joining the Group in 2004, Mr. Wang worked as a general manager in Handan Textile Machinery Factory, a deputy head of import and export department for China Textile Machinery (Group) Co., Ltd. and a general manager in Beijing Weihong New-tech Development Company Limited.

CORPORATE GOVERNANCE REPORT

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

Since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2005, the Company has adopted the Code on Corporate Governance Practices (the "CG Code") issued by the Stock Exchange as its principle guideline in relation to corporate governance practices.

The following internal policies and guidelines are periodically reviewed and constitute supplementary components in the Company's governance framework:

- Policy on the Appointment of Directors;
- Policy on Directors' Remuneration;
- Roles and Responsibilities of the Board and the Senior Management;
- Procedures for Directors' to seek Independent Professional Advice;
- Division of Responsibilities between the Chairman and the Chief Executive Officer of the Company (the "CEO");
- Directors' Duties to Disclosures; and
- Dealing in Securities of the Company by Relevant Employees.

Throughout the year ended 31 December 2007, the Company complied with all the code provisions set out in the CG Code, except that Mr. Wang Yusuo, the former chairman of the Board was unable to attend the annual general meeting of the Company (the "AGM") held on 29 May 2007 due to an unexpected business commitment. Alternatively, the CEO attended the AGM for answering shareholders' questions.

BOARD OF DIRECTORS

The board

The Board assumes the responsibility for leadership and control of the Company and its subsidiaries (collectively, the "Group"), and is collectively responsible for promoting the success of the Group.

The types of decisions which are to be taken by the Board include those relating to:

- long-term direction and objectives;
- strategic business development;
- corporate governance;
- internal control assessment;
- material financing projects;
- material acquisitions and disposals;
- interim and final results and dividends;
- connected transactions; and
- appointments to the Board.

BOARD OF DIRECTORS *(Continued)*

The board *(Continued)*

The Board meets regularly to keep abreast of the business and operational performance of the Group. In 2007 and up to the date of this report, the Board:

- reviewed the performance and formulated business strategies of the Group;
- set and approved budgets, compared and analysed them against actual results on a quarterly basis;
- reviewed and approved financial statements of the Group for the two years ended 31 December 2007 and 2006, and for the six months ended 30 June 2007 respectively;
- reviewed the connected transactions of the Group;
- approved the allotment of shares upon exercise of share options under the Pre-GEM Listing Share Option Plan adopted by the Company on 26 September 2005;
- reviewed and refined the corporate governance practices of the Group;
- approved the "Policy on the Appointment of Directors" and the "Policy on Directors' Remuneration";
- reviewed the effectiveness of internal controls taken by the Group;
- approved the documents and certain matters in relation to the acquisition of 190,703,000 shares of the Company by Charm Wise Limited ("Charm Wise") pursuant to a share transfer agreement dated 30 July 2007 between Xinao Group International Investment Limited, the former controlling shareholder of the Company, and Charm Wise; and
- approved the appointment and resignation of Directors.

To decide on any matter in which a substantial shareholder or a Director has a material interest, a Board meeting will be held with the presence of Independent Non-executive Directors who, and whose associates, have no interest in such matter.

Notice of a regular Board meeting is given to all Directors at least 14 days in advance. Directors (including Non-executive Directors) are invited to include items which they wish to be included in the agenda for the same to be finalised and given to Directors with the relevant meeting papers at least three days prior to a Board or Board committee meeting. Directors are provided with opportunities to raise questions or comments at meetings.

The Chairman and the senior management will ensure all Directors (including the Non-executive Directors) have access to adequate and timely information so that they can make informed decisions and discharge their duties and responsibilities as Directors. The Directors can seek advice from the Company Secretary on company secretarial matters, including Board procedures and corporate governance practices. Where appropriate, they can also seek independent professional advice at the Company's expenses pursuant to the "Procedures for Directors' to seek Independent Professional Advice" adopted by the Board.

The Company Secretary is responsible for taking minutes of Board and Board committees meetings. Draft minutes will be circulated to all Directors or Board committee members for review and comment for a reasonable period. Final version of the minutes will be sent to all Directors or Board committee members for record within a reasonable time (generally within 14 days after the meeting) and the signed copies are kept in the Company's minutes book for Directors' inspection.

BOARD OF DIRECTORS *(Continued)*

Chairman and chief executive officer

The management of the Board and the day-to-day management of the Group's business are clearly divided and separately undertaken by the Chairman and the CEO to ensure a balance of power and authority.

The roles of the Chairman and the CEO are segregated with a clear division of responsibilities set out in writing. The Chairman is responsible for overseeing the functioning of the Board, setting the Group's strategies and direction, identifying business goals and the related business plans and monitoring the performance of senior management, and establishing good corporate governance practices. The CEO focuses on leading the senior management to execute the strategies and plans set out by the Board, and reporting to the Board on the Group's operation from time to time to ensure proper discharge of the duties delegated by the Board.

Board composition

At 31 December 2007, the Board consisted of seven Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Composition of the Board, by categories of directors, including names of Chairman, Executive Directors, Non-executive Director and Independent Non-executive Directors, is disclosed in all corporate communications that disclose the names of Directors.

The Board members, possessing a wide range of professional and educational backgrounds, bring a diverse and balance set of skills and experience to the Board, which contributes to the effective direction of the Group. Biographical details of all Directors are given in the section headed "Directors and Senior Management" on pages 16 to 18 and on the Company's website, which is updated from time to time.

The Company has received a written confirmation from each Independent Non-executive Director of his independence to the Company pursuant to the requirement in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). With reference to such confirmations, the Company, to its best knowledge, considers all the Independent Non-executive Directors fulfill the guidelines on independence as set out in rule 3.13 of the Listing Rules and all to be independent.

No relationship (including financial, business or family) exists among members of the Board as at the date of this report.

Responsibilities of directors

The Directors shall take decisions objectively in the interests of the Group as a whole. They meet regularly to keep abreast of its conduct, business activities, operational performance and latest development. Details of Directors' attendance at the Board and Board committee meetings held in 2007 are set out in the paragraph headed "Directors' attendance" in this section.

The Non-executive Directors (including Independent Non-executive Directors) are particularly responsible for bringing an independent judgement on the Board. They take the lead where potential conflicts of interests arise and monitor the Company's reporting and performance in achieving agreed corporate goals and objectives.

In relation to each connected transaction or continuing connected transaction of the Company that requires shareholders' approval, an independent Board committee comprising Independent Non-executive Directors will be formed to give independent opinion on the transaction.

The Company's legal advisors will explain to newly-appointed Directors their responsibilities under the relevant legal and regulatory requirements (including but not limited to the Laws of Hong Kong and the Listing Rules). The Company will also provide to such Directors a memorandum on directors' duties and obligations to assist them understand their responsibilities as directors. The Chairman or the CEO will give a general briefing on the Group and the Company will provide relevant information and organise various activities, for example, site visits, to ensure they properly understand the business and governance policies of the Company.

BOARD OF DIRECTORS *(Continued)*

Responsibilities of directors *(Continued)*

To update Directors' understanding of the Group's operations and business and refresh their knowledge and skills as directors, the Company provides with the Board materials on relevant legal updates and on issues of significance or on new opportunities of the Group and organises regular internal training programmes, covering topics such as corporate governance, assets, financial and human resources management and the PRC laws.

The Directors ensure that they can give sufficient time and attention to the affairs of the Company. All Directors have disclosed, upon their appointment, to the Company their offices held in public companies or organisations and other significant commitments (if any). Information of Directors' office in other companies is set out on pages 16 to 17 and on the Company's website.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' dealing in securities of the Company. Each Director is required to confirm with the Company in writing, at least twice a year, that he has complied with the Model Code. The Directors have confirmed that they complied with the required standards thereof throughout the year ended 31 December 2007. The Company has also established a written guideline on no less exacting terms than the Model Code for the Group's relevant employees in respect of their dealings in the securities of the Company.

Board attendance

	No. of meetings attended during 2007		
	Board	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Zhao Qingsheng (Chairman) *	7/7		
Mr. Jin Yongsheng (CEO) ^	19/19		1/1
Mr. Wu Fapei *	3/7		
Mr. Jin Jianlong *^	2/7		
Mr. Yu Yuqun *	3/7		
Mr. Shi Caixing *	3/7		
Mr. Qin Gang *	2/7		
Mr. Wang Yusuo #	3/12		
Mr. Cai Hongqiu #	2/12		
Mr. Zhao Xiaowen #	2/12		
Mr. Zhou Kexing #	3/12		
Mr. Yu Jianchao #	2/12		
Mr. Cheong Siu Fai #	10/10		
Non-executive Directors			
Mr. Yang Yu *	3/7		
Ms. Zhao Baoju #	3/12		
Independent Non-executive Directors			
Mr. Wong Chun Ho	4/19	3/3	
Mr. Gao Zhengping	7/19	2/3	1/1
Mr. Shou Binan	5/19	1/3	1/1

BOARD OF DIRECTORS *(Continued)*

Board attendance *(Continued)*

Regarding the re-appointment of Independent Non-executive Directors and determination of the terms of service of the Non-executive Director, a Nomination Committee meeting was held in January 2008 with 100% attendance.

Notes:

* Messrs Zhao Qingsheng, Wu Fapei, Jin Jianlong, Yu Yuqun, Shi Caixing, Qin Gang and Yang Yu were appointed as Director with effect from 21 September 2007.

\# Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen, Zhou Kexing, Yu Jianchao and Cheong Siu Fai and Ms. Zhao Baoju resigned as Director with effect from 15 October 2007.

^ Mr. Jin Jianlong was appointed as member and chairman of the Remuneration Committee with effect from 15 October 2007 and Mr. Jin Yongsheng resigned from such positions on the same date.

