The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 October 2005

The Directors
Enric Energy Equipment Holdings Limited
China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Enric Energy Equipment Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 (the "Relevant Period") and the combined balance sheets of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 10 October 2005 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 28 September 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 26 September 2005, as detailed in the section headed "Corporate reorganisation" in Appendix VII of the Prospectus, the Company has become the holding company of the subsidiaries now comprising the Group, details of which are set out below. The Company has not carried out any business since the date of its incorporation save for the Reorganisation.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries which are incorporated outside Hong Kong and have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Authorised/ registered/ paid-in capital	Attributable equity interest Direct	Indirect	Principal activities
Enric Investment Group Limited ("EIGL")	British Virgin Islands 1 May 2002	Authorised capital of US$50,000 and paid-in capital of US$1	100%	–	Investment holding
Enric (Bengbu) Compressors Company Limited ("Enric Compressor")	The People's Republic of China ("PRC") 14 March 2002	Registered and paid-in capital of HK$21,320,000	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited ("Anhui BVI")	British Virgin Islands 29 April 2002	Authorised capital of US$50,000 and paid-in capital of US$1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited ("Shijiazhuang BVI")	British Virgin Islands 29 April 2002	Authorised capital of US$50,000 and paid-in capital of US$1	–	100%	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited ("Enric Gas Equipment")*	PRC 30 September 2003	Registered and paid-in capital of US$2,450,000	–	100%	Manufacture and sale of pressure vessels and provision of integrated business solutions for gas equipment
Enric Langfang Investment Limited ("Langfang BVI")	British Virgin Islands 14 September 2004	Authorised capital of US$50,000 and paid-in capital of US$1	–	100%	Investment holding

Name of company	Place and date of incorporation/ establishment	Authorised/ registered/ paid-in capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Integration")	PRC 28 December 2004	Registered and paid-in capital of HK$10,000,000	–	100%	Provision of integrated business solutions for gas equipment

* *Enric Gas Equipment was established on 30 September 2003 as a Sino-foreign equity joint venture enterprise. Since its establishment and prior to the Reorganisation, the interests in Enric Gas Equipment held by the Group was 30%. Upon the acquisition of the 70% interests in Enric Gas Equipment on 16 July 2004, Enric Gas Equipment became 100% owned by the Group and was converted to a wholly foreign-owned enterprise.*

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies comprising the Group, on the basis set out in Section A below. Adjustments have been made, for the purpose of this report, to restate the Financial Information to conform to the accounting policies as referred to in Section C, which are in accordance with accounting principles generally accepted in Hong Kong.

No audited financial statements have been prepared for the companies comprising the Group, except for Enric Compressor and Enric Gas Equipment, as these companies were either newly incorporated/established, or have not carried on any business other than the transactions related to the Reorganisation. We have, however, reviewed all significant transactions undertaken by these companies from their respective dates of incorporation/establishment to 30 June 2005 for the purpose of this report.

The statutory financial statements of Enric Compressor and Enric Gas Equipment, which were established in the PRC, are prepared in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the PRC Ministry of Finance.

The statutory financial statements of Enric Compressor for the years ended 31 December 2003 and 2004 were audited by Anhui Jiu Tong Certified Public Accountants Co., Ltd. and Anhui Yong He Certified Public Accountants Co., Ltd. respectively, both are firms of certified public accountants registered in the PRC.

The statutory financial statements of Enric Gas Equipment for the year ended 31 December 2004 were audited by Hebei Hua Yi De Certified Public Accountants Co., Ltd., a firm of certified public accountants registered in the PRC.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the Financial Information set out below which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information of the Group for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established at a date later than 1 January 2003, for the period from their respective dates of incorporation/establishment to 30 June 2005) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and carried out such additional procedures necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2005.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, for the purpose of this report, and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the combined results and cash flows of the Group for the Relevant Period, and of the combined state of affairs of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005.

Unaudited financial information for the six months ended 30 June 2004

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined cash flow statement for the six months ended 30 June 2004 (the "30 June 2004 Corresponding Information"), together with the notes thereon, for which the directors are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the 30 June 2004 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2004 Corresponding Information.

On the basis of our review of the 30 June 2004 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the six months ended 30 June 2004.

A. BASIS OF PRESENTATION

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set out in Sections B(1), B(3) and B(4) respectively include the combined results of operations and combined cash flows of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established, or where the additional interests in Enric Gas Equipment were acquired, at a date later than 1 January 2003, for the period from the respective dates of incorporation/establishment and acquisition of the additional interests in Enric Gas Equipment to 30 June 2005) as if the current group structure had been in existence throughout the Relevant Period. The combined balance sheets of the Group as at 31 December 2003, 31 December 2004 and 30 June 2005 as set out in Section B(2) have been prepared to present the combined state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material inter-company transactions and balances have been eliminated on combination.

B. COMBINED FINANCIAL STATEMENTS

1. Combined Income Statements

	Section C	Year ended 31 December		Six months ended	
				30 June	30 June
		2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Turnover	2	68,943,423	252,375,698	82,878,653	209,724,253
Cost of sales		(40,771,008)	(177,790,799)	(56,169,505)	(143,756,435)
		28,172,415	74,584,899	26,709,148	65,967,818
Other revenue	3	5,846,076	5,109,203	2,635,564	575,290
Selling expenses		(7,633,349)	(12,803,532)	(5,118,139)	(8,966,704)
Administrative expenses		(11,636,603)	(23,110,803)	(8,708,109)	(19,834,140)
Other net income/(expenses)		302,158	2,681,210	(93,427)	3,440
Profit from operations		15,050,697	46,460,977	15,425,037	37,745,704
Finance costs	*4(i)*	(4,443,570)	(6,082,089)	(2,780,807)	(4,048,792)
Profit from ordinary activities before taxation		10,607,127	40,378,888	12,644,230	33,696,912
Taxation	5	–	(1,814,458)	(141,072)	(1,375,662)
Profit from ordinary activities after taxation		10,607,127	38,564,430	12,503,158	32,321,250
Attributable to:					
Equity holders of the parent		10,607,127	36,191,118	10,313,389	32,321,250
Minority interests		–	2,373,312	2,189,769	–
Profit from ordinary activities after taxation		10,607,127	38,564,430	12,503,158	32,321,250
Basic earnings per share	*9*	0.04	0.14	0.04	0.12

The accompanying notes form part of the combined financial statements.

2. Combined Balance Sheets

	Section C *Note*	At 31 December 2003 *RMB*	2004 *RMB*	At 30 June 2005 *RMB*
Non-current assets				
Property, plant and equipment	*10*	7,371,462	85,520,041	85,893,040
Construction in progress	*11*	5,895,999	4,355,382	6,769,629
Lease prepayments	*12*	8,529,193	31,260,587	30,913,536
Intangible assets	*13*	2,854,500	7,714,985	7,260,555
Long-term investment	*14*	26,190,000	–	–
		50,841,154	128,850,995	130,836,760
Current assets				
Inventories	*15*	27,615,856	79,651,766	116,335,483
Trade and bills receivable	*16*	18,072,975	48,796,630	52,910,859
Deposits, other receivables and prepayments	*17*	2,892,467	21,830,654	35,358,317
Amounts due from related parties	*28(b)(I)*	90,449,316	9,047,159	15,678,074
Cash at bank and in hand	*18*	14,339,597	31,610,556	52,712,010
		153,370,211	190,936,765	272,994,743
Current liabilities				
Bank loans	*19*	84,040,000	132,860,000	125,000,000
Trade and bills payable	*20*	16,847,389	41,748,715	83,737,439
Other payables and accrued expenses	*21*	10,952,467	24,779,850	36,397,469
Amounts due to related parties	*28(b)(II)*	51,624,443	65,198,732	54,310,487
Provisions	*22*	580,643	912,619	1,101,712
Income tax payable		–	526,409	1,491,775
		164,044,942	266,026,325	302,038,882
Net current liabilities		(10,674,731)	(75,089,560)	(29,044,139)
Total assets less current liabilities		40,166,423	53,761,435	101,792,621
NET ASSETS		40,166,423	53,761,435	101,792,621
CAPITAL AND RESERVES				
Paid-in capital	*23*	22,596,114	8	827
Reserves	*24*	17,570,309	53,761,427	101,791,794
		40,166,423	53,761,435	101,792,621

The accompanying notes form part of the combined financial statements.

3. Combined Statements of Changes in Equity

	Attributable to equity holders of the parent				
	Paid-in capital	**Reserves**	**Total**	**Minority interests**	**Total equity**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	Section C Note 23	*Section C Note 24*			
At 1 January 2003	22,596,114	6,963,182	29,559,296	–	29,559,296
Net profit for the year	–	10,607,127	10,607,127	–	10,607,127
At 31 December 2003	22,596,114	17,570,309	40,166,423	–	40,166,423
Capital contributions from a related party to a subsidiary	–	–	–	14,234,500	14,234,500
Change in the paid-in capital	(22,596,106)	–	(22,596,106)	–	(22,596,106)
Net profit for the year	–	36,191,118	36,191,118	2,373,312	38,564,430
Acquisition of additional interests in a subsidiary	–	–	–	(16,607,812)	(16,607,812)
At 31 December 2004	8	53,761,427	53,761,435	–	53,761,435
Change in the paid-in capital	819	–	819	–	819
Share premium	–	15,709,117	15,709,117	–	15,709,117
Net profit for the period	–	32,321,250	32,321,250	–	32,321,250
At 30 June 2005	827	101,791,794	101,792,621	–	101,792,621
At 31 December 2003	22,596,114	17,570,309	40,166,423	–	40,166,423
Capital contributions from a related party to a subsidiary (unaudited)	–	–	–	14,234,500	14,234,500
Net profit for the period (unaudited)	–	10,313,389	10,313,389	2,189,769	12,503,158
At 30 June 2004 (unaudited)	22,596,114	27,883,698	50,479,812	16,424,269	66,904,081

The accompanying notes form part of the combined financial statements.

4. Combined Cash Flow Statements

	Section C	Year ended 31 December		Six months ended	
				30 June	30 June
		2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Operating activities					
Profit from ordinary activities before taxation		10,607,127	40,378,888	12,644,230	33,696,912
Adjustments for:					
Depreciation		1,645,003	6,130,239	2,423,352	4,662,642
Amortisation of intangible assets		346,000	768,147	313,716	454,430
Amortisation of lease prepayments		175,040	562,750	281,402	347,051
Interest income		(4,015,336)	(3,292,870)	(1,748,755)	(139,300)
Interest charges		4,427,865	5,928,222	2,775,538	3,900,055
(Gain)/loss on disposal of property, plant and equipment		(109,522)	(13,172)	1,473	–
Negative goodwill arising from the acquisition of additional interests in a subsidiary *(see note (ii))*		–	(2,373,312)	–	–
Operating profit before changes in working capital		13,076,177	48,088,892	16,690,956	42,921,790
Increase in inventories		(11,822,924)	(52,035,910)	(44,382,609)	(36,683,717)
Increase in trade and bills receivable		(7,044,470)	(25,422,435)	(8,262,167)	(4,114,229)
(Increase)/decrease in deposits, other receivables and prepayments		(189,553)	435,750	6,137,287	(13,527,663)
Decrease/(increase) in amounts due from related parties		211,209	32,301,856	13,062,720	(7,445,106)
(Increase)/decrease in restricted bank deposits for letters of credit and bills payable		(4,037,885)	3,954,385	711,428	(14,346,500)
Increase/(decrease) in trade and bills payable		12,589,106	(7,014,390)	(8,113,312)	41,988,724
(Decrease)/increase in other payables and accrued expenses		(4,619,268)	8,877,459	920,639	11,617,619
Increase/(decrease) in amounts due to related parties		5,093,704	(10,645,657)	24,598,699	(4,509,257)
Increase in provision for product warranties		475,724	331,976	51,179	189,093
Cash generated from/(used in) operations		3,731,820	(1,128,074)	1,414,820	16,090,754

The accompanying notes form part of the combined financial statements.

	Section C	Year ended 31 December		Six months ended	
				30 June	30 June
		2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Cash generated from/(used in) operations		3,731,820	(1,128,074)	1,414,820	16,090,754
Income tax paid		–	(1,288,049)	–	(410,296)
Net cash from/(used in) operating activities		3,731,820	(2,416,123)	1,414,820	15,680,458
Investing activities					
Payment for acquisition of property, plant and equipment and construction in progress		(7,292,920)	(31,210,926)	(13,918,496)	(7,449,888)
Payment of lease prepayments		–	(1,000,320)	(1,000,320)	–
Payment for investment in a related party	*28(a)(II)*	(26,190,000)	–	–	–
Proceeds from disposal of investment in a related party	*28(a)(II)*	–	26,190,000	–	–
Proceeds from disposal of property, plant and equipment		1,107,649	1,593,201	1,020,621	–
New loans to a related party	*28(a)(II)*	(48,600,000)	–	–	–
Loan repayments from a related party	*28(a)(II)*	30,000,000	78,600,000	27,000,000	–
Interest received		12,854	8,718,336	9,451	953,491
Payment for additional interests in a subsidiary *(see note (ii))*		–	(14,234,500)	–	–
Payments to ultimate shareholders of the Group for interests in a subsidiary		–	(22,596,106)	–	–
Advances made to related parties	*28(a)(II)*	(7,543,959)	(54,541,891)	(43,231,080)	–
Repayments of advances made to related parties	*28(a)(II)*	16,199,333	59,285,850	4,982,958	–
Net cash (used in)/from investing activities		(42,307,043)	50,803,644	(25,136,866)	(6,496,397)

The accompanying notes form part of the combined financial statements.