APPOINTMENT AND RESIGNATION OF DIRECTORS

The Company has established the “Policy on the Appointment of Directors” which is a formal, considered and transparent procedure for the appointment of Directors.

The Nomination Committee identifies and recommends to the Board of suitable candidates as Director, taken into account various criteria such as their education, qualification and experience to determine whether their attributes are relevant to the business of the Group and can complement to the capabilities of existing Directors, and their independence (in the case of candidates as Independent Non-executive Director). The committee also makes recommendations to the Board on matters relating to the re-appointment of and secession planning for Directors.

After the change in controlling shareholder of the Company, the Board (i) nominated and appointed Messrs Zhao Qingsheng, Wu Fapei, Jin Jianlong, Yu Yuqun, Shi Caixing, and Qin Gang as Executive Director and Yang Yu as Non-executive Director on 21 September 2007, and (ii) approved the resignation of Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen, Zhou Kexing, Yu Jianchao and Cheong Siu Fai as Executive Director and Ms. Zhao Baoju as Non-executive Director on 15 October 2007.

All new Directors are subject to election by shareholders at the first general meeting (for those who fulfil a casual vacancy) or the first AGM (for those who act as addition to the existing Board) after their appointment.

The articles of association of the Company stipulate that all Directors are subject to retirement by rotation at least once every three years and retiring Directors are eligible for re-election at the AGM at which they retire.

All Non-executive Directors (including the Independent Non-executive Directors) are appointed for a specific term of three years, subject to retirement by rotation.

REMUNERATION OF DIRECTORS

The Company's policy on remuneration is to maintain fair and competitive packages under a formal and transparent procedure to attract and retain Directors.

The level of fees is mainly based on the Directors' experience, scope of duties and time committed to the Company, prevailing market rates, salaries paid by comparable companies and remuneration packages elsewhere in the Company and its subsidiaries.

The Remuneration Committee has established the "Policy on Directors' Remuneration", a formal and transparent procedure for setting Executive Directors' remuneration and for fixing remuneration packages of all Directors. The committee will review such policy periodically, and consult the Chairman and/or CEO regarding proposed remuneration of other Executive Directors in formal or informal meetings. No Director shall be involved in deciding his own remuneration.

Details of the Remuneration Committee are set out in the section headed "Delegation by the Board" in this report.

DELEGATION BY THE BOARD

Management functions

The Board gives clear directions as to the power delegated to the management for the administrative and management functions of the Company.

Division of functions reserved for the Board and those delegated to management are set out clearly in writing and will be reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the effective discharge of the Board's decision.

The senior management, led by the CEO, is responsible for executing strategies and plans set out by the Board and reporting to the Board periodically to ensure proper execution. Functions and responsibilities of the Board are set out in the section headed "Board of Directors" in this report.

Board committees

To streamline its duties and uphold good corporate governance, the Board allocates certain of its executive and monitoring functions to three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

Each of the committees has adopted clear written terms of reference setting out details of its authorities and duties and obligations on no less exacting terms than the CG Code to report its findings, decisions and recommendations to the Board. Full terms of reference of each of the committees are available on request and on the Company's website.

In common with the Board, senior management will give adequate resources to the committees. The committees can also seek independent professional advice where necessary at the Company's expense and is supported by the Company Secretary.

DELEGATION BY THE BOARD *(Continued)*

Board committees *(Continued)*

Audit Committee

The Audit Committee is chaired by Mr. Wong Chun Ho, who possesses professional accounting and financial qualifications. Its other members are Mr. Gao Zhengping and Mr. Shou Binan. All of the above three are Independent Non-executive Directors and none of them is a former partner of the external auditors of the Group. Its major responsibilities are:

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

The committee meets the external auditors, Qualified Accountant and senior management of the Company regularly. During 2007 and up to the date of this report, the committee held five meetings and reviewed:

- the remuneration and terms of engagement of the external auditors for 2007;
- the effectiveness of the financial reporting procedures and internal controls of the Group for each of the two years ended 31 December 2006 and 2007 and the six months ended 30 June 2007, and made recommendations to the Board;
- the integrity of the Group's annual accounts for the two years ended 31 December 2006 and 2007 and the interim results for the six months ended 30 June 2007;
- the continuing connected transactions of the Group during 2006 and 2007;
- the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- the nature and scope of audit and reporting obligations of external auditors;
- the policy on engagement of external auditors to supply non-audit services; and
- the external auditors' management letters and management's response thereto.

DELEGATION BY THE BOARD *(Continued)*

Board committees *(Continued)*

Audit Committee *(Continued)*

In 2007 and up to the date of this report, the Company engaged KPMG as the external auditors of the Group. KPMG provided audit and audit related services to the Group with remuneration and terms of engagement approved by the Audit Committee, as follows:

Nature of service	**Fees** RMB
Review of the Group's financial statements for the six months ended 30 June 2007	330,000
Audit of the Group's financial statements and performance of agreed-upon procedures on certain continuing connected transactions for the year ended 31 December 2007	1,580,000
Performance of agreed-upon procedures on the Group's indebtedness statement as at 30 June 2007	80,000

Save as disclosed above, the Group did not engage KPMG for any other services during 2007 and up to the date of this report.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Jin Jianlong, an Executive Director. Its other members are Mr. Gao Zhengping and Mr. Shou Binan, both are Independent Non-executive Directors.

It establishes and supervises a formal and transparent procedure for setting the Company's remuneration policies, including determining and reviewing the remuneration packages of Directors and senior management.

During 2007 and up to the date of this report, the Remuneration Committee reviewed:

- the fees payable to the Independent Non-executive Directors and the Directors newly appointed in 2007, having consulted the chairman of the Board; and

- the salaries of the former Directors, Mr. Cheong Siu Fai and Ms. Zhao Baoju, for their service of directorship during their term of office.

Nomination Committee

The Nomination Committee is chaired by Mr. Jin Yongsheng, an Executive Director. Its other members are Mr. Wong Chun Ho and Mr. Gao Zhengping, both are Independent Non-executive Directors.

It identifies and recommends to the Board of suitable candidates as Director, makes recommendations to the Board on matters relating to the appointment and reappointment of and secession planning for Directors, and assesses the independence of Independent Non-executive Directors.

The work performed by the Nomination Committee in 2007 and up to the date of this report included:

- review of the re-appointment and independence of the three Independent Non-executive Directors; and

- determination of the term of office of the Non-executive Director, Mr. Yang Yu, who was appointed with effect from 21 September 2007.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Board is collectively responsible for ensuring a balanced, clear and understandable assessment of the Group's annual and interim reports, price-sensitive announcements and other financial disclosures and reports under statutory requirements.

In order to enable the Board to make an informed assessment of the financial and other information put before its approval, Directors are provided with financial and other operational information and analytical review reports of the Group on a monthly basis. Management would also meet with Directors regularly to present the quarterly results and discuss any variance between the budget and the actual results for monitoring purpose.

The annual and interim results of the Group are announced in a timely manner within four months and three months respectively after the end of the respective financial periods. The integrity of the financial statements is monitored by the Audit Committee. A statement of Directors' responsibility for financial statements is set out in the Directors' Report on pages 30 to 39. A statement of the reporting responsibility of the external auditors is set out in the Independent Auditor's Report on page 40.

Internal controls

Internal control is a process effected by an entity's board, management and other personnel to provide reasonable but not absolute assurance regarding the achievement of corporate objectives. The Group's internal control system is established to manage rather than eliminate all risks of failure, to safeguard shareholders' investment and assets from misappropriation, to maintain proper accounts and to ensure compliance with regulations towards the achievement of the Group's objectives.

The Board has the responsibility to ensure that sound and effective internal controls are maintained by the Group, while management is charged with the responsibility to establish and implement an internal control system.

The Board conducts a review on the effectiveness of the internal control system of the Group annually. For the year 2007, the Board engaged an independent advisor to assess and report on the adequacy and effectiveness of the established internal control arrangements of the Group by performing independent reviews and testing. The review covered financial, operational and compliance controls and risk management functions of the Group. No major deficiencies were identified in the review.

The Board has approved the internal audit report prepared by the independent advisor, and the Group has adopted the independent advisor's recommendations and has commenced enhancement and rectification process since March 2008 aimed at further strengthening its internal control, which is a continual process. The management is carrying out certain recommendations made to the operations of the business and shall conduct review of these procedures in a timely manner. As recommended in the internal audit report, the Group will review the need for an internal audit function.

The Audit Committee plays an essential role in overseeing the Group's internal control system. To ensure sufficient resources are provided for the Audit Committee to make informed decisions, information and assessment of financial and non-financial controls, management letters from the external auditors on matters identified during the course of statutory audit and review as well as the internal audit report from the independent advisor were presented to the committee. The committee discusses with the management twice a year for ensuring that they have discharged their duty to establish and implement an effective internal control system. The committee will report its findings and recommendations to the Board for consideration.

Regarding the dissemination of price sensitive information, the Company has procedures in place to monitor the communication and reporting of such information and make immediate announcements pursuant to the "Guide on Disclosure of Price-sensitive Information" issued by the Stock Exchange in 2002. Only delegated Directors and officers of the Company are authorised to respond to external enquiries in allocated areas of issues. Directors and relevant employees of the Group are required to follow the Model Code when dealing with the Company's securities.

The Directors confirmed that they had conducted a review on the effectiveness of the internal control system of the Group in accordance with the Listing Rules and the Group's operational procedure guidelines. The Board considered the internal control system of the Group effective and adequate throughout the year.

COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Board believes that effective communication of full and clear information of the Company is the key to enhance corporate governance standards and shareholders' confidence.

The Company holds conferences with analysts and the press to announce its annual and interim results. The Directors and designated senior management maintain on-going dialogue with investors and analysts through one-to-one meetings, roadshows and site visits.

The Company also keeps investors informed of its latest development via various publications such as press releases, announcements and annual and interim reports, which are available on the Company's website.