	Section C	Year ended 31 December		Six months ended	
				30 June	30 June
		2003	2004	2004	2005
				(Unaudited)	
	Note	*RMB*	*RMB*	*RMB*	*RMB*
Financing activities					
Capital contributions from a related party *(see note (i))*		–	92,853	92,853	–
Proceeds from shares issued under a share subscription agreement		–	–	–	15,709,936
Proceeds from new bank loans		84,040,000	79,260,000	20,000,000	45,000,000
Repayment of bank loans		(65,000,000)	(109,040,000)	(62,040,000)	(52,860,000)
Interest paid		(4,427,865)	(5,928,222)	(2,775,538)	(3,900,055)
Advances received from related parties	*28(a)(II)*	34,505,779	270,613,489	76,714,565	–
Repayments of advances received from related parties	*28(a)(II)*	(4,026,688)	(262,160,297)	(435,549)	(6,378,988)
Net cash from/(used in) financing activities		45,091,226	(27,162,177)	31,556,331	(2,429,107)
Net increase in cash and cash equivalents		6,516,003	21,225,344	7,834,285	6,754,954
Cash and cash equivalents at beginning of the year/period		3,785,709	10,301,712	10,301,712	31,527,056
Cash and cash equivalents at end of the year/period		10,301,712	31,527,056	18,135,997	38,282,010

The accompanying notes form part of the combined financial statements.

(i) Capital contributions from a related party

Capital contributions from a related party represent cash received from Xinao Group Shijiazhuang Chemical Machinery Company Limited ("Xinao Shijiazhuang") of RMB92,853 as part of the net assets contributed to Enric Gas Equipment, details of which are described below.

Enric Gas Equipment was established by Xinao Shijiazhuang, a related party controlled by the major shareholder of the Company, and Shijiazhuang BVI as a Sino-foreign equity joint venture enterprise in September 2003 in the PRC. Pursuant to the joint venture agreement and related supplementary agreements, Xinao Shijiazhuang transferred the following assets and liabilities to Enric Gas Equipment as capital contribution on 31 March 2004:

	RMB
Cash and cash equivalents	92,853
Trade and bills receivable	5,301,220
Other receivables and prepayments	19,373,937
Amounts due from related parties	39,669,124
Property, plant and equipment	43,228,743
Construction in progress	9,878,561
Lease prepayments	22,293,824
Intangible assets	5,628,632
Total assets	145,466,894
Bank loans	78,600,000
Trade and bills payable	31,915,716
Other payables and accrued expenses	4,949,924
Amounts due to related parties	15,766,754
Total liabilities	131,232,394
Net assets injected as capital contributions	14,234,500

(ii) This represents the Group's acquisition of the additional interests in Enric Gas Equipment (see Section C, note 25).

The accompanying notes form part of the combined financial statements.

C. NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA and have been consistently applied throughout the Relevant Period.

The following standards have been early adopted at the beginning of the Relevant Period.

- HKFRS 3, Business combinations;
- HKAS 1, Presentation of financial statements;
- HKAS 2, Inventories;
- HKAS 7, Cash flow statements;
- HKAS 8, Accounting policies, changes in accounting estimates and errors;
- HKAS 10, Events after the balance sheet date;
- HKAS 12, Income taxes;
- HKAS 14, Segment reporting;
- HKAS 16, Property, plant and equipment;
- HKAS 17, Leases;
- HKAS 18, Revenue;
- HKAS 19, Employee benefits;
- HKAS 20, Accounting for government grants and disclosure of government assistance;
- HKAS 21, The effect of changes in foreign exchange rates;
- HKAS 23, Borrowing costs;
- HKAS 24, Related party disclosures;
- HKAS 27, Consolidated and separate financial statements;
- HKAS 32, Financial instruments: Disclosure and presentation;
- HKAS 33, Earnings per share;
- HKAS 36, Impairment of assets;
- HKAS 37, Provisions, contingent liabilities and contingent assets;
- HKAS 38, Intangible assets; and
- HKAS 39, Financial instruments: Recognition and measurement.

The Financial Information also complies with the disclosure requirements of the Listing Rules of the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") as applicable to Accountants' Reports included in Listing Documents.

(b) Basis of preparation

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the Relevant Period. Actual results could differ from those estimates.

(c) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, 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 or convertible are taken into account. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

An investment in a controlled subsidiary is consolidated unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the combined balance sheet at fair value with changes in fair value recognised in the combined income statement as they arise.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the combined financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Property, plant and equipment

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation (see below) and impairment losses (see note 1(i)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the period of construction and where relevant the costs of dismantling and removing the items and restoring the site on which they are located.

(ii) Depreciation is calculated to write off the cost of an item of property, plant and equipment on a straight-line basis over its estimated useful lives as follows:

Buildings	30 years
Machinery	10 years
Motor vehicles	6 years
Office equipment	5 to 10 years

(iii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(v) 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(i)). 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 the property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

(e) Intangible assets

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, 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 cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see below) and impairment losses (see note 1(i)).

(iii) Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(iv) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives of 10 years.

(f) Goodwill

All business combinations, other than combination under common control, are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses (see note 1(i)). Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(g) Lease prepayments

Lease prepayments represent payments for land use rights to the PRC authorities. Land use rights are carried at cost and are charged to the income statement on a straight-line basis over the respective periods of the rights.

(h) Operating lease charges

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(i) Impairment of assets

The carrying amounts of the Group's assets, other than inventories (see note 1(k)) and deferred tax assets (see note 1(n)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised in the income statement whenever the carrying amount of such an asset 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 (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) 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).

(ii) Reversals of impairment losses

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses, other than goodwill, is limited to the asset's carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised.

(j) Long-term investments

Unquoted equity investments held on a continuing basis for an identified long-term purpose are stated in the balance sheet at cost less impairment losses (see note 1(i)).

Profits or losses on disposal of investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

(m) Employee benefits

(i) Salaries and annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(n) Income tax

(i) Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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 expenditures 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.

(p) 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 the income statement 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) Dividend income

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

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Government grants

Unconditional government grants are recognised in the income statement as revenue when the grants become receivable.

(q) Translation of foreign currencies

Foreign currency transactions during the period 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 on foreign currency transactions are dealt with in the income statement.

(r) Borrowing costs

Borrowing costs are expensed in the income statement 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 expenditures for the asset are 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.

(s) Related parties

For the purposes of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) 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 purpose of this report. 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 and trade and other receivables. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises 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, corporate and financing expenses and minority interests.

2. Turnover

The Group is principally engaged in the design, manufacture and sale of specialised gas equipment and the provision of integrated business solutions in the gas energy industry (which only included sales of sets of equipment in the Relevant Period). 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.

3. Other revenue

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Government grants *(see note (i))*	1,593,600	730,029	672,029	–
Other operating revenue *(see note (ii))*	237,140	1,086,304	214,780	435,990
Interest income from loans to related parties	4,002,482	3,222,895	1,739,304	–
Interest income from bank deposits	12,854	69,975	9,451	139,300
	5,846,076	5,109,203	2,635,564	575,290

Notes:

(i) Government grants represent various forms of incentives and subsidies given to Enric Compressor by the local PRC Government. These grants were for the purposes of promoting certain industries in the PRC as well as encouraging domestic enterprises to focus more on technological advancement. The grant amounts are determined and paid according to the prevailing policies of the local PRC Government. There is no assurance that the Group will continue to receive such government grants in the future.

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

4. Profit from ordinary activities before taxation

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

(i) Finance costs

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Interest on bank loans	4,427,865	6,186,985	2,857,114	3,900,055
Less: borrowing costs capitalised*	–	(258,763)	(81,576)	–
	4,427,865	5,928,222	2,775,538	3,900,055
Foreign exchange (gain)/loss	(6,163)	80,509	(23,520)	10,904
Finance charges	21,868	73,358	28,789	137,833
	4,443,570	6,082,089	2,780,807	4,048,792

* *The borrowing costs have been capitalised at an annual rate of 5.3% and 5.3% (unaudited) for the year ended 31 December 2004 and the six months ended 30 June 2004 respectively.*

(ii) *Staff costs*#

	Year ended 31 December 2003	2004	Six months ended 30 June 2004 (Unaudited)	2005
	RMB	*RMB*	*RMB*	*RMB*
Salaries, wages and allowances	10,028,443	20,767,235	8,521,761	14,235,463
Contributions to retirement schemes *(note 26)*	885,233	2,814,898	843,040	1,260,737
	10,913,676	23,582,133	9,364,801	15,496,200

(iii) *Other items*

	Year ended 31 December 2003	2004	Six months ended 30 June 2004 (Unaudited)	2005
	RMB	*RMB*	*RMB*	*RMB*
Cost of inventories#	40,771,008	177,790,799	56,169,505	143,756,435
Auditors' remuneration – audit services	25,020	30,000	22,000	24,000
Depreciation of property, plant and equipment#	1,645,003	6,130,239	2,423,352	4,662,642
Amortisation of intangible assets	346,000	768,147	313,716	454,430
Amortisation of lease prepayments	175,040	562,750	281,402	347,051
(Gain)/loss on disposal of property, plant and equipment	(109,522)	(13,172)	1,473	–
Provision for doubtful debts	1,087,082	2,189,091	493,599	1,845,724
Research and development expenses	1,885,313	4,241,777	1,335,436	2,390,821
Operating lease charges for property rental	–	238,518	–	964,427
Provision for product warranties	1,000,015	1,761,556	595,526	1,119,950

Cost of inventories includes RMB4,517,087, RMB12,804,608, RMB4,964,258 (unaudited) and RMB9,427,499 for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005, respectively, relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 4(ii) for each of these types of expenses.

5. Taxation

(i) Taxation in the combined income statements represents:

	Year ended 31 December 2003	2004	Six months ended 30 June 2004 (Unaudited)	2005
	RMB	*RMB*	*RMB*	*RMB*
Current taxation for the year/period	–	1,814,458	141,072	1,375,662

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the Relevant Period.

Profits of the Group's subsidiaries in the PRC, namely Enric Compressor, Enric Gas Equipment and Enric Integration, are subject to PRC income taxes.

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

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

Enric Compressor was in the tax holiday of a tax-free period in respect of PRC state income tax for the year ended 31 December 2003. It is subject to PRC state income tax at 15% for the year ended 31 December 2004 and the six months ended 30 June 2005.

Based on Notice [2004] No. 247 dated 13 October 2004 and Notice [2005] No.16 dated 17 January 2005 issued by the Anhui State Tax Bureau, Enric Compressor is entitled to state income tax reduction amounting to RMB2,035,384 for the year ended 31 December 2004 as an incentive for purchase of domestically manufactured equipment.

No provision for PRC income tax has been made by Enric Gas Equipment and Enric Intergration as they are in the tax holiday of a tax-free period in respect of PRC income tax for the period from the respective dates of their establishment to 30 June 2005.

(ii) Reconciliation between income tax expenses and accounting profit:

	Year ended 31 December		**Six months ended 30 June**	
	2003	**2004**	**2004**	**2005**
			(Unaudited)	
	RMB	*RMB*	*RMB*	*RMB*
Accounting profit before tax	10,607,127	40,378,888	12,644,230	33,696,912
Taxation using applicable tax rates	3,182,138	11,886,543	3,728,766	9,767,729
Tax effect of tax holiday granted	(3,182,138)	(7,969,822)	(2,286,696)	(8,808,589)
Tax incentive granted	–	(2,035,384)	(1,496,068)	–
Tax effect of non-taxable income	–	(640,794)	–	–
Tax effect of non-deductible expenses	–	573,915	195,070	416,522
Income tax expense	–	1,814,458	141,072	1,375,662

(iii) The Group had no significant unprovided deferred taxation as at 31 December 2003, 31 December 2004 and 30 June 2005.

6. Directors' remuneration

No directors' remuneration was incurred for the year ended 31 December 2003.

Details of directors' remuneration for the year ended 31 December 2004 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Executive directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	51,362	–	–	51,362
Yu Jianchao	–	–	–	–	–
Zhao Xiaowen	–	51,232	1,684	–	52,916
Zhou Kexing	–	37,833	–	–	37,833
Non-executive director:					
Zhao Baoju	–	–	–	–	–
Independent non-executive directors:					
Gao Zhengping	–	–	–	–	–
Shou Binan	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–
Total	–	140,427	1,684	–	142,111

Details of directors' remuneration for the six months ended 30 June 2004 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Executive directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	–	6,935	–	–	6,935
Yu Jianchao	–	–	–	–	–
Zhao Xiaowen	–	19,680	823	–	20,503
Zhou Kexing	–	8,039	–	–	8,039
Non-executive director:					
Zhao Baoju	–	–	–	–	–
Independent non-executive directors:					
Gao Zhengping	–	–	–	–	–
Shou Binan	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–
Total	–	34,654	823	–	35,477

Details of directors' remuneration for the six months ended 30 June 2005 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Executive directors:					
Wang Yusuo	–	–	–	–	–
Cai Hongqiu	17,063	43,807	–	–	60,870
Yu Jianchao	–	–	–	–	–
Zhao Xiaowen	8,507	28,879	3,032	–	40,418
Zhou Kexing	10,732	41,703	–	–	52,435
Non-executive director:					
Zhao Baoju	–	–	–	–	–
Independent non-executive directors:					
Gao Zhengping	–	–	–	–	–
Shou Binan	–	–	–	–	–
Wong Chun Ho	–	–	–	–	–
Total	36,302	114,389	3,032	–	153,723

During the Relevant Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Relevant Period.