AGM provides a constructive forum to maintain regular and mutual communication with shareholders. The Company will arrange the chairman of the Board and the respective chairman of each of the Board committees (including the Independent Board Committee, where applicable), or if failing so due to unexpected and uncontrollable reasons, his/their duly appointed delegate(s), to attend the general meetings to exchange views with shareholders and answer their questions.

Separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.

To ensure the votes cast are properly counted and recorded, it is the current practice of the Company to appoint representatives of its branch share registrar as scrutineer of the voting procedures in general meetings.

Shareholders' rights

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

Shareholders have the right to demand a poll in a general meeting pursuant to the Listing Rules and the articles of association of the Company. The procedures for and rights of demand a poll are set out in the circulars accompanying the general meeting notices dispatched to shareholders. The chairman of the general meeting will explain the procedures for demanding and conducting a poll at the commencement of such meeting.

Pursuant to article 58 of the articles of association of the Company, any shareholder(s) (at the date of deposit of requisition holding not less than 10% of the paid up capital of the Company carrying voting right at a general meeting) can require an extraordinary general meeting ("EGM") by sending a written requisition together with the proposed agenda items to the Board or the Company Secretary. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/themselves may do so in the same manner, and all reasonable expenses incurred by him/them therefrom can be reimbursed by the Company.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

Effective communication *(Continued)*

General meetings held in 2007

In 2007, the Company held one AGM and one EGM.

The most recent general meeting was the EGM held on 11 December 2007 at Room Prestige, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong. A resolution was proposed therein and 100% of votes were cast in favour of the resolution. The proposed resolution was therefore passed as an ordinary resolution of the Company. Extract of the resolution is as follows:

- the product sales agreement (the "Product Sales Agreement") dated 1 November 2007 entered into between the Company and China International Marine Containers (Group) Co., Ltd. ("CIMC") in respect of the sale and purchase of transportation equipment manufactured by CIMC, its subsidiaries and/or associates, and transactions contemplated under the Product Sales Agreement and the implementation thereof; and

- the proposed annual caps in relation to the transactions contemplated under the Product Sales Agreement for the period from 1 November 2007 to 31 December 2007 and each of the two financial years ending 31 December 2008 and 2009.

Full text of the above resolution is set out in the notice of extraordinary general meeting contained in the circular of the Company dated 23 November 2007. The results of the EGM were published on the websites of the Stock Exchange and the Company.

Investor relations contacts

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

By phone:	(852) 2528 9386
By fax:	(852) 2865 9877
By post:	Room 3104, 31st Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong Attention to: Mr. Cheong Siu Fai
By email:	enric@enric.com.hk

CHANGE OF ARTICLES OF ASSOCIATION

Throughout the year ended 31 December 2007, no amendment was made to the articles of association of the Company.

By order of the Board
Zhao Qingsheng
Chairman

Hong Kong, 14 March 2008

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of integrated business solutions in the energy equipment industry and the design, manufacture and sale of specialised gas equipment. Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's profit or loss for the year then ended. In preparation of the financial statements, the Directors are required to:

(a) select appropriate accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;

(b) explain any significant departure from accounting standards; and

(c) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for employing reasonable procedures to prevent and detect fraud and other irregularities.

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at such date are set out in the financial statements on pages 41 to 94.

DIVIDENDS AND RESERVES

The Directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: nil).

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2007 is as follows:

	% of the Group's total	
	sales	purchases
The largest customer (Note 1)	23.6%	–
Five largest customers in aggregate	32.2%	–
The largest supplier	–	34.0%
Five largest suppliers in aggregate (Note 2)	–	55.9%

Notes:

1. The largest customer of the Group is a company in which Xinao Group International Investment Limited ("XGII"), holding more than 5% of the issued shares of the Company as at 31 December 2007, has substantial interests in its capital. Mr. Wang Yusuo ("Mr. Wang") and Ms. Zhao Baoju ("Ms. Zhao"), both of whom are former Directors, have substantial interests in XGII. Further details are set out in the section headed "Connected Transactions and Directors' Interests in Contracts" in this report.

2. One of the top five suppliers of the Group is a company in which China International Marine Containers (Group) Co., Ltd. ("CIMC"), holding more than 5% of the issued shares of the Company as at 31 December 2007, has substantial interests in its capital. Further details are set out in the section headed "Connected Transactions and Directors' Interests in Contracts" in this report.

3. Save as disclosed above, at no time during the year have the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in any of the five largest customers or suppliers of the Group.

PROPERTY, PLANT AND EQUIPMENT

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

RETIREMENT SCHEMES

The Group participates in government pension schemes for its employees in Mainland China and operates a Mandatory Provident Fund scheme for its employees in Hong Kong. Particulars of these schemes are set out in note 29 to the financial statements.

CHARITABLE DONATIONS

During the year, charitable donations made by the Group amounted to RMB20,000 (2006: RMB1,640,000).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

BANK LOANS

Details of bank loans of the Group at 31 December 2007 are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

DIRECTORS

At the date of this report, the Board comprised:

Executive Directors

Mr. Zhao Qingsheng *(Chairman)*
Mr. Jin Yongsheng *(Chief Executive Officer)*
Mr. Wu Fapei
Mr. Jin Jianlong
Mr. Yu Yuqun
Mr. Shi Caixing
Mr. Qin Gang

Non-executive Director

Mr. Yang Yu

Independent Non-executive Directors

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

Save as Messrs Jin Yongsheng, Wong Chun Ho, Gao Zhengping and Shou Binan, all the Directors named above were appointed with effect from 21 September 2007 and Mr. Zhao Qingsheng was appointed as the Chairman on 15 October 2007.

After the change in controlling shareholder of the Company, (i) Mr. Wang resigned as Executive Director and Chairman; (ii) Messrs Cai Hongqiu, Zhao Xiaowen, Zhou Kexing, Yu Jianchao and Cheong Siu Fai resigned as Executive Director; and (iii) Ms. Zhao resigned as Non-executive Director, all with effect from 15 October 2007.

At the forthcoming annual general meeting, (i) Messrs Zhao Qingsheng, Wu Fapei, Jin Jianlong, Yu Yuqun, Shi Caixing, Qin Gang and Yang Yu, being the new Directors, will retire and, being eligible, offer themselves for re-election in accordance with article 86(3) of the Company's articles of association; and (ii) Messrs Jin Yongsheng, Wong Chun Ho, Gao Zhengping and Shou Binan will retire by rotation and, being eligible, offer themselves for re-election in accordance with articles 87(1) and 87(2).

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2007, the interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of Director	Capacity	Interests in ordinary shares of the Company	% of total issued share capital of the Company (Note)
Mr. Jin Yongsheng	Beneficial owner	840,000	0.18%

Note:

The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2007, which was 459,000,000 ordinary shares.

Save as disclosed above, as at 31 December 2007, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2007, 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	Interests in ordinary shares of the Company	% of total issued share capital of the Company (Note 1)
Charm Wise Limited ("Charm Wise")	Beneficial owner	190,703,000 (Note 2)	41.55%
China International Marine Containers (Hong Kong) Limited	Interest of controlled corporation	190,703,000 (Note 2)	41.55%
CIMC	Interest of controlled corporation	190,703,000 (Note 2)	41.55%
Mr. Wang	Interest of controlled corporation and beneficial owner	45,441,000 (Note 3)	9.90%
Ms. Zhao	Interest of controlled corporation and interest of spouse	45,441,000 (Note 3)	9.90%
Commonwealth Bank of Australia	Interest of controlled corporation	44,963,000	9.80%
XGII	Beneficial owner	43,441,000 (Note 3)	9.46%
DnB Nor Asset Management (Asia) Limited	Investment manager	35,340,000	7.70%
INVESCO Hong Kong Limited	Investment manager	27,020,000	5.89%
Symbiospartners Private Equity Limited	Beneficial owner	26,016,000	5.67%

Notes:

1. The percentages are calculated based on the total number of issued shares of the Company as at 31 December 2007, which was 459,000,000 ordinary shares.

2. The three references to 190,703,000 shares refer to the same block of shares held by Charm Wise, which is wholly owned by China International Marine Containers (Hong Kong) Limited, a wholly-owned subsidiary of CIMC.

3. The 45,441,000 shares comprise (i) 43,441,000 shares relating to the same block of shares held by XGII, which is beneficially owned as to 50% by Mr. Wang and as to 50% by Ms. Zhao; and (ii) 2,000,000 shares beneficially owned by Mr. Wang, and Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in the same shares.

Save as disclosed above, as at 31 December 2007, (i) the register required to be kept under section 336 of the SFO recorded no other interests or short positions in the shares or underlying shares of the Company; and (ii) the Directors are not aware of any other persons or corporations who were interested in 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTIONS

Share option scheme

The Company has adopted a share option scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company on 12 July 2006 (the "2006 Scheme"). The purpose of the 2006 Scheme is to provide incentives and rewards to employees and Directors and eligible persons for their contributions to the Group.

Under the scheme, the Board is authorised, at its absolute discretion, to invite any Directors (including Non-executive and Independent Non-executive Directors) or any employees (whether full-time or part-time) of any member of the Group, and any eligible persons to subscribe for shares of the Company.

The 2006 Scheme has a term of ten years and will expire on 11 July 2016, after which no further options will be granted. The share options are exercisable for a period to be notified by the Board to each participant, which shall not exceed 10 years from the date of grant. There is no minimum period which an option must be held before it can be exercised, but the Board is authorised to impose at its discretion any such minimum period at the date of grant. The share options granted must be taken up within 14 days from the date of grant and on acceptance of each grant, a consideration of HKD1.00 is payable.

The exercise price of an option shall be at least the highest of (i) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of offer; (ii) the average price of the closing prices of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five consecutive trading days immediately preceding the date of offer; and (iii) the nominal value of a Company's share.