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments, nil, two, one and three for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005 respectively, are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other individuals are as follows:

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004 (Unaudited)**	**2005**
	RMB	*RMB*	*RMB*	*RMB*
Salaries, allowances and benefits in kind	110,812	208,208	102,392	285,631
Retirement scheme contributions	2,793	2,203	1,017	6,470
	113,605	210,411	103,409	292,101

The emoluments of the five, three, four and two individuals, for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005 respectively, with the highest emoluments are within the following bands:

	Year ended 31 December		Six months ended 30 June	
	2003	**2004**	**2004 (Unaudited)**	**2005**
	RMB	*RMB*	*RMB*	*RMB*
HK$ Nil – HK$1,000,000	5	3	4	2

During the Relevant Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. Dividends

No dividend has been paid or declared by the Company since its incorporation.

9. Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the parent for each of the years ended 31 December 2003 and 2004 and each of the six months ended 30 June 2004 and 2005 and the 260,160,000 ordinary shares in issue and issuable, comprising 880 shares in issue as at the date of the Prospectus and 260,159,120 shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" set out in Appendix VII to the Prospectus, as if these shares were outstanding throughout the Relevant Period.

10. Property, plant and equipment

	Buildings	Machinery	Motor vehicles	Office equipment	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Cost					
Balance at 1 January 2003	5,482,253	602,817	1,199,909	1,149,262	8,434,241
Additions	–	351,990	504,137	1,055,449	1,911,576
Disposals	(1,316,950)	(126,635)	(107,200)	–	(1,550,785)
Transfers from construction in progress	384,597	–	–	305,293	689,890
Balance at 31 December 2003	4,549,900	828,172	1,596,846	2,510,004	9,484,922
Balance at 1 January 2004	4,549,900	828,172	1,596,846	2,510,004	9,484,922
Additions					
– capital contributions	18,521,681	24,087,652	–	619,410	43,228,743
– others	2,687,974	4,876,963	1,264,497	681,762	9,511,196
Disposals	(1,029,246)	(550,120)	(432,000)	(3,702)	(2,015,068)
Transfers from construction in progress	12,179,380	20,939,528	–	–	33,118,908
Balance at 31 December 2004	36,909,689	50,182,195	2,429,343	3,807,474	93,328,701
Balance at 1 January 2005	36,909,689	50,182,195	2,429,343	3,807,474	93,328,701
Additions	560,755	2,045,499	879,812	550,968	4,037,034
Transfers from construction in progress	838,100	160,507	–	–	998,607
Balance at 30 June 2005	38,308,544	52,388,201	3,309,155	4,358,442	98,364,342

	Buildings *RMB*	Machinery *RMB*	Motor vehicles *RMB*	Office equipment *RMB*	Total *RMB*
Accumulated depreciation					
Balance at 1 January 2003	(414,145)	(217,634)	(217,590)	(171,746)	(1,021,115)
Charge for the year	(929,294)	(171,509)	(303,290)	(240,910)	(1,645,003)
Written back on disposal	395,285	61,976	95,397	–	552,658
Balance at 31 December 2003	(948,154)	(327,167)	(425,483)	(412,656)	(2,113,460)
Balance at 1 January 2004	(948,154)	(327,167)	(425,483)	(412,656)	(2,113,460)
Charge for the year	(1,702,852)	(3,727,274)	(273,994)	(426,119)	(6,130,239)
Written back on disposal	23,525	197	410,400	917	435,039
Balance at 31 December 2004	(2,627,481)	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Balance at 1 January 2005	(2,627,481)	(4,054,244)	(289,077)	(837,858)	(7,808,660)
Charge for the period	(1,207,395)	(2,890,971)	(270,700)	(293,576)	(4,662,642)
Balance at 30 June 2005	(3,834,876)	(6,945,215)	(559,777)	(1,131,434)	(12,471,302)
Net book value					
At 31 December 2003	3,601,746	501,005	1,171,363	2,097,348	7,371,462
At 31 December 2004	34,282,208	46,127,951	2,140,266	2,969,616	85,520,041
At 30 June 2005	34,473,668	45,442,986	2,749,378	3,227,008	85,893,040

11. Construction in progress

	Year ended 31 December		Six months ended 30 June
	2003 *RMB*	**2004** *RMB*	**2005** *RMB*
Opening balance	1,204,545	5,895,999	4,355,382
Capital contributions	–	9,878,561	–
Additions	5,381,344	21,699,730	3,412,854
Transfers to property, plant and equipment	(689,890)	(33,118,908)	(998,607)
Ending balance	5,895,999	4,355,382	6,769,629

12. Lease prepayments

	Year ended 31 December 2003 *RMB*	Year ended 31 December 2004 *RMB*	Six months ended 30 June 2005 *RMB*
Cost			
Opening balance	8,834,855	8,834,855	32,128,999
Additions	–	1,000,320	–
Capital contributions	–	22,293,824	–
Ending balance	8,834,855	32,128,999	32,128,999
Accumulated amortisation			
Opening balance	(130,622)	(305,662)	(868,412)
Charge for the year/period	(175,040)	(562,750)	(347,051)
Ending balance	(305,662)	(868,412)	(1,215,463)
Net book value			
At end of the year/period	8,529,193	31,260,587	30,913,536

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights have remaining terms ranging from 44 to 49 years as at 30 June 2005.

13. Intangible assets

	Year ended 31 December 2003 *RMB*	Year ended 31 December 2004 *RMB*	Six months ended 30 June 2005 *RMB*
Cost			
Opening balance	3,460,000	3,460,000	9,088,632
Capital contributions	–	5,628,632	–
Ending balance	3,460,000	9,088,632	9,088,632
Accumulated amortisation			
Opening balance	(259,500)	(605,500)	(1,373,647)
Charge for the year/period	(346,000)	(768,147)	(454,430)
Ending balance	(605,500)	(1,373,647)	(1,828,077)
Net book value			
At end of the year/period	2,854,500	7,714,985	7,260,555

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

14. Long-term investment

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Unlisted, at cost	26,190,000	–	–

Details of the investment are as follows:

Name of company	Place and date of establishment	Principal activities	Registered capital	The Group's equity interest %
Xinao Group Company Limited	The PRC 5 August 1997	Investment holding	RMB110,000,000	12.27%

The above investment represents unquoted shares purchased by Enric Compressor during the year ended 31 December 2003. On 10 June 2004, Enric Compressor sold this investment to Langfang Guofu Investment Limited, a related party controlled by the major shareholder of the Company, at cost.

Xinao Group Company Limited is a related party controlled by the major shareholders of the Company.

15. Inventories

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Raw materials	9,401,416	39,168,216	63,346,100
Work in progress	8,958,364	17,220,324	31,219,012
Finished goods	9,256,076	23,263,226	21,770,371
	27,615,856	79,651,766	116,335,483

16. Trade and bills receivable

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

An ageing analysis of trade and bills receivable is as follows:

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Aged within 3 months	10,836,786	30,528,685	35,362,245
Aged between 3 to 6 months	4,579,432	9,526,028	9,715,080
Aged between 6 months to 1 year	1,798,321	8,741,917	6,833,534
Aged over 1 year	858,436	–	1,000,000
	18,072,975	48,796,630	52,910,859

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.

17. Deposits, other receivables and prepayments

	At 31 December		At 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Advances to suppliers	1,356,592	16,145,236	25,796,571
Listing expenses	–	2,382,865	4,838,342
Deposits for construction work and equipment purchase	300,950	1,898,323	2,788,957
Staff advances	801,465	555,408	895,250
Others	433,460	848,822	1,039,197
	2,892,467	21,830,654	35,358,317

18. Cash at bank and in hand

	At 31 December		At 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Cash in hand and demand deposits	10,301,712	31,527,056	38,282,010
Restricted bank deposits for letters of credit and bills payable	4,037,885	83,500	14,430,000
	14,339,597	31,610,556	52,712,010

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

19. Bank loans

	At 31 December		At 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Bank loans – guaranteed	84,040,000	132,860,000	125,000,000

The above bank loans were guaranteed by Xinao Group Company Limited, except for bank loans of RMB10 million as at 30 June 2005 which were guaranteed by Enric Compressor. The annual rate of interest charged on the bank loans ranged from 5.3% to 5.5%, 5.1% to 6.1%, and 5.6% to 6.1% for each of the years ended 31 December 2003 and 2004 and the six months ended 30 June 2005 respectively.

20. Trade and bills payable

	At 31 December		At 30 June
	2003	2004	2005
	RMB	*RMB*	*RMB*
Trade creditors	9,059,440	33,748,715	44,637,439
Bills payable	7,787,949	8,000,000	39,100,000
	16,847,389	41,748,715	83,737,439

An ageing analysis of trade payables of the Group is as follows:

	At 31 December 2003 RMB	At 31 December 2004 RMB	At 30 June 2005 RMB
Due within 3 months or on demand	7,584,825	18,399,781	25,809,643
Due after 3 months but within 6 months	8,419,401	17,461,894	44,023,448
Due after 6 months but within 1 year	380,069	3,879,545	10,642,216
Due over 1 year	463,094	2,007,495	3,262,132
	16,847,389	41,748,715	83,737,439

All of the trade and other payables are expected to be settled within one year.

21. Other payables and accrued expenses

	At 31 December 2003 RMB	At 31 December 2004 RMB	At 30 June 2005 RMB
Advances from customers	2,529,301	15,804,267	20,700,469
Advances from a third party	3,996,200	–	–
Employees' bonus and welfare	2,228,109	3,907,781	5,346,303
Other taxes payable	1,363,958	1,555,257	5,749,785
Payable for construction work	249,552	2,144,820	1,682,710
Other surcharges payable	230,877	427,150	556,411
Accrued expenses	98,213	133,417	1,640,407
Others	256,257	807,158	721,384
	10,952,467	24,779,850	36,397,469

22. Provision for product warranties

	Year ended 31 December 2003 RMB	Year ended 31 December 2004 RMB	Six months ended 30 June 2005 RMB
Opening balance	104,919	580,643	912,619
Provisions made	1,000,015	1,761,556	1,119,950
Provisions utilised	(524,291)	(1,429,580)	(930,857)
Ending balance	580,643	912,619	1,101,712

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.

23. Paid-in capital

For the purposes of this report, the balance as at 31 December 2003 represents the aggregate paid-in capital of EIGL and Enric Compressor, whilst the balance as at 31 December 2004 and 30 June 2005 represents the aggregate paid-in capital of the Company and EIGL. The change in the paid-in capital balance for the year ended 31 December 2004 reflects the Group's purchase of the equity interests in Enric Compressor from the ultimate shareholders of the Group on 8 July 2004. The change in the paid-in capital balance for the six months ended 30 June 2005 reflects the increase of EIGL's issued share capital from 1 share to 100 shares of US$1 each on 31 January 2005 in accordance with a share subscription agreement entered into between Symbiospartners Equity Private Limited ("Symbiospartners"), EIGL and Xinao Group International Investment Limited (formerly known as Easywin Enterprises Limited) on 21 January 2005 (see note 24 (i)).

24. Reserves

	Share premium *RMB* *Note (i)*	**General reserve fund** *RMB* *Note (ii)*	**Enterprise expansion fund** *RMB* *Note (iii)*	**Retained profits** *RMB*	**Total** *RMB*
At 1 January 2003	–	–	–	6,963,182	6,963,182
Profit for the year	–	–	–	10,607,127	10,607,127
At 31 December 2003	–	–	–	17,570,309	17,570,309
Profit for the year	–	–	–	36,191,118	36,191,118
Transfer between reserves	–	2,477,817	–	(2,477,817)	–
At 31 December 2004	–	2,477,817	–	51,283,610	53,761,427
Share premium	15,709,117	–	–	–	15,709,117
Profit for the period	–	–	–	32,321,250	32,321,250
Transfer between reserves	–	3,458,308	–	(3,458,308)	–
At 30 June 2005	15,709,117	5,936,125	–	80,146,552	101,791,794

(i) Share premium

On 21 January 2005, a share subscription agreement was entered into between Symbiospartners, as subscriber, EIGL, and Xinao Group International Investment Limited as warrantor, pursuant to which 10 shares of US$1 each, representing 10% of the enlarged issued share capital of EIGL, were allotted and issued on 31 January 2005 to Symbiospartners at a total subscription price of US$1,900,000. In addition, 89 shares of EIGL were issued to Xinao Group International Investment Limited at par value. Accordingly, the share premium arising from the share subscription is US$1,899,990. Further details of the above transaction are set out in Appendix VII to the Prospectus.

(ii) 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.

(iii) Enterprise expansion fund

The Group's wholly owned subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with PRC rules and regulations, to the enterprise expansion fund. The percentage of this appropriation is decided by the directors of the subsidiaries. No appropriation to the enterprise expansion fund was made during the Relevant Period.

The enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

(iv) Distributable reserves

The Company was incorporated on 28 September 2004 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2004.

On the basis set out in Section A, the aggregate amounts of distributable reserve at 31 December 2003, 31 December 2004 and 30 June 2005 of the companies now comprising the Group were RMB18 million, RMB51 million and RMB80 million respectively.

25. Acquisition of additional interests in a subsidiary

The Group had 30% equity interests in Enric Gas Equipment since its establishment until the Group acquired the 70% additional interests in Enric Gas Equipment for a cash consideration of RMB14,234,500. The fair value of the net assets acquired is as follows:

	RMB
Net assets acquired	
Property, plant and equipment	32,632,429
Construction in progress	10,413,000
Lease prepayments	15,738,666
Intangible assets	3,546,039
Inventories	25,321,059
Trade and other receivables	10,813,338
Amounts due from related parties	48,212,613
Cash at bank and in hand	404,128
Bank loans	(44,520,000)
Trade and other payables	(14,876,668)
Amounts due to related parties	(71,076,792)
Net identifiable assets and liabilities	16,607,812
Negative goodwill arising from the acquisition of additional interests in a subsidiary	(2,373,312)
Total purchase price paid, satisfied in cash	14,234,500

26. Retirement benefits

The subsidiaries operating in the PRC, namely Enric Compressor, Enric Gas Equipment and Enric Integration, participate in government pension schemes whereby Enric Compressor, Enric Gas Equipment and Enric Integration are required to pay annual contributions at the rates of 25%, 20% and 20% respectively, of the basic salaries of their 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 does not operate any other schemes for retirement benefits provided to the Group's employees.