The maximum number of shares in respect of which options may be granted under the 2006 Scheme shall not exceed 44,520,000 shares, which represents 10% of the issued share capital of the Company as at the date of adoption of such scheme. However, the Board may seek approval of the shareholders in general meeting for refreshing the 10% limit and/or for granting options beyond the 10% limit. Notwithstanding the refreshed limit and granting of options beyond the limit, the maximum number of shares which may be granted must not exceed 30% of the total number of shares in issue from time to time.

As at the date of this report, a total of 44,520,000 shares, representing 9.70% of the issued share capital of the Company are available for issue under the 2006 Scheme.

The maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Where further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant under the 2006 Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be subject to the shareholders' approval in general meeting with such participant and his associates abstaining from voting.

As at the date of this report, no options have been granted under the 2006 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 the Pre-GEM Listing Share Option Plan (the "2005 Plan"). The principal terms of the 2005 Plan are substantially the same as those of the 2006 Scheme, except that:

1. the purpose of the 2005 Plan is to recognise the contribution of certain existing and past employees and directors of the Group to the growth of the Group and/or to the Company's listing of shares on the Growth Enterprise Market of the Stock Exchange ("GEM") in 2005;

2. the total number of shares available for issue under the 2005 Plan is 13,800,000 which represents 3.0% of the issued share capital as at the date of this report. The maximum entitlement of each participant must not exceed 13,800,000 shares;

3. the exercise price of options is set at HKD1.50;

4. the minimum periods which an option must be held before it is exercisable are: (i) six months after 18 October 2005 for 50% of the options granted; and (ii) 24 months after 18 October 2005 for the remaining 50% of the options granted; and

5. the 2005 Plan was valid from 26 September 2005 to 17 October 2005, after which no further options will be granted but its provisions will remain in force until 25 September 2015 so as to give effect to the exercise of any options granted.

As of the date of this report, all options under the 2005 Plan have been granted and accepted by the respective participants. During the year ended 31 December 2007, movements of the options under the 2005 Plan were as follows:

				Number of share options		
Grantee	Date of grant	Exercisable period	Exercise price per share HKD	outstanding at 1 January 2007	exercised during the year	outstanding at 31 December 2007
Mr. Wang (Note 1)	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000	4,000,000 (Note 5)	–
Mr. Jin Yongsheng	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,000,000	2,000,000 (Note 6)	–
Mr. Cai Hongqiu (Note 1)	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,400,000	1,400,000 (Note 6)	–
Mr. Zhao Xiaowen (Note 1)	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	1,000,000 (Note 6)	–
Mr. Zhou Kexing (Note 1)	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	1,000,000 (Note 6)	–
Mr. Yu Jianchao (Note 1)	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	1,000,000 (Note 6)	–
Mr. Cheong Siu Fai (Note 1)	26.09.2005	18.04.2006 – 25.09.2015	1.50	700,000	700,000 (Note 7)	–
Employees	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,700,000	2,700,000 (Note 6)	–
				13,800,000	13,800,000	–

No share options were granted, lapsed or cancelled during the year ended 31 December 2007.

Notes:

1. Such grantee resigned from directorship of the Company with effect from 15 October 2007.

2. Subject to certain vesting conditions as stated in the 2005 Plan, 50% of the options granted to any grantee become exercisable upon the expiry of six months after 18 October 2005 up to 10 years from the date of grant of the options; another 50% of the options granted to any grantees become exercisable upon the expiry of 24 months after 18 October 2005 up to 10 years from the date of grant of the options.

3. 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.

4. 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.

5. The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HKD6.78.

6. The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HKD7.25.

7. The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HKD7.33.

DIRECTORS' INTERESTS IN COMPETING INTERESTS

At the date of this report, the following Directors were interested in the following businesses apart from the Group's business, which competes or may compete, either directly or indirectly with the Group's business:

Name of Director	Name of entity *(Note)*	Description of business	Nature of interest of the Director in the entity
Jin Jianlong	Nantong CIMC Tank Equipment Co., Ltd.	The production and sales of stainless steel tank containers	director
Wu Fapei	Nantong CIMC Tank Equipment Co., Ltd.	(same as above)	director
Shi Caixing	Zhangjiagang CIMC Sanctum Cryogenic Equipment Co., Ltd.	The design, production, sales and technical service of cryogenic storage and transportation equipment	director

Note:

1. All the abovementioned entities have names in Chinese only, and the corresponding English names used in this report are merely for reference.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group carried out the following transactions which constituted connected transactions under Chapter 14A of the Listing Rules:

Continuing connected transactions subject to annual review

On 31 January 2005, the Group entered into a product sales agreement with Xinao Gas Holdings Limited ("Xinao Gas"), representing itself and as trustee of its subsidiaries (collectively, "Xinao Gas Group") (Note 1) under which the Group agreed to sell gas-related equipment to Xinao Gas Group for their own use in the ordinary course of business operation for a term of three years commencing on 1 January 2005. During 2007, the Group's sales to Xinao Gas Group amounted to RMB221,957,000.

On 4 October 2005, the Group entered into a product sales and finance lease agreement with Hebei Finance Leasing Company Limited ("Hebei Finance") (note 2). Hebei Finance agreed to purchase gas-related equipment from the Group for the purpose of providing finance leasing to customers of the Group for a term of three years commencing on 1 January 2005. For the year ended 31 December 2007, the Group had no sales to Hebei Finance.

On 1 November 2007, the Group entered into a product sales agreement with CIMC (Note 3) under which the Group agreed to purchase from CIMC and its subsidiaries and associates (collectively, the "Seller Group") transportation equipment for a term of two years commencing on 1 November 2007. During the period from 1 November 2007 to 31 December 2007, the Group's purchase from the Seller Group amounted to RMB14,843,000.

On 3 December 2007, the Group entered into a product sales agreement with CIMC under which the Group agreed to sell to CIMC and its subsidiaries and associates (collectively, the "Purchaser Group") energy equipment and gas storage and transportation equipment for the purpose of providing finance lease by the Purchaser Group to customers referred by the Group and/or for the purpose of manufacturing operation of the Purchaser Group. The term of agreement is from 3 December 2007 to 31 December 2007. During the period from 3 December 2007 to 31 December 2007, the Group's sales to the Purchaser Group amounted to RMB12,721,000.

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

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or from independent third parties; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has received from the auditors of the Company a letter reporting that the above transactions:

1. have received the approval of the Board;

2. have been entered into in accordance with the pricing policies of the Company;

3. have been entered into in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the relevant annual caps.

Other connected transactions

On 1 September 2003, the Group entered into a tenancy agreement with Hebei Veyong Group Company Limited ("Hebei Veyong") (note 2) under which the Group leased certain property located in Shijiazhuang in the PRC from Hebei Veyong for office purpose. The contract term is 20 years commencing on 1 September 2003 with an annual rental of RMB3,600. The rental expenses incurred for the year were RMB3,600.

On 30 September 2004, the Group leased two floors (including the ancillary facilities and office equipment therein) in a building in Langfang in the PRC from Xinao Group Solar Energy Company Limited ("Xinao Solar") (Note 2) for office purpose. The contract term is three years commencing on 30 September 2004 with an annual rental of RMB520,000. The rental expenses incurred for the year were RMB390,000.

On 7 February 2005, the Group entered into a tenancy agreement with Xinao Gas Investment Group Limited ("XGIGL") (Note 1) under which the Group leases certain properties in a building in Hong Kong from XGIGL for office purpose. The contract term is three years commencing on 1 February 2005 with an annual rental of HKD455,544. During the year, the rental expenses incurred were RMB454,000.

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

On 30 September 2004, the Group and Langfang Xinao Property Management Company Limited ("LXPM") (Note 2) entered into a property management contract, under which LXPM would provide certain property management services to the Group with a term of three years commencing on 1 October 2004 and with an annual service charge of RMB180,000. The service charge incurred for the year was RMB135,000.

During the year, Xinao Gas Group supplied piped gas and liquefied petroleum gas to the Group for its own consumption. The gas charges incurred for the year amounted to RMB2,816,000.

During the year, Xinao Gas Group provided gas connection services of RMB27,000 to the Group.

Save as disclosed above, no other contracts of significance to which the Company or its subsidiaries or its holding company or a subsidiary of its holding company, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Save as disclosed above, no other contracts of significance between the Company or its subsidiaries and a controlling shareholder or its subsidiaries subsisted at the end of the year or at any time during the year.

Notes:

1. Xinao Gas Group, XGIGL and LXGE are companies in which Mr. Wang and Ms. Zhao have substantial interests through XGII.

2. Hebei Finance, Hebei Veyong, LXPM and Xinao Solar are associates of Mr. Wang.

3. CIMC is the holding company of Charm Wise, a substantial shareholder of the Company.

4. Save as Xinao Gas and XGIGL, the abovementioned connected persons have names in Chinese only, and the corresponding English names used in this report are merely for reference.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' transactions of the securities of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code in their securities transactions throughout the year ended 31 December 2007.

CONFIRMATION OF INDEPENDENCE

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

CORPORATE GOVERNANCE

The Company complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to 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 is set out on pages 19 to 29. Details of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are also given in the same 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.

PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

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

By order of the Board
Zhao Qingsheng
Chairman

Hong Kong, 14 March 2008

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Enric Energy Equipment Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Enric Energy Equipment Holdings Limited (the "Company") set out on pages 41 to 94, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central

Hong Kong, 14 March 2008

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	4	8,761,854	5,150,569
Other net income/(expenses)	4	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	5(a)	(11,716,448)	(8,677,246)
Profit before taxation	5	124,171,177	101,790,991
Income tax	6(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	11		
– Basic		0.264	0.217
– Diluted		0.260	0.212

The notes on pages 47 to 94 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007 RMB	2006 RMB
Non-current assets			
Property, plant and equipment	12	208,092,809	173,563,440
Construction in progress	13	15,074,608	39,501,800
Lease prepayments	14	40,705,310	29,902,292
Intangible assets	15	6,759,251	7,801,264
Deposits for land use right		6,112,320	6,112,320
Deferred tax assets	26	2,195,763	1,884,384
		278,940,061	258,765,500
Current assets			
Inventories	17	276,905,649	214,786,252
Trade and bills receivable	18	194,116,262	70,471,040
Deposits, other receivables and prepayments	19	36,778,081	22,431,418
Amounts due from related parties	31(b)(I)	300,000	21,017,425
Cash at bank and in hand	20	273,875,471	318,721,317
		781,975,463	647,427,452
Current liabilities			
Bank loans	21	140,899,217	167,733,123
Trade and bills payable	22	168,618,289	115,198,434
Other payables and accrued expenses	23	85,743,772	86,257,047
Income tax payable		3,726,135	2,123,531
Amounts due to related parties	31(b)(II)	12,080,449	26,750,838
Provisions	25	2,605,539	2,605,539
Deferred income	27	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	28	4,768,770	4,630,080
Reserves	28	641,073,353	500,894,360
TOTAL EQUITY		645,842,123	505,524,440

Approved and authorised for issue by the Board of Directors on 14 March 2008.

Jin Yongsheng
Director

Jin Jianlong
Director

The notes on pages 47 to 94 form part of these financial statements.

BALANCE SHEET

At 31 December 2007

	Note	2007 RMB	2006 RMB
Non-current assets			
Investments in subsidiaries	16	119,825,371	119,825,371
		119,825,371	119,825,371
Current assets			
Amounts due from a subsidiary	32	267,977,050	259,348,365
Cash at bank and in hand	20	16,799,004	5,262,449
		284,776,054	264,610,814
Net current assets		284,776,054	264,610,814
Total assets less current liabilities		404,601,425	384,436,185
NET ASSETS		404,601,425	384,436,185
CAPITAL AND RESERVES			
Share capital	28	4,768,770	4,630,080
Reserves	28	399,832,655	379,806,105
TOTAL EQUITY		404,601,425	384,436,185

Approved and authorised for issue by the Board of Directors on 14 March 2008.

Jin Yongsheng
Director

Jin Jianlong
Director

The notes on pages 47 to 94 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Note	2007 RMB	2006 RMB
Total equity at 1 January	28	505,524,440	405,258,050
Net profit for the year attributable to equity shareholders of the Company	28	118,876,059	96,503,519
Movements in equity arising from capital transactions:			
Equity-settled share-based transactions	28	1,349,822	3,762,871
Issuance of shares in connection with exercise of share options	28	20,091,802	–
		21,441,624	3,762,871
Total equity at 31 December		645,842,123	505,524,440

The notes on pages 47 to 94 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB	2006 RMB
Operating activities			
Profit before taxation		124,171,177	101,790,991
Adjustments for:			
Depreciation	5(c)	17,304,734	10,767,086
Amortisation of intangible assets	5(c)	1,105,513	924,861
Amortisation of lease prepayments	5(c)	693,982	664,192
Interest income	4	(3,533,701)	(3,673,892)
Interest charges	5(a)	11,169,710	5,073,629
Loss on disposal of property, plant and equipment	4	252,219	4,684,412
Equity-settled share-based payment expenses	5(b)	1,349,822	3,762,871
Foreign exchange (gain)/loss		(102,295)	1,678,610
Operating profit before changes in working capital		152,411,161	125,672,760
Increase in inventories		(62,119,397)	(89,787,437)
(Increase)/decrease in trade and bills receivable		(123,645,222)	1,936,050
(Increase)/decrease in deposits, other receivables and prepayments		(14,346,663)	4,300,114
Decrease/(increase) in amounts due from related parties		20,717,425	(720,126)
Decrease in restricted bank deposits for letters of credit and bills payable		9,330,000	239,422
Increase in trade and bills payable		53,419,855	20,031,272
(Decrease)/increase in other payables and accrued expenses		(513,275)	82,827
(Decrease)/increase in amounts due to related parties		(14,670,389)	17,603,175
Increase in deferred income		1,400,000	–
Increase in provision for product warranties		–	1,323,759
Cash generated from operations		21,983,495	80,681,816
Income tax paid		(4,003,893)	(5,976,864)
Net cash from operating activities		17,979,602	74,704,952
Investing activities			
Payment for acquisition of property, plant and equipment and construction in progress		(69,745,315)	(127,431,549)
Payment for acquisition of lease prepayments		(11,497,000)	–
Deposits for land use right		–	(6,112,320)
Payment for intangible assets		(63,500)	(1,920,000)
Proceeds from disposal of property, plant and equipment		223,943	745,211
Disposal of construction in progress		41,862,242	–
Interest received		3,533,701	3,673,892
Net cash used in investing activities		(35,685,929)	(131,044,766)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB	2006 RMB
Financing activities			
Proceeds from issuance of shares in connection with exercise of share options	28	20,091,802	–
Proceeds from new bank loans		251,760,674	167,733,123
Repayment of bank loans		(276,736,258)	(125,000,000)
Interest paid		(11,169,710)	(5,073,629)
Net cash (used in)/from financing activities		(16,053,492)	37,659,494
Net decrease in cash and cash equivalents		(33,759,819)	(18,680,320)
Cash and cash equivalents at 1 January		292,707,317	313,066,247
Effect of foreign exchange rate changes		(1,756,027)	(1,678,610)
Cash and cash equivalents at 31 December	20	257,191,471	292,707,317

The notes on pages 47 to 94 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (collectively referred to as 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests *(Continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(m) or (n) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently recognised in the balance sheet at cost less impairment losses (see note 1(j)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arsing from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(ii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20 to 30 years
Leasehold improvements	2 to 5 years
Machinery	10 years
Motor vehicles	6 years
Office equipment	5 to 10 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iii) Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less impairment losses (see note 1(j)). Cost comprises direct and indirect costs, related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives of 10 years.

Both the period and method of amortisation are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Lease prepayments

Lease prepayments represent payments for land use rights to the People's Republic of China ("PRC") authorities. Land use rights are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(j)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(i) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries: see note 1(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- intangible assets;
- investments in subsidiaries; and
- goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Services

Revenue from services is recognised in profit or loss at the time when services are rendered.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Unconditional government grants are recognised in profit or loss as revenue when the grants become receivable.

Other government grants are recognised initially in balance sheet when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi using the foreign exchange rates ruling at the transaction dates.

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties *(Continued)*

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purposes of these financial statements. As the Group's operations are predominantly in the PRC, no geographical segment information is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

NOTES TO THE FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES

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*. These disclosures are provided throughout these financial statements, in particular in note 33.

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. These new disclosures are set out in note 28(ix).

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 (see note 38).

3. 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.

4. OTHER REVENUE AND NET INCOME/(EXPENSES)

		2007 RMB	2006 RMB
Other revenue			
Government grants	(i)	**2,035,400**	487,714
Other operating revenue	(ii)	**3,192,753**	988,963
Interest income from bank deposits		**3,533,701**	3,673,892
		8,761,854	5,150,569

Notes:

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

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

4. OTHER REVENUE AND NET INCOME/(EXPENSES) *(Continued)*

	2007 RMB	2006 RMB
Other net income/(expenses)		
Loss on disposal of property, plant and equipment	(252,219)	(4,684,412)
Charitable donations	(20,000)	(1,640,000)
Other net income	568,483	55,702
	296,264	(6,268,710)

5. 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 (note 29)	5,058,819	3,789,307
Equity-settled share-based payment expenses	1,349,822	3,762,871
	77,765,179	54,828,523

NOTES TO THE FINANCIAL STATEMENTS

5. PROFIT BEFORE TAXATION *(Continued)*

(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 5(b) for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 RMB	2006 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.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

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 RMB	2006 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

7. DIRECTORS' REMUNERATION

Details of Directors' remuneration for the year ended 31 December 2007 are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Sub-Total	Share-based payments (note)	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Chairman:							
Wang Yusuo ("Mr. Wang")#	–	713,515	–	–	713,515	363,373	1,076,888
Zhao Qingsheng *	–	–	–	–	–	–	–
Executive Directors:							
Jin Yongsheng	–	611,262	3,917	–	615,179	181,687	796,866
Cai Hongqiu #	–	475,677	–	–	475,677	127,180	602,857
Zhao Xiaowen #	–	351,321	3,030	–	354,351	90,843	445,194
Zhou Kexing #	–	317,118	–	–	317,118	90,843	407,961
Yu Jianchao #	–	237,839	–	–	237,839	90,843	328,682
Cheong Siu Fai ##	–	570,812	9,045	–	579,857	63,590	643,447
Wu Fapei *	–	–	–	–	–	–	–
Jin Jianlong *	–	–	–	–	–	–	–
Yu Yuqun *	–	–	–	–	–	–	–
Shi Caixing *	–	–	–	–	–	–	–
Qin Gang *	–	–	–	–	–	–	–
Non-executive Directors:							
Zhao Baoju #	95,136	–	–	–	95,136	–	95,136
Yang Yu *	–	–	–	–	–	–	–
Independent Non-executive Directors:							
Gao Zhengping	119,499	–	–	–	119,499	–	119,499
Shou Binan	119,499	–	–	–	119,499	–	119,499
Wong Chun Ho	119,499	–	–	–	119,499	–	119,499
	453,633	3,277,544	15,992	–	3,747,169	1,008,359	4,755,528

Resigned on 15 October 2007.

Appointed on 11 January 2007 and resigned on 15 October 2007.

* Appointed on 21 September 2007.

7. DIRECTORS' REMUNERATION *(Continued)*

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

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

Note:

These represent the estimated value of share options granted to the Directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the section headed "Share Options" in the Directors' Report and note 24.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2007, of the five individuals with the highest emoluments, all are Directors whose emoluments are disclosed in note 7.

For the year ended 31 December 2006, of the five individuals with the highest emoluments, four are Directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individual are as follows:

	2006 RMB
Salaries, allowances and benefits in kind	665,600
Retirement scheme contributions	12,480
Share-based payments	193,707
	871,787

The emoluments of the one individual with the highest emoluments for the year ended 31 December 2006 is within the following band:

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

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB1,276,384 (2006: RMB4,447,169) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

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

11. 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 (note 24)	**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 (note 24)	**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

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB	Leasehold improvements RMB	Machinery RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
Cost						
Balance at 1 January 2006	43,022,562	1,875,438	52,261,948	4,459,141	5,304,506	106,923,595
Additions	6,273,616	278,654	7,110,482	5,355,786	3,308,776	22,327,314
Disposals	(5,773,761)	–	(484,877)	(23,320)	(66,951)	(6,348,909)
Transfers from construction in progress	46,873,618	–	31,062,538	–	–	77,936,156
Balance at 31 December 2006	90,396,035	2,154,092	89,950,091	9,791,607	8,546,331	200,838,156
Balance at 1 January 2007	90,396,035	2,154,092	89,950,091	9,791,607	8,546,331	200,838,156
Additions	873,415	919,387	390,319	4,645,720	2,639,688	9,468,529
Disposals	(40,337)	–	(198,474)	(547,499)	(108,438)	(894,748)
Transfers from construction in progress	28,706,345	–	14,135,391	–	–	42,841,736
Balance at 31 December 2007	**119,935,458**	**3,073,479**	**104,277,327**	**13,889,828**	**11,077,581**	**252,253,673**
Accumulated depreciation						
Balance at 1 January 2006	(5,793,919)	(38,777)	(9,224,131)	(894,651)	(1,475,438)	(17,426,916)
Charge for the year	(2,155,081)	(418,216)	(5,973,457)	(1,213,453)	(1,006,879)	(10,767,086)
Written back on disposal	544,034	–	327,792	21,200	26,260	919,286
Balance at 31 December 2006	(7,404,966)	(456,993)	(14,869,796)	(2,086,904)	(2,456,057)	(27,274,716)
Balance at 1 January 2007	(7,404,966)	(456,993)	(14,869,796)	(2,086,904)	(2,456,057)	(27,274,716)
Charge for the year	(4,740,175)	(516,551)	(8,714,677)	(1,802,184)	(1,531,147)	(17,304,734)
Written back on disposal	5,007	–	135,816	184,750	93,013	418,586
Balance at 31 December 2007	**(12,140,134)**	**(973,544)**	**(23,448,657)**	**(3,704,338)**	**(3,894,191)**	**(44,160,864)**
Net book value						
At 31 December 2007	**107,795,324**	**2,099,935**	**80,828,670**	**10,185,490**	**7,183,390**	**208,092,809**
At 31 December 2006	82,991,069	1,697,099	75,080,295	7,704,703	6,090,274	173,563,440

As at 31 December 2007, the Group was in the progress of registering the titles of buildings with net book values of RMB18,034,334 (2006: Nil).

13. CONSTRUCTION IN PROGRESS

	The Group	
	2007 RMB	2006 RMB
At 1 January	**39,501,800**	12,333,721
Additions	**71,773,786**	105,104,235
Transfers to property, plant and equipment	**(42,841,736)**	(77,936,156)
Transfers to lease prepayments	**(11,497,000)**	–
Disposals	**(41,862,242)**	–
At 31 December	**15,074,608**	39,501,800

During the year, the Company adjusted its development strategy and sold a research and development centre with net book value of RMB41,862,242 to a third part at cost.

14. LEASE PREPAYMENTS

	The Group	
	2007 RMB	2006 RMB
Cost		
At 1 January	**32,128,999**	32,128,999
Transfers from construction in progress	**11,497,000**	–
At 31 December	**43,625,999**	32,128,999
Accumulated amortisation		
At 1 January	**(2,226,707)**	(1,562,515)
Charge for the year	**(693,982)**	(664,192)
At 31 December	**(2,920,689)**	(2,226,707)
Net book value		
At 31 December	**40,705,310**	29,902,292

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights have remaining terms ranging from 41 to 48 years as at 31 December 2007.

As at 31 December 2007, the Group was in the progress of registering the titles of land use rights with net book values of RMB11,497,000 (2006: Nil).

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS

	The Group	
	2007	2006
	RMB	RMB
Cost		
At 1 January	**11,008,632**	9,088,632
Additions	**63,500**	1,920,000
At 31 December	**11,072,132**	11,008,632
Accumulated amortisation		
At 1 January	**(3,207,368)**	(2,282,507)
Charge for the year	**(1,105,513)**	(924,861)
At 31 December	**(4,312,881)**	(3,207,368)
Net book value		
At 31 December	**6,759,251**	7,801,264

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

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

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB	RMB
Unlisted shares, at cost	**119,825,371**	119,825,371

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of establishment/ incorporation and operation	Authorised/ registered/ paid-in capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Enric (Bengbu) Compressor Company Limited	PRC 14 March 2002	Registered and paid-in capital of HKD60,808,385	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited	PRC 30 September 2003	Registered and paid-in capital of USD7,000,000	–	100%	Manufacture and sale of pressure vessels
Enric Langfang Investment Limited ("Langfang BVI")	British Virgin Islands 14 September 2004	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric (Langfang) Energy Equipment Integration Company Limited	PRC 28 December 2004	Registered and paid-in capital of HKD50,000,000	–	100%	Provision of integrated business solutions for gas equipment
Beijing Enric Energy Technologies Limited	PRC 16 December 2006	Registered and paid-in capital of HKD40,000,000	–	100%	Research and development of technology for application in natural gas equipment

NOTES TO THE FINANCIAL STATEMENTS

17. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2007 RMB	2006 RMB
Raw materials	114,107,235	69,539,206
Goods in transit	6,304,594	34,970,492
Work in progress	78,402,587	64,219,038
Finished goods	78,091,233	46,057,516
	276,905,649	214,786,252

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

	The Group	
	2007 RMB	2006 RMB
Carrying amount of inventories sold	686,513,120	549,994,345
Reversal of write-down of inventories	(413,516)	(451,506)
	686,099,604	549,542,839

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

18. TRADE AND BILLS RECEIVABLE

	The Group	
	2007 RMB	2006 RMB
Trade debtors and bills receivable	199,484,176	74,142,129
Less: allowance for doubtful debts (note 18(b))	(5,367,914)	(3,671,089)
	194,116,262	70,471,040

18. TRADE AND BILLS RECEIVABLE *(Continued)*

(a) Ageing analysis

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

	The Group 2007 RMB	The Group 2006 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. Further details on the Group's credit policy are set out in note 33(a).

(b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 1(j)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group 2007 RMB	The Group 2006 RMB
At 1 January	**3,671,089**	4,005,175
Impairment loss recognised	**1,718,169**	187,515
Written back	**(21,344)**	(521,601)
At 31 December	**5,367,914**	3,671,089

At 31 December 2007, the Group's trade and bills receivable of RMB7,920,032 (2006: RMB4,914,466) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB5,367,914 (2006: RMB3,671,089) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

18. TRADE AND BILLS RECEIVABLE *(Continued)*

(c) Trade and bills receivable that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007	2006
	RMB	RMB
Neither pass due nor impaired	**91,358,684**	26,238,124
Less than 1 month past due	**43,036,686**	20,647,615
1 to 3 months past due	**27,339,189**	2,563,133
More than 3 months but less than 12 months past due	**29,829,585**	19,778,791
	100,205,460	42,989,539
	191,564,144	69,227,663

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	The Group	
	2007	2006
	RMB	RMB
Advances to suppliers	**29,938,206**	16,501,983
Deposits for bidding, construction work and equipment purchase	**3,108,286**	3,181,136
Staff advances	**2,312,456**	1,310,789
Others	**1,419,133**	1,437,510
	36,778,081	22,431,418

20. CASH AT BANK AND IN HAND

	The Group		The Company	
	2007 RMB	2006 RMB	**2007 RMB**	2006 RMB
Cash and cash equivalents				
– Cash in hand and demand deposits	**236,734,243**	260,786,347	**16,799,004**	5,262,449
– Restricted bank deposits for letters of credit and bills payable within three months of maturity	**20,457,228**	31,920,970	**–**	–
	257,191,471	292,707,317	**16,799,004**	5,262,449
Restricted bank deposits for letters of credit and bills payable with maturity of more than three months	**16,684,000**	26,014,000	**–**	–
	273,875,471	318,721,317	**16,799,004**	5,262,449

21. BANK LOANS

	The Group	
	2007 RMB	2006 RMB
Bank loans – guaranteed	**140,899,217**	167,733,123

The annual rate of interest charged on the bank loans ranged from 5.6% to 7.3% for year ended 31 December 2007 (2006: 5.6% to 6.8%).

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE AND BILLS PAYABLE

	The Group	
	2007 RMB	2006 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:

	The Group	
	2007 RMB	2006 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.

23. OTHER PAYABLES AND ACCRUED EXPENSES

	The Group	
	2007 RMB	2006 RMB
Advances from customers	40,871,121	47,274,840
Payables for construction work	14,753,860	8,480,272
Other taxes payable	7,896,645	10,168,089
Accrued expenses	6,912,425	5,413,199
Employees' bonus and welfare	8,654,992	8,187,533
Other surcharges payable	2,697,663	2,308,320
Directors' remuneration	955,708	2,531,890
Others	3,001,358	1,892,904
	85,743,772	86,257,047

24. 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 then 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 HKD1.50, which was determined based on the new issue price of the Company's shares on 18 October 2005 (the "Listing Date").