27. Commitments

(a) Capital commitments in respect of capital expenditure at 31 December 2003, 31 December 2004 and 30 June 2005 not provided for in the Financial Information are as follows:

	At 31 December		**At 30 June**
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Contracted for	220,600	486,000	3,948,000
Authorised but not contracted for	–	–	1,852,742
	220,600	486,000	5,800,742

(b) The total future minimum lease payments under non-cancellable operating leases payable at 31 December 2003, 31 December 2004 and 30 June 2005 are as follows:

	At 31 December		**At 30 June**
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Within 1 year	–	1,495,082	1,402,804
After 1 year but within 5 years	–	910,000	663,948
	–	2,405,082	2,066,752

The Group leases a number of properties and items of plant and machinery 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.

28. Material related party transactions

(a) Transactions

			Year ended 31 December		Six months ended 30 June	
			2003	2004	2004 (Unaudited)	2005
		Notes	*RMB*	*RMB*	*RMB*	*RMB*
(I)	*Trade*					
	Sales	*(i)*	1,831,438	84,582,559	29,577,891	47,610,967
	Purchases	*(ii)*	5,184,995	64,851,744	42,087,203	73,282
(II)	*Non-Trade*					
	Rental of property and office equipment and property management fee	*(iii)*	–	130,000	–	460,727
	Loans to a related party	*(iv)*	48,600,000	–	–	–
	Interest income on loans to a related party	*(iv)*	4,002,482	3,222,895	1,739,304	–
	Repayment of loans to a related party and related interest	*(iv)*	30,000,000	87,248,361	27,000,000	814,191
	Payment for investment in a related party	*(v)*	26,190,000	–	–	–
	Disposal of investment in a related party	*(vi)*	–	26,190,000	26,190,000	–
	Payment for interests in subsidiaries	*(vii)*	–	36,830,606	–	–
	Directors' remuneration and expenses	*(viii)*	–	142,111	–	–
	Cash advances to related parties	*(ix)*	7,543,959	54,541,891	43,231,080	–
	Repayments of cash advances to related parties	*(ix)*	16,199,333	59,285,850	4,982,958	–
	Cash advances from related parties	*(x)*	34,505,779	270,613,489	76,714,565	–
	Repayments of cash advances from related parties	*(x)*	4,026,688	262,160,297	435,549	6,378,988

Notes:

(i) Sales to related parties mainly represent the sale of compressors, pressure vessels and integrated business solutions for gas equipment. The selling prices are determined based on prevailing price of similar products to independent third party customers.

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

(iii) These relate to:

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

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

– the lease of property and office equipment by the Group from Xinao Gas Investment Group Limited, a related party controlled by the major shareholder of the Company, for a term of 3 years from 1 February 2005 to 31 January 2008, at an annual rental of HK$455,544.

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

(v) This represents purchase of equity interest in Xinao Group Company Limited by Enric Compressor during the year ended 31 December 2003.

(vi) This represents disposal of the investment referred to in (v) above by Enric Compressor to Langfang Guofu Investment Limited, a related party controlled by the major shareholder of the Company, during the year ended 31 December 2004.

(vii) This represents purchase of equity interests in Enric Compressor from the ultimate shareholders of the Group during the year ended 31 December 2004, and the Group's acquisition of the additional interests in Enric Gas Equipment.

(viii) This represents the directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.

(ix) Cash advances to related parties for each of the years ended 31 December 2003 and 2004 and for the six months ended 30 June 2004 are as follows:

	Year ended 31 December		Six months ended 30 June
	2003	**2004**	**2004**
			(Unaudited)
	RMB	*RMB*	*RMB*
Xinao Group Company Limited	2,500,000	13,074,400	6,074,650
Xinao Group Solar Energy Company Limited	–	4,496,327	1,430,919
Bengbu Xinao Property Company Limited	1,048,858	–	–
Shijiazhuang Radiation Equipment Company Limited	–	2,992,053	2,992,053
Xinao Group Shijiazhuang Chemical Machinery Company Limited	–	33,423,600	32,190,166
Xinao Group International Investment Limited	3,995,101	–	–
The Company's major shareholder	–	555,511	543,292
Total	7,543,959	54,541,891	43,231,080

The above entities are companies controlled by the Company's major shareholder, who is also a director of the Company.

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

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

(xi) The Group had bank loans of RMB84,040,000 and RMB132,860,000 and RMB115,000,000 guaranteed by Xinao Group Company Limited as at 31 December 2003, 31 December 2004 and 30 June 2005 respectively (see note 19).

(xii) Particulars of the directors' emoluments are disclosed in note 6.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

The directors of the Company have confirmed that the above transactions with related parties, except for sales, rental of property and office equipment and property management fee, will not continue in the future after the listing of the shares of the Company.

(b) Balances with related parties

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

			At 31 December		At 30 June
			2003	**2004**	**2005**
		Notes	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	865,700	8,232,968	15,678,074
(B)	Non-trade balances				
	• Loans	*(ii)*	78,600,000	–	–
	• Interest receivables from loans	*(ii)*	6,239,657	814,191	–
	• Cash advances	*(iii)*	4,743,959	–	–
	Total		90,449,316	9,047,159	15,678,074

Notes:

(i) This represents the sales of compressors, pressure vessels and integrated business solutions to related parties.

(ii) These relate to loans to Xinao Group Company Limited. These loans carried interest at annual rates ranging from 5.1% to 6.1% for each of the years ended 31 December 2003 and 2004. The maximum balance of the loans to this related party, which is controlled by the Company's major shareholder who is also a director of the Company, and the related interest receivables were in aggregate RMB84,839,657, RMB 88,062,552 and RMB 814,191 for each of the years ended 31 December 2003 and 2004 and the six months ended 30 June 2005, respectively.

All these loans were settled on 9 December 2004.

(iii) Cash advances to related parties are as follows:

	At 31 December		At 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Bengbu Xinao Property Company Limited	748,858	–	–
Xinao Group International Investment Limited	3,995,101	–	–
Total	4,743,959	–	–

The above entities are companies controlled by the Company's major shareholder, who is also a director of the Company. The maximum balances of these cash advances during each of the years ended 31 December 2003 and 2004 and the six months ended 30 June 2005 are as follows:

	Year ended 31 December		Six months ended 30 June
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Xinao Group Company Limited	14,500,000	13,074,400	–
Xinao Group Solar Energy Company Limited	1,399,333	4,496,327	–
Bengbu Xinao Property Company Limited	1,048,858	748,858	–
Shijiazhuang Radiation Equipment Company Limited	–	2,992,053	–
Xinao Group Shijiazhuang Chemical Machinery Company Limited	–	33,423,600	–
Xinao Group International Investment Limited	3,995,101	3,995,101	–
The Company's major shareholder	–	555,511	–

Cash advances to related parties are unsecured, interest-free and have no fixed terms of repayment.