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

On 12 July 2006, the Company's shareholders passed a resolution to approve the adoption of another share option scheme (the "Main Board Share Option Scheme"). No options were granted under the Main Board Share Option Scheme during the year ended 31 December 2007 (2006: nil).

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

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

No options were exercised during the year ended 31 December 2006, and the options outstanding as at 31 December 2006 had a weighted average remaining contractual life of 8.7 years.

The movements in the number of share options during the year ended 31 December 2007 are as follows:

	2007	
	Exercise price	Number of options
Outstanding at 1 January 2007	HKD1.50	13,800,000
Exercised during the year	HKD1.50	(13,800,000)
Outstanding at 31 December 2007		–

The weighted average share price at the date of exercise for the share options exercised during the year was HKD7.12.

NOTES TO THE FINANCIAL STATEMENTS

25. PROVISION FOR PRODUCT WARRANTIES

	The Group	
	2007	2006
	RMB	RMB
At 1 January	**2,605,539**	1,281,780
Additional provisions made	**6,704,427**	6,748,284
Provisions utilised	**(6,704,427)**	(5,424,525)
At 31 December	**2,605,539**	2,605,539

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

26. DEFERRED TAX ASSETS

The Group

Deferred tax arising from:	Impairment losses for trade and other receivables RMB	Write-down of inventories RMB	Provision for product warranties RMB	Depreciation allowances in excess of the related depreciation RMB	Amortisation of intangible assets RMB	Total RMB
At 1 January 2006	–	–	–	–	–	–
Credited to profit or loss	1,180,140	253,082	451,162	–	–	1,884,384
At 31 December 2006	1,180,140	253,082	451,162	–	–	1,884,384
At 1 January 2007	1,180,140	253,082	451,162	–	–	1,884,384
Credited/(charged) to profit or loss	564,303	65,433	(164,679)	235,922	(389,600)	311,379
At 31 December 2007	**1,744,443**	**318,515**	**286,483**	**235,922**	**(389,600)**	**2,195,763**

27. DEFERRED INCOME

Deferred income represents research and development funds obtained from the government through a public university in the PRC during the year ended 31 December 2007, which are for the purposes of sponsoring the costs of research and development of hydrogen refuelling station equipment and technologies incurred by the Group. The research and development funds will be recognised as income when the aforesaid equipment and technologies have been completed.

28. CAPITAL AND RESERVES

(a) The Group

	Share capital RMB	Share premium RMB (iii)	Contributed surplus RMB (iv)	Capital reserve RMB (v)	General reserve fund RMB (vi)	Retained profits RMB	Total RMB
At 1 January 2006	4,630,080	260,619,986	15,709,935	1,830,928	9,843,732	112,623,389	405,258,050
Equity-settled share-based transactions (note 24)	–	–	–	3,762,871	–	–	3,762,871
Profit for the year	–	–	–	–	–	96,503,519	96,503,519
Transfer between reserves	–	–	–	–	11,640,747	(11,640,747)	–
At 31 December 2006	4,630,080	260,619,986	15,709,935	5,593,799	21,484,479	197,486,161	505,524,440
At 1 January 2007	4,630,080	260,619,986	15,709,935	5,593,799	21,484,479	197,486,161	505,524,440
Equity-settled share-based transactions (note 24)	–	–	–	1,349,822	–	–	1,349,822
Issuance of shares in connection with exercise of share options (ii)	138,690	26,896,733	–	(6,943,621)	–	–	20,091,802
Profit for the year	–	–	–	–	–	118,876,059	118,876,059
Transfer between reserves	–	–	–	–	16,155,691	(16,155,691)	–
At 31 December 2007	**4,768,770**	**287,516,719**	**15,709,935**	**–**	**37,640,170**	**300,206,529**	**645,842,123**

NOTES TO THE FINANCIAL STATEMENTS

28. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital RMB	Share premium RMB (iii)	Contributed surplus RMB (iv)	Capital reserve RMB (v)	Accumulated losses RMB	Total RMB
At 1 January 2006	4,630,080	260,619,986	119,825,362	1,830,928	(1,785,873)	385,120,483
Equity-settled share-based transactions (note 24)	–	–	–	3,762,871	–	3,762,871
Loss for the year	–	–	–	–	(4,447,169)	(4,447,169)
At 31 December 2006	4,630,080	260,619,986	119,825,362	5,593,799	(6,233,042)	384,436,185
At January 2007	4,630,080	260,619,986	119,825,362	5,593,799	(6,233,042)	384,436,185
Equity-settled share-based transactions (note 24)	–	–	–	1,349,822	–	1,349,822
Issuance of shares in connection with exercise of share options (ii)	138,690	26,896,733	–	(6,943,621)	–	20,091,802
Loss for the year	–	–	–	–	(1,276,384)	(1,276,384)
At 31 December 2007	**4,768,770**	**287,516,719**	**119,825,362**	**–**	**(7,509,426)**	**404,601,425**

28. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

	2007 Number of shares	2007 RMB equivalent	2006 Number of shares	2006 RMB equivalent
Authorised:				
Ordinary shares of the Company of HKD0.01 each (i)	10,000,000,000		10,000,000,000	
Ordinary shares of the Company, issued and fully paid:				
At 1 January	445,200,000	4,630,080	445,200,000	4,630,080
Shares issued under share option scheme (ii)	13,800,000	138,690	–	–
At 31 December	459,000,000	4,768,770	445,200,000	4,630,080

(i) The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 28 September 2004.

On 18 October 2005, the Company listed its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 20 July 2006, the Company withdrew the listing of its shares on the GEM of the Stock Exchange and listed its entire issued share capital by way of introduction on the Main Board of the Stock Exchange. No new shares were issued upon the listing of the Company's shares on the Main Board of the Stock Exchange.

(ii) During the year ended 31 December 2007, options under the Pre-GEM Listing Share Option Plan were exercised to subscribe for 13,800,000 ordinary shares in the Company at a consideration of HKD20,700,000 (equivalent to RMB20,091,802) of which HKD138,000 (equivalent to RMB138,690) was credited to share capital and HKD20,562,000 (equivalent to RMB19,953,112) was credited to the share premium account. In addition, RMB6,943,621 has been transferred from the capital reserve to the share premium account.

(iii) *Share premium*
The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

NOTES TO THE FINANCIAL STATEMENTS

28. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(iv) Contributed surplus

The contributed surplus of the Group represents the difference between (a) the nominal value of the share capital and the existing balance on the share premium account of a subsidiary acquired; and (b) the nominal value of the shares issued by the Company in exchange under a reorganisation of the Group during the year ended 31 December 2005.

The contributed surplus of the Company represents the difference between (a) the consolidated net assets of the subsidiaries acquired; and (b) the nominal value of the shares issued by the Company in exchange under a reorganisation of the Group during the year ended 31 December 2005.

(v) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to optionees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

(vi) General reserve fund

The Group's wholly owned subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with PRC accounting rules and regulations, to the general reserve fund until the balance reaches 50% of the registered capital.

The general reserve fund can be used for the subsidiaries' working capital purposes and to make up for previous years' losses, if any. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

(vii) Distributability of reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

At 31 December 2007, the Company had RMB399,832,655 available for distribution to equity shareholders of the Company (2006: RMB374,212,306).

28. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(viii) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and bills payable, other payables and accrued expenses and amounts due to related parties) less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the net debt-to-adjusted capital ratio in the range of 10% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio is as follows:

		The Group	
	Note	**2007 RMB**	2006 RMB
Current liabilities			
Bank loans	21	**140,899,217**	167,733,123
Trade and bills payable	22	**168,618,289**	115,198,434
Other payables and accrued expenses	23	**85,743,772**	86,257,047
Amounts due to related parties	31	**12,080,449**	26,750,838
Total debt		**407,341,727**	395,939,442
Less: Cash and cash equivalents	20	**(257,191,472)**	(292,707,317)
Net debt		**150,150,255**	103,232,125
Total equity and adjusted capital		**645,842,123**	505,524,440
Net debt-to-adjusted capital ratio		**23%**	20%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

29. RETIREMENT BENEFITS

The subsidiaries in the PRC participate in government pension schemes whereby they are required to pay annual contributions at the rates of 20% to 22% of the basic salaries of their PRC employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD20,000. Contributions to the plan vest immediately.

The Group does not operate any other retirement benefits schemes for its employees.

30. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements are as follows:

	The Group		The Company	
	2007 RMB	2006 RMB	**2007 RMB**	2006 RMB
Contracted for				
– Land and buildings	**4,791,718**	28,069,180	**–**	–
– Investment in subsidiary (i)	**–**	8,000,000	**–**	–
	4,791,718	36,069,180	**–**	–
Authorised but not contracted for				
– Land and buildings	**700,000**	536,500	**–**	–
	5,491,718	36,605,680	**–**	–

(i) Beijing Enric Energy Efficiency Equipment & Technology Limited ("Enric Energy Efficiency") is a joint venture established in Beijing in the PRC by Langfang BVI and Beijing Huaxingkangwo Energy-Efficient Technology Development Company Limited, an independent third party. Enric Energy Efficiency obtained an approval certificate (shang wai zi jing zi [2006] No. 18055) from the People's Government of Beijing on 11 October 2006, and a provisional business licence (No. 030290) on 23 November 2006 issued by Beijing Administration of Industry and Commerce of the PRC. Enric Energy Efficiency has not carried out any business since the date of its establishment. Subsequently, the Group did not make the required capital contribution of RMB8,000,000 into Enric Energy Efficiency. During 2007, the Group decided not to proceed with the original investment plan. As at 31 December 2007, Enric Energy Efficiency was in process of deregistration.

30. COMMITMENTS *(Continued)*

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2007 RMB	2006 RMB	**2007 RMB**	2006 RMB
Within 1 year	**224,429**	1,555,559	**–**	–
After 1 year but within 5 years	**12,000**	126,901	**–**	–
	236,429	1,682,460	**–**	–

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

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Name of party	Nature of transactions		The Group Year ended 31 December **2007 RMB**	2006 RMB
China International Marine containers (Group) Company Limited ("CIMC") and its subsidiaries (i)	Sales	(ii)	**12,721,368**	–
	Purchases	(iii)	**14,842,983**	–
Mr. Wang Yusuo (i)	Sales	(ii)	**138,199,812**	133,248,674
	Purchases	(iii)	**1,979,535**	138,824
	Rental of property and office equipment and property management fee	(iv)	**1,253,215**	1,562,273
	Donation	(v)	**–**	600,000
	Other services	(vi)	**350,000**	980,000
	Connection fees	(vii)	**27,164**	1,350,993

NOTES TO THE FINANCIAL STATEMENTS

31. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with related parties *(Continued)*

Notes:

(i) Mr. Wang and Ms. Zhao Baoju, the spouse of Mr. Wang, were the former ultimate controlling parties of the Company through their interests in Xinao Group International Investment Limited ("XGII").

On 30 July 2007, XGII and Charm Wise Limited, a wholly-owned subsidiary of CIMC, entered into a share transfer agreement pursuant to which Charm Wise Limited acquired from XGII a total of 190,703,000 shares in the Company, representing approximately 42.18% of the then entire issued share capital of the Company. Since then, XGII holds 43,441,000 shares in the Company, approximately 9.61% of the then entire issued share capital of the Company on the same date. The Directors consider that CIMC obtained control of the Company with effect from 15 October 2007, after which XGII ceases to be regarded as a related party of the Group for the purposes of these financial statements.

Accordingly, CIMC and its subsidiaries are regarded as related parties of the Group from 15 October 2007 for the purposes of these financial statements.

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

(iii) Purchases from related parties mainly represent purchases of natural gas and raw materials for production.

(iv) These relate to:

- the lease of property and office equipment by the Group from Xinao Group Solar Energy Company Limited, a related party controlled by Mr. Wang, for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rental of RMB520,000;
- property management services provided by Langfang Xinao Property Management Company Limited, a related party controlled by Mr. Wang, to the Group for a term of 3 years from 30 September 2004 to 29 September 2007, at an annual rate of RMB180,000;
- the lease of property and office equipment by the Group from Xinao Gas Investment Group Limited, a related party in which Mr. Wang and Ms. Zhao Baoju have substantive interests through XGII, for a term of 3 years from 1 February 2005 to 31 January 2008, at an annual rental of HKD455,544; and
- the lease of property and office equipment by the Group from Langfang Xinao Gas Equipment Company Limited, a related party in which Mr. Wang and Ms. Zhao Baoju have substantive interests through XGII, for a term of 2 years and 4 months from 1 November 2005 to 29 February 2008, at an annual rental of RMB466,209.

(v) This represents a 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 Beihai Gas Company Limited, a related party controlled by Mr. Wang, in relation to technical support.

(vii) During the year, Shijiazhuang Xinao Gas Company Limited, a related party in which Mr. Wang and Ms. Zhao Baoju have substantive interests through XGII, provided gas connection services to the Group.

(viii) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's Directors as disclosed in note 7 and the highest paid employees as disclosed in note 8, is as follows:

	2007 RMB	2006 RMB
Short-term employee benefits	5,622,317	4,142,344
Equity compensation benefits	1,181,463	3,403,708
	6,803,780	7,546,052

Total remuneration is included in "staff costs" (see note 5(b)). The share options granted to key management personnel had been fully exercised during 2007 (see note 24).

31. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties

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

		The Group	
		2007 RMB	2006 RMB
Trade balances			
– CIMC and its subsidiaries	(i)	**300,000**	–
– Related parties controlled by Mr. Wang	(i)	**–**	21,017,425

Note:

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

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

		The Group	
		2007 RMB	2006 RMB
Trade balances			
– CIMC and its subsidiaries	(i)	**12,080,449**	–
– Related parties controlled by Mr. Wang	(i)	**–**	26,190,838
Rental and property management fee payable			
– Related parties controlled by Mr. Wang	(ii)	**–**	560,000
Total		**12,080,449**	26,750,838

Notes:

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

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

32. AMOUNTS DUE FROM A SUBSIDIARY

At 31 December 2007, these represent cash advances to EIGL. These amounts are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and bills receivable, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 19% (2006: Nil) and 31% (2006: 6%) of the total trade and bills receivable are due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide financial guarantees to parties outside the Group which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivable are set out in note 18.

(b) Liquidity risk

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

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group

	2007			2006		
	Carrying amount RMB	Total contractual undiscounted cash flow RMB	Within 1 year or on demand RMB	Carrying amount RMB	Total contractual undiscounted cash flow RMB	Within 1 year or on demand RMB
Bank loans	**140,899,217**	**(145,974,592)**	**(145,974,592)**	167,733,123	(172,972,903)	(172,972,903)
Bills payable, creditors and accrued expenses	**213,490,940**	**(213,490,940)**	**(213,490,940)**	154,180,641	(154,180,641)	(154,180,641)
Amounts due to related parties	**12,080,449**	**(12,080,449)**	**(12,080,449)**	26,750,838	(26,750,838)	(26,750,838)
	366,470,606	**(371,545,981)**	**(371,545,981)**	348,664,602	(353,904,382)	(353,904,382)

(c) Interest rate risk

The Group adopts a policy of ensuring that 100% of its borrowings are effectively on a fixed rate basis. Therefore, the Group's interest rate risk arises primarily from floating rate bank deposits. Floating rate bank deposits expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's floating rate bank deposits at the balance sheet date.

The Group

	2007		2006	
	Effective interest rate %	RMB	Effective interest rate %	RMB
Floating rate bank deposits	**1.3%**	**273,854,430**	1.2%	318,703,845

The Company

	2007		2006	
	Effective interest rate %	RMB	Effective interest rate %	RMB
Floating rate bank deposits	**2.9%**	**16,799,003**	3.7%	5,262,449

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 20 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB498,122 (2006: RMB595,227). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for floating rate bank deposits in existence at that date. The 20 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Foreign currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily the United States dollars.

Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(ii) Recognised assets and liabilities

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

All the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

33. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk *(Continued)*

(iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the Renminbi.

The Group

	2007				
	United States Dollars	Hong Kong Dollars	Australian Dollars	New Zealand Dollars	Euros
Trade and bills receivable	1,318,008	–	–	–	–
Deposits, other receivables and prepayments	916,290	–	–	–	–
Cash and cash equivalents	279,598	11,083,569	2,098,746	2,493,363	1,245,909
Bank loans	(807,603)	–	–	–	–
Trade and bills payable	(790,450)	–	–	–	–
Other payables and accrued expenses	(242,953)	(1,480,008)	–	–	–
Overall net exposure	672,890	9,603,561	2,098,746	2,493,363	1,245,909

The Group

	2006				
	United States Dollars	Hong Kong Dollars	Australian Dollars	New Zealand Dollars	Euros
Cash and cash equivalents	881,077	40,680,018	–	–	–
Bank loans	(5,472,502)	–	–	–	–
Trade and other payables	–	(2,663,594)	–	–	–
Overall net exposure	(4,591,425)	38,016,424	–	–	–

The Company

	2007		2006	
	Hong Kong Dollars	Australian Dollars	Hong Kong Dollars	Australian Dollars
Cash and cash equivalents	9,753,706	1,197,082	5,060,047	–
Overall net exposure	9,753,706	1,197,082	5,060,047	–

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk *(Continued)*

(iv) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
United States Dollars	6%	321,464	3%	(990,556)
	(6%)	(321,464)	(3%)	990,556
Hong Kong Dollars	7%	611,333	3%	1,314,161
	(7%)	(611,333)	(3%)	(1,314,161)
Australian Dollars	4%	531,699	–	–
	(4%)	(531,699)	–	–
New Zealand Dollars	3%	406,586	–	–
	(3%)	(406,586)	–	–
Euros	4%	518,318	–	–
	(4%)	(518,318)	–	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

33. FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value

The carrying amounts of the significant financial assets and liabilities are not materially different from their fair values as at 31 December 2007.

(i) Cash and cash equivalents, trade and bills receivable, other receivables, trade and bills payable, other payables and amounts due from/to related parties

The carrying values are not materially different from their fair values because of the short maturities of these items.

(ii) Bank loans

The carrying amounts of bank loans are not materially different from their fair values based on the borrowing rates currently available for bank loans with similar terms and maturities.

34. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group mainly operates in the PRC, no geographical segment information is presented.

The business segment of the Group comprises:

(i) the design, manufacture and sale of compressors;

(ii) the design, manufacture and sale of pressure vessels; and

(iii) the provision of integrated business solutions, from the design and manufacture of gas equipment system to on-site installation.

NOTES TO THE FINANCIAL STATEMENTS

34. SEGMENT REPORTING *(Continued)*

	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

35. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial Instruments: Disclosure*, and the amendments to HKAS 1, *Presentation of Financial Statements: Capital Disclosures*, certain comparative figures have been adjusted to conform with changes in accounting disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the Directors consider the parent of the Company to be Charm Wise Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

At 31 December 2007, the Directors consider the ultimate controlling party of the Company to be CIMC, which is established in the PRC.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

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

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

(i) Impairment

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, intangible assets and lease prepayments (see note 1(j)(ii)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables and other financial assets, future cashflows need to be determined. One of the key assumptions that has to be applied is the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

(ii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

38. 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

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

Room 3104, 31st Floor, Tower One, Lippo Centre, No.89 Queensway, Hong Kong
Tel : (852) 2528 9386
Fax : (852) 2865 9877
Website : www.enricgroup.com