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

			At 31 December		At 30 June
			2003	**2004**	**2005**
		Notes	*RMB*	*RMB*	*RMB*
(A)	Trade balances	*(i)*	5,398,647	10,247,633	6,010,487
(B)	Non-trade balances				
	• Rental payable	*(ii)*	–	130,000	–
	• Directors' remuneration and expenses	*(iii)*	–	142,111	–
	• Cash advances	*(iv)*	46,225,796	54,678,988	48,300,000
	Total		51,624,443	65,198,732	54,310,487

Notes:

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

(ii) This represents rental payable for the lease of the property and office equipment by the Group from Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.

(iii) This represents the directors' remuneration and expenses of the Group which were paid on behalf of the Group by Xinao Group Solar Energy Company Limited during the year ended 31 December 2004.

(iv) Cash advances from related parties are unsecured, interest-free and have no fixed terms of repayment. The balance as at 30 June 2005, taking into account subsequent settlement, will be capitalised upon the capitalisation issue as detailed in the paragraph headed "Written resolutions of the Shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively" set out in Appendix VII to the Prospectus.

29. Financial instruments

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

The Group does not hold nor has issued financial instruments for trading purposes. Exposure to credit, interest, and currency risks arises in the normal course of the Group's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral for financial assets.

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

(b) Interest rate risk

The rates of interest and terms of repayment of the Group's bank loans are disclosed in note 19.

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by PBOC that are determined largely by supply and demand.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through PBOC with government approval.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than Renminbi, primarily US Dollars. Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(d) Fair value

The carrying amounts of the significant financial assets and liabilities approximate their respective fair values as at 31 December 2003, 31 December 2004 and 30 June 2005.

(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 approximate their fair values because of the short maturities of these items.

(ii) Bank loans

The carrying amount of bank loans approximates their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

30. 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 system. 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 design, manufacture and sale of integrated business solutions.

	Year ended 31 December 2003					Year ended 31 December 2004				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Revenue from external customers	68,615,843	327,580	–	–	68,943,423	116,079,063	120,547,681	22,270,778	(6,521,824)	252,375,698
Segment result	14,990,659	60,038	–	–	15,050,697	25,032,716	10,856,575	9,342,429	(733,969)	44,497,751
Unallocated operating income and expenses					–					1,963,226
Profit from operations					15,050,697					46,460,977
Finance costs					(4,443,570)					(6,082,089)
Taxation					–					(1,814,458)
Profit from ordinary activities after taxation					10,607,127					38,564,430
Depreciation and amortisation for the year	2,159,942	6,101	–			2,168,352	4,932,679	360,105		
Segment assets	193,870,232	266,669	–	–	194,136,901	162,604,728	146,767,706	28,207,573	(48,536,577)	289,043,430
Unallocated assets					10,074,464					30,744,330
Total assets					204,211,365					319,787,760
Segment liabilities	153,971,303	442	–	–	153,971,745	103,350,952	15,923,051	226,898	(47,802,608)	71,698,293
Unallocated liabilities					10,073,197					194,328,032
Total liabilities					164,044,942					266,026,325
Capital expenditure incurred during the year	7,292,920	–	–			10,779,926	19,450,891	1,980,429		

	Six months ended 30 June 2004 (Unaudited)					Six months ended 30 June 2005				
	Compressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined	Com-pressors	Pressure vessels	Integrated business solutions	Inter-segment elimination	Combined
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Revenue from external customers	50,692,836	25,666,060	7,374,484	(854,727)	82,878,653	60,037,304	110,461,591	39,526,810	(301,452)	209,724,253
Segment result	11,514,063	861,404	3,224,466	–	15,599,933	8,798,656	18,917,983	10,926,929	(276,955)	38,366,613
Unallocated operating income and expenses					(174,896)					(620,909)
Profit from operations					15,425,037					37,745,704
Finance costs					(2,780,807)					(4,048,792)
Taxation					(141,072)					(1,375,662)
Profit from ordinary activities after taxation					12,503,158					32,321,250
Depreciation and amortisation for the period	1,430,325	1,252,059	336,086			1,481,438	3,390,548	592,137		
Segment assets						169,411,419	182,022,278	63,656,876	(62,295,673)	352,794,900
Unallocated assets										51,036,603
Total assets										403,831,503
Segment liabilities						105,383,472	113,181,298	24,372,242	(62,018,718)	180,918,294
Unallocated liabilities										121,120,588
Total liabilities										302,038,882
Capital expenditure incurred during the period						2,049,527	3,955,880	1,444,481		

31. Balance sheet of the Company

The Company was incorporated on 28 September 2004 and has not carried out any business since the date of its incorporation. As at 30 June 2005, the Company had cash balance of HK$0.01 and paid-in capital of HK$0.01.

On the basis set out in Section A above, the net assets of the Company at 30 June 2005 amounted to RMB104 million and were represented by its investments in subsidiaries.

32. Ultimate holding company

The directors consider the ultimate holding company of the Company at 30 June 2005 to be Xinao Group International Investment Limited, which is incorporated in the British Virgin Islands.

D. SUBSEQUENT EVENTS

The following transactions took place subsequent to 30 June 2005:

1. Share option scheme

Pursuant to the written resolutions of the Company's shareholder(s) passed on 26 September 2005 and 7 October 2005 respectively, the Company has adopted the Pre-IPO Share Option Plan and conditionally adopted the Share Option Scheme. The principal terms of the Pre-IPO Share Option Plan and the Share Option Scheme are set out in Appendix VII to the Prospectus.

2. Convertible bond subscription agreement

Pursuant to a convertible bond subscription agreement dated 29 August 2005, EIGL issued to Investec Bank (UK) Limited ("Investec") convertible redeemable bonds in the aggregate principal amount of US$5,000,000 and the convertible redeemable bonds will be mandatorily converted to the Company's shares in full subject to the satisfaction of certain conditions. Further details of the above transaction, including the conditions for conversion, are set out in the section headed "Financial investor" in the Prospectus.

3. Group reorganisation

On 26 September 2005, the Group completed the Reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

4. Valuation of properties

For the purpose of the listing of the Company's shares on GEM of the Stock Exchange, the properties of the Group were revalued as at 31 August 2005 by an independent firm of surveyors, Sallmanns (Far East) Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB35 million from the carrying amount of the relevant assets at that date. According to the Group's accounting policy, the revaluation surplus will not be recorded in the Group's financial statements. If the revaluation surplus were to be included in the Group's financial statements, additional depreciation charge would be approximately RMB2 million per annum. Details of the valuation are set out in the professional valuers' certificate in Appendix V to the Prospectus.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2005.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong