EMER INTERNATIONAL GROUP LIMITED
埃謨國際集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8149)

ANNUAL REPORT 2005

* For identification purposes only

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

Corporate Profile

EMER International Group Limited (the "Company") (Stock Code: 8149) is a product and service provider to worldwide oil and gas drilling industry. The Company and its subsidiaries (the "Group") were founded in 2001 and was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 November 2005.

Based in both China and USA, the Group is engaged in design, manufacture and sales of electrical equipment for electric driven drilling rig (i.e. rig electric control systems) including SCR, VFD and DC-AC mix control system. The other major line of products manufactured and provided by the Group are drilling expendable parts of mud pumps. Rig control systems and mud pumps are essential parts of a drilling rig which are considered as its "brain" and "heart" respectively. In addition, the Group provides professional marketing and consultancy services to leading international oilfield equipment manufacturer, design house and engineering companies for promoting and selling their products and services to oil and gas companies in China and other countries.

The Group's products are manufactured in the Group's two manufacturing bases in China, both of which have ISO 9001:2000 certificates. The Group's expendable parts for mud pumps are permitted by API to use API Monograph.

The Group has developed an international sales and distributors network in supplying its products to major oil drilling regions.

Contents

Corporate Information

BOARD OF DIRECTORS
Executive Directors
Zhang Menggui
Jiang Bing Hua
Chen Yunqiang
Zhang Hongru

Independent non-executive Directors
Chan Ngai Sang, Kenny
Bian Junjiang
Guan Zhichuan

COMPANY SECRETARY
Kong Oi Man

QUALIFIED ACCOUNTANT
Wong Kin Ming, Terry

COMPLIANCE OFFICER
Zhang Hongru

AUTHORISED REPRESENTATIVES
Zhang Menggui
Jiang Bing Hua

AUDIT COMMITTEE
Chan Ngai Sang, Kenny
Bian Junjiang
Guan Zhichuan

REMUNERATION COMMITTEE
Bian Junjiang
Zhang Menggui
Jiang Bing Hua
Chan Ngai Sang, Kenny
Guan Zhichuan

COMPLIANCE COMMITTEE
Bian Junjiang
Zhang Hongru
Chan Ngai Sang, Kenny
Guan Zhichuan
Kong Oi Man

WEBSITE ADDRESSES
www.emergroup.com
(The contents of the website of the Company don't form a part of this Annual Report)

REGISTERED OFFICE
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Unit 1612, 16/F
China Merchants Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

AUDITORS
CCIF CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG SHARE REGISTRAR
Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Standard Chartered Bank
China Merchants Bank
Bank of China Shaanxi Branch
Hi-Tech Development Zone Sub-branch
China Construction Bank Qingdao Branch
Metrobank N.A.

STOCK CODE
8149

Corporate Milestones

October, 2001

The Group set up 海爾海斯（西安）控制技術有限公司 Haier Haisi (Xi'an) Control Technologies Co., Ltd. ("HHCT") to manufacture rig electric control system.

June, 2002

The Group set up 青島天時石油機械有限公司 TSC (Qingdao) Manufacture Co., Ltd. ("TSC(QD)") to manufacture mud pump expendables.

August, 2002

The Group set up TSC Manufacturing and Supply LLC ("TSC (USA)") in Houston , USA to market and distribute expendables for mud pump internationally.

November, 2002

HHCT was awarded High and New Tech Enterprise Certificate.

December, 2003

HHCT obtained ISO9001:2000 certificate.

May, 2004

HHCT made a break through in its international sales by exporting its rig control system to one of the major international rig manufactures in Russia.

June, 2004

TSC(QD) obtained ISO9001:2000 certificate and passed API Spec Q1 examination, and was licensed to use API monograph.

September, 2004

HHCT was awarded by Siemens as its Advanced System Integrator.

February, 2005

The Company was incorporated.

August, 2005

TSC(QD)'s new plant was in full operation.

October, 2005

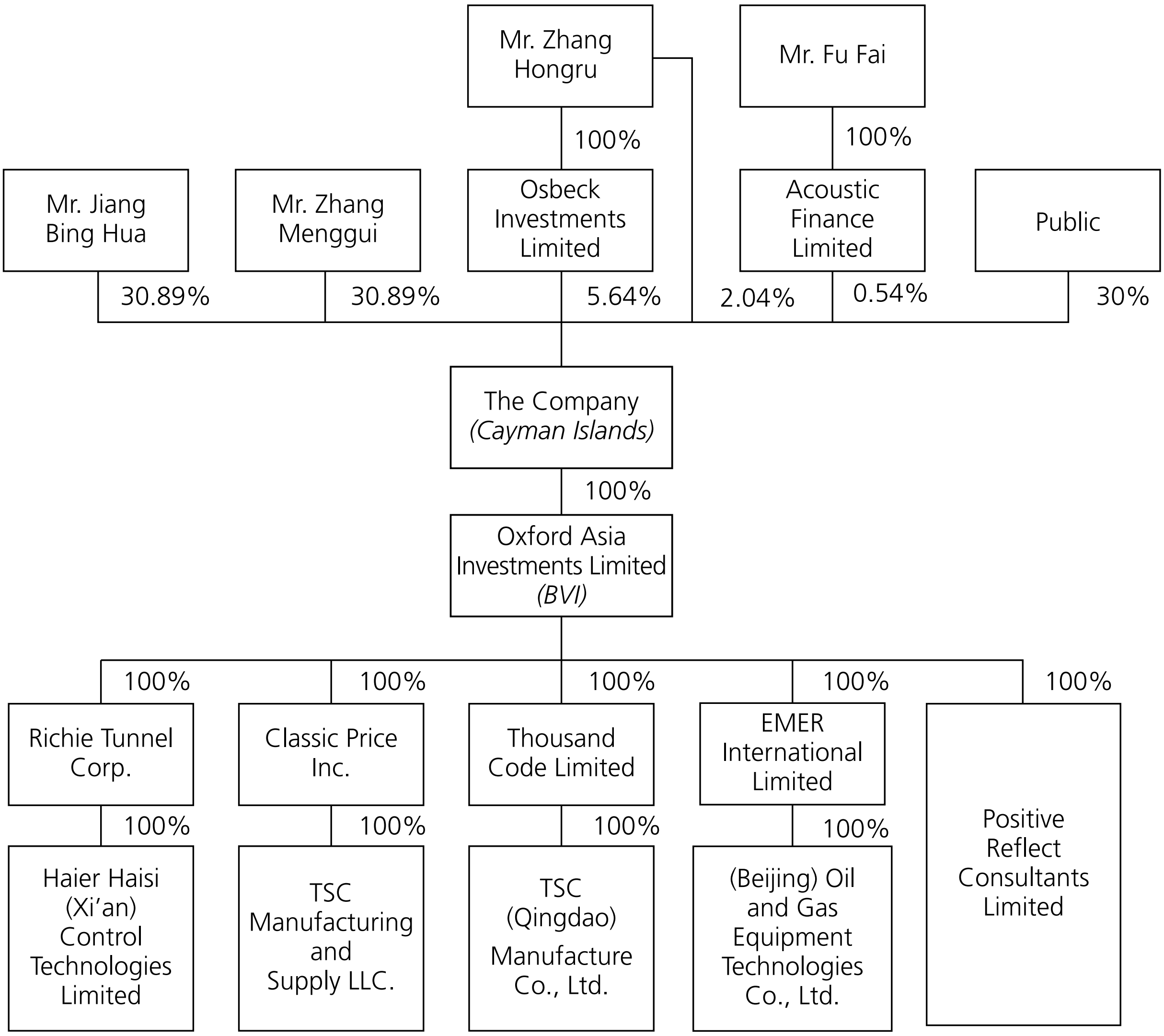
The Group completed reorganization under which the Company became the holding company of the Group.

November, 2005

The Company was successfully listed on GEM in Hong Kong.

Shareholding and Group Structure

The Company was incorporated in the Cayman Islands with limited liability on 22 February 2005. As of 31 December 2005, the structure of the Group is as follows:



Chairmen's Statement

"Through continuous efforts and dedication from each employee of our group, we shall expand our products and services to all major oil and gas producing regions and become a leading global player in providing quality products and services to world wide oil and gas drilling industry."

Zhang Menggui
Chairman and Chief Executive Officer

"Our mission is to make our clients successful while creating shareholder value and providing a safe and rewarding place to work for our employees. Do Better F.A.S.T. is our motto."

Jiang Bing Hua
Co-chairman
President and Chief Operating Officer

Dear Shareholders of the Company:

We are pleased to present the first annual report after the Company was listed on GEM in November 2005 on the audited results of the Group for the year ended 31 December 2005 (the "Year").

APPRECIATION

During the Year, the Group achieved a stable growth in sales over the previous year, a satisfactory progress made in designing the Group's own brand mud pump and other products, and a successful listing of the Company's shares on GEM of the Stock Exchange in Hong Kong. We would like to express our sincere appreciation to our investors, loyal customers and clients, suppliers, employees, bankers, professionals and friends for their generous supports to the Group during the Year. Especially, we would like to say to all employees of our Group: thank you! Your diligent work made the Group's achievements in the Year possible.

REVIEW OF RESULTS

- Our sales amounted to approximately RMB110,916,000, representing a growth of 4.9% as compared with 2004;

- Our gross profit amounted to approximately RMB46,821,000, representing a growth of 19.3% as compared with 2004;

- Our consolidated gross profit margin was improved from 37.1% for 2004 to 42.2% for the Year;

- Our net profit amounted to approximately RMB19,357,000 representing a decrease of 33.4% from the net profit for 2004 due to a rapid increase in general and administrative expenses and selling and distribution expenses;

- Consolidated net profit margin for the Year was 17.5%;

During the Year, the total number of customers for expendable business reached 97. While the sales in 2005 from drilling control equipment and consultancy services decreased, the sales of expendables parts and accessories reached approximately RMB63,207,000, representing a growth of approximately 69% over 2004. Geographically, the Group has successfully push expendable products with super quality and prompt services into offshore drilling operators like CNOOC Group in China. As a result, the sales of expendables in China in 2005 was more than doubled as in 2004.

During the Year, delivery of 3 contracts for the electric control system were postponed to 2006 at the request of customers. However, the business of rig electric control system secured a sales of RMB43,464,000 as compared to RMB59,249,000 in 2004.

During the Year, the Group's consultancy services business realized a sale of approximately RMB4,245,000, representing a decrease of 53.6% as compared to 2004 due to the price reduction at the request of clients. Nevertheless, the Group's concession in fee charge was rewarded by a long term co-operation agreement with a major international offshore drilling platform design house. Such a long term partnership shall greatly facilitate the Group's effort in coming years to penetrate into offshore drilling equipment market in China which started booming in 2005.

During the Year, the Group has completed a big portion of 1220 horse power mud pump designing work which laid a good foundation for launching mud pumps under Group's TSC brand in North America and China in the year to come.

During the Year, the Group has bought a plant in costal city of Qingdao and put the plant in full operation. After adding on more machinery, the plant owned by the Group provided a stable expendable production base for the Group, and addition of machinery together with the new plant greatly increased the production capacity for expendables as compared to 2004. During the Year, the Group succeeded in purchasing, earlier than planned, a piece of industrial land in Xian Hitech Zone on which the Group's own plant can be build so that the production and assembly capacity for electric rig control system would be greatly expanded in the years to come. Near the end of 2005, the Group was successfully listed on GEM of the Stock Exchange in Hong Kong. The completion of listing brought development fund and liquidity into the Group thanks to the supports and trusts of investors. The Group's status of a public company shall help the Group's business development. In order for the operation of the Group to be more solid, efficient and safe, the Group has started restructuring management functions and implemented more comprehensive internal control system in the Year. The Group shall constantly review and refine our internal control system as well as corporate governance.

Chairmen's Statement

PROSPECT

In pursuit of the long-term goal of becoming a leading global player in providing drilling-related products and services for oil industry, the Group will strive to focus on our core business area. The Group will implement the business plan made already. The Group will develop, introduce and launch new products for oil drilling industry into our expanding sales and distributors network.

The Group will continue to leverage on its existing expertise and network to continue the consultancy and marketing service business, especially in the field of offshore drilling equipment market in China.

Looking forward to the year to come, we remain strongly positive towards global oil and gas drilling industry. The demand from global oil and gas drilling industry for products of expendables and equipment shall continue to be growing and strong. We have very reason to believe that international drilling industry has already accepted quality of China-made land drilling equipment, and that the China-made offshore drilling products shall become popular in the near future. The Group, having production bases in China and international sales network in place, is well positioned to develop along with the industry.

Zhang Menggui
Chairman
Chief Executive Officer

Jiang Bing Hua
Co-Chairman, President
Chief Operating Officer

Hong Kong
27 March 2006

A. OVERVIEW

The Group is a product and service provider to worldwide oil and gas drilling industry. The Group generates revenue mainly from 3 areas of business segments, namely i) the design, installation and sales of electrical equipment for electric driven drilling rigs (i.e. rig electric control systems); ii) the manufacturing and provision of expendable parts and accessories for drilling rigs; and iii) the provision of consultancy and marketing services to assist overseas oilfield equipment manufacturers and drilling rig engineering companies for the sales and marketing of their products and services in China and other countries.

During the Year, the Group achieved a fairly satisfactory results and generated approximately RMB114,321,000 in total revenue and approximately RMB19,357,000 in net profit. With the efforts of the board of directors and the employees of the Group, customers and clients base increased to about 97.

B. FINANCIAL REVIEW

Financial Highlights

	Year ended 31 December 2005 RMB'000	Year ended 31 December 2004 RMB'000	Percentage of year-to-year increase/ (decrease) %
Total Revenue	**114,321**	107,867	6.0
Gross profit	**46,821**	39,245	19.3
Net profit	**19,357**	29,065	(33.4)
Basic earnings per share (RMB)	**0.105**	0.161	(34.8)

Turnover and Other Revenue

During the Year, the Group recorded a total revenue of approximately RMB114,321,000, representing an increase of approximately 6% from RMB107,867,000 for year 2004. Turnover from the Group's three main business areas reached approximately RMB110,916,000, representing a 4.9% increase compared with 2004. Other revenue increased to approximately RMB3,405,000 which represented an increase of 63.3% from 2004. The increase in the Group's turnover in 2005 was mainly attributable to the increase in sales of expendable parts due to expansion of customers and clients base that the Group secured in 2005.

Other revenue for the Year was mainly from income derived by selling accessories to customers of electric control system and reverse of impairment losses on bad and doubtful debt.

B. FINANCIAL REVIEW *(cont'd)*

Segment Information By Business

Turnover by business segments

	Year ended 31 December 2005 RMB'000	**Percentage %**	Year ended 31 December 2004 RMB'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
Electrical equipment	**43,464**	**39.2**	59,249	56.0	(26.6)
Expendable parts and accessories	**63,207**	**57.0**	37,393	35.4	69.0
Consultancy services	**4,245**	**3.8**	9,140	8.6	(53.6)
Total	**110,916**	**100.0**	105,782	100.0	4.9

Electrical equipment

The Group's business in provision of electrical equipment involves the installation and provision of electric control systems and controlling equipment to PRC oil and gas drilling companies and drilling machinery manufacturers. For the Year, sales derived from this business segment was approximately RMB43,464,000, representing a decrease of approximately 26.6% over 2004. The decrease was mainly attributable to the postonement of delivery of three sets of electric control systems to year 2006 at the request of a major customer under the CNPC Group.

Expendable parts and accessories

The Group's expendable parts and accessories business is operated by TSC (USA) and TSC (QD) whereas the former is responsible for sales and marketing in the USA and the latter is responsible for manufacturing in the PRC. Turnover from this business segment amounted to approximately RMB63,207,000 in 2005, representing a rise of approximately 69.0%. The significant improvement in expendable sales was due to sales increase in the USA and a strong demand from South America for the Group's quality products.

Consultancy services

The Group's consultancy services did not perform well in 2005. Revenue from this business segment dropped by approximately 53.6% to approximately RMB4,245,000. The drop was mainly attributable to the reason that the Group had to reduce service charge at the request of clients. For the long-term interests of the Group, the Group made a concession to agree on fee reduction. In return, the Group secured a long-term cooperation agreement with this client who is a major international offshore drilling platform design house. Such a long-term cooperation agreement shall greatly facilitate the Group's efforts in penetrating further into the booming offshore drilling equipment market in China in the future.

B. FINANCIAL REVIEW *(cont'd)*

Segment Information By Sales Channels

Turnover by sales channels

	Year ended 31 December 2005 RMB'000	**Percentage %**	Year ended 31 December 2004 RMB'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
Direct sales					
– Electrical equipment	**43,464**	**39.2**	59,249	56.0	(26.6)
– Expendable parts and accessories	**33,138**	**29.9**	19,452	18.4	70.4
– Consultancy services	**4,245**	**3.8**	9,140	8.6	(53.6)
	80,847	**72.9**	87,841	83.0	(8.0)
Sales via distributors					
– Expendable parts and accessories	**30,069**	**27.1**	17,941	17.0	67.6
Total	**110,916**	**100.0**	105,782	100.0	4.9

During the Year, about 72.9% of the Group's sales was realized via direct sales while in 2004, the Group's sales realized via direct sales was 83.0%. Turnover realized via distributors in 2005 reached approximately RMB30,069,000, representing an increase of 67.6% from 2004. Such significant increase proved the success of the Group's strategy in expending its international sales and distributors network. On the other hands, the remarkable growth of direct sales from expendables showed that the demand for the Group's expendable parts was very strong during the Year.

B. FINANCIAL REVIEW *(cont'd)*

Segment Information By Geography

Turnover by geographic locations

	Year ended 31 December 2005 RMB'000	**Percentage %**	Year ended 31 December 2004 RMB'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
China	**46,618**	**42.0**	36,964	34.9	26.1
North America	**50,162**	**45.2**	39,186	37.0	28.0
Russia	**615**	**0.6**	22,832	21.6	(97.3)
Others	**13,521**	**12.2**	6,800	6.5	98.8
Total	**110,916**	**100.0**	105,782	100.0	4.9

For the Year, the significant portion of the Group's sales was derived from markets outside the PRC, contributing to approximately 58.0% of total turnover. Of this 58.0%, a majority portion of sales was realized in North America. Sales from North America, mainly derived from expendable parts, reached approximately RMB50,162,000, representing an increase of 28.0% from 2004. While sales in Russia dropped sharply during the Year as compared with 2004, the sales to other regions were doubled to reach to approximately RMB13,521,000. Such double increase in sales in other regions showed that the Group's strategy of expanding sales and distributors network was successful in the Year.

For the Year, the sales from the PRC market realized an increase of approximately 26.1% over 2004 to reach to about RMB46,618,000. Sales in China in the Year were related to rig electrical control system and expendables to CNOOC group and other customers.

Cost of sales and gross profit margin

The Group's cost of sales for 2005 and 2004 amounted to approximately RMB64,095,000 and RMB66,537,000 respectively, resulting in a consolidated gross profit margin of approximately 42.2% and 37.1% respectively. The increase in gross profit margin was mainly attributable to a more aggressive pricing policy on the Group's module products and reduced unit costs due to economy of scale as a result of increased production volume in the Group's manufacture base in Qingdao.

B. FINANCIAL REVIEW *(cont'd)*

Operating costs and net profit

During the Year, the Group's general and administrative expenses amounted to approximately RMB22,196,000, representing approximately 20.0% of the Group's total sales, as compared to that of approximately 8.5% for 2004. The general and administrative expenses mainly comprised staff-related expenses of approximately RMB14,645,000 and office-related expenses (rental, electricity, office supplies, etc.) of approximately RMB4,399,000. The remaining expenses are related with travelling, entertainment, and professional fee, etc.

During the Year, the Group's selling and distribution expenses amounted to approximately RMB4,434,000, accounting for approximately 4.0% of the Group's turnover, as compared to approximately 1.3% for 2004. The increase of selling and distribution expenses was mainly due to the increase number of sales-related staff, transportation and traveling as well as freight and handling.

During the Year, the Group's finance costs amounted to approximately RMB877,000, as compared to approximately RMB126,000 for 2004. The increase in finance costs was mainly attributable to the Group's bank loan interests.

During the Year, the Group's other operating expense which mainly comprised impairment losses amounted to approximately RMB2,349,000 as compared the RMB2,392,000 for 2004.

During the Year, the Group achieved net profit of approximately RMB19,357,000, a decrease of approximately RMB9,708,000 or 33.4% from approximately RMB29,065,000 in 2004. Net profit margin for the Group was approximately 17.5% which is lower than a net profit margin of 27.5 % for 2004. The drop in net margin was mainly due to the increase in general and administration expenses as well as the income drop in consultancy services business which commanded much higher net margin.

Group's Liquidity and Capital Resources

As at 31 December 2005, the Group had non-current assets of approximately RMB25,794,000, which mainly comprised property, plant and equipment of approximately RMB13,367,000, interests in leasehold land held for own use of approximately RMB9,080,000, deferred tax assets of approximately RMB2,789,000 and intangible assets of approximately RMB558,000.

As at 31 December 2005, the Group had net current assets of approximately RMB76,629,000. Current assets mainly comprised cash and bank balances of approximately RMB31,254,000, inventories of approximately RMB23,760,000, trade receivables, bills receivables and other receivables of approximately RMB52,240,000, amounts due from related parties of approximately RMB1,847,000, value added tax recoverable of approximately RMB1,564,000, interests in leasehold land held for own use of approximately RMB198,000, advances to suppliers of approximately RMB3,495,000, and traveling advances to a director of approximately RMB102,000.

B. FINANCIAL REVIEW *(cont'd)*

Group's Liquidity and Capital Resources *(cont'd)*

Current liabilities amounted to approximately RMB37,831,000, mainly comprising trade payables, bills payables and other payables of approximately RMB23,522,000, bank overdrafts of approximately RMB60,000, tax payables of approximately RMB4,354,000, obligations under financial lease of approximately RMB42,000, deposit received of approximately RMB1,536,000, due to directors of approximately RMB538,000 and secured bank loans of approximately RMB7,779,000.

During the Year, the Group's average account receivables (gross) turnover was 160 days as compared to 141 days in 2004 while the Group's average account payable turnover was 83 days as compared to 54 days in 2004. Inventory turnover was 135 days, as compared to 63 days in 2004.

Gearing ratio, total liability over equity shareholders' funds is 37.1%, as compared to 55.4% in 2004.

Contingent Liability

As at 31 December 2005, the contingent liabilities of discounted bills were amounted to RMB2,500,000 (2004: RMB1,500,000).

Significant Investments and Disposals

On 13 July 2005, the board of directors of HHCT, a wholly-owned subsidiary of the Company established in the PRC, passed a resolution to increase its registered capital from RMB10.235 million to RMB50 million. The increase was subsequently approved on 25 July 2005 by 西安高新技術產業開發區管理委員會 (Administrative Committee of the Xi'an Hi-tech Industrial Development Zone). According to the approval document, the increase in registered capital has to be paid within 17 months from the issue date of the new business license which was issued to HHCT on 12 August 2005 (with 10% of the increased capital to be paid within 3 months therefrom which shall be due 12 November 2005; 10% within 6 months therefrom; 20% within 12 months therefrom; and the remaining amount by the end of the 17-month period). A new business license dated 12 August 2005 with the increased registered capital was then issued by 西安市工商行政管理局 (Xi'an City Administration of Industry and Commerce) to HHCT. On 6 December 2005, the shareholder of HHCT decided to decrease its registered capital to RMB15 million. On 8 and 19 December 2005, HHCT published two notices in the PRC newspapers relating to the proposed decrease in registered capital of HHCT. Based on the capital verification report dated 10 January 2006 issued by 陝西海華有限責任會計師事務所 (Shaanxi HaiHua Certified Public Accountants (Ltd)), as of 28 December 2005, the registered capital of HHCT had been fully paid-up to RMB15,008,652.

Further on 5 March 2006, the shareholder of HHCT rectified to revise the amount of its registered capital to RMB17,000,000. On 20 March 2006, the Administrative Committee of the Xi'an Hi-tech Industrial Development Zone issued an approval to HHCT approving the reduction of HHCT's registered from RMB50,000,000 to RMB17,000,000 and the reduction of HHCT's total investment from RMB50,000,000 to RMB29,800,000.

B. FINANCIAL REVIEW *(cont'd)*

Significant Investments and Disposals *(cont'd)*

On 11 November 2005, HHCT succeeded in obtaining, earlier than planned, a land use right for 50 years on a piece of land for industrial usage of 11,174.8 square meters located in 西安高新區創業研發院一期A區 (District A, Phase 1, Industry Development and Research Institute, Xi'an Hi-tech Zone), for a consideration of RMB5,205,600. The land was purchased for an industrial plant planned to be built on it by HHCT to increase the production capacity of HHCT. In accordance with the land purchase agreement, HHCT is required to complete industry plant construction by 16 December 2006, but the start of construction can be postponed for one year longest subject to application, HHCT has filed application for postponing the start of construction.

Save as disclosed above, there were no material investments, acquisitions and disposals of subsidiaries by the Group during the Year.

Capital Structure

The shares of the Company were listed on GEM on 28 November 2005. There has been no change in the capital structure of the Company since that date.

Foreign Currency Exchange Exposure and Treasury Policy

Most of the Group's trading transactions, assets and liabilities were denominated in Renminbi, United States dollars and Hong Kong dollars. Since July 2005, magnitude of fluctuation of the exchange rates of Hong Kong dollars and United States dollars to Renminbi have become larger than before, the Directors noticed that the impact of the foreign exchange exposure of the Group has some adverse effect on the income of the Group in the Year. As at 31 December 2005, no related hedges were made by the Group. The Group will seek ways to hedge currency exchange risk in future.

Employees and Remuneration Policy

The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. In addition to salaries, employees benefits included medical scheme, pension contributions and share option schemes.

C. BUSINESS REVIEW

Public Listing

On 28 November 2005, the shares of the Company were successfully listed on GEM by way of placing of 60,000,000 new shares and selling of 12,000,000 existing shares of the Company, at a placing price of HK$0.73 per share. The Company successfully completed its goal of becoming a public company, thanks to the diligent works of professionals involved. The total listing expenses for the placing amounted to approximately RMB14,528,000, of which approximately RMB2,448,000 was borne by the vendors of the existing shares and the remaining borne by the Company. The difference between the actual total listing expenses and the estimated total listing expenses in the Prospectus amounted to approximately RMB488,000 which covered extra professional fees in USA and road show expenses that was not completely budgeted prior to issue of the Prospectus relating to the listing. The net proceeds raised by the Company was approximately RMB33,472,000. As of 31 December 2005, the total net cash and bank balance of the Group was approximately RMB31,194,000.

C. BUSINESS REVIEW *(cont'd)*

Electrical Control Equipment for Drilling Rigs

The business of the Group's rig electrical control system in 2005 experienced a slow down in delivery and thus resulting in a decrease in revenue due to the fact that the capacities of rig packagers of the Group's customers were almost fully occupied. As a result, these packagers requested the Group to postpone the delivery of certain electric control systems that ordered before. This phenomena happened more in 2005 than 2004, which indicated that the international and domestic demand for drilling rigs continued to be strong. During the Year, the Group completed 13 sets of electric control systems. Sales of accessories for electric control systems recorded approximately a net income of approximately RMB2,061,000. Another reason for the decrease in revenue in this business segment was due to the unsatisfactory performance in other markets outside the PRC. As planned in early 2005, the Group targeted to complete contracts delivered to markets outside the PRC such as Russia as what the Group accomplished in 2004. However, the Group was unable to secure such contracts which was against the Directors' expectation in the international sales of rig electric control systems. Nevertheless, the management realised that more sales and marketing efforts are needed for promoting the Group's SCR/VFD electrical rig control systems in international markets. The third factor that brought down the sales and gross profit margin of electrical equipment business in the Year was that the product mix was biased toward VFD system which offered lower profit margin. On the marketing front, the Group opened up market in North-eastern China by entering into a contract with Jilin Oilfield. Two encouraging news by the end of 2005 were that the Group secured certain significant contracts for rig electric control system. In addition, the Group had acquired, earlier than planned, a piece of industrial land of with an area of approximately 11,174.8 square meters located in 西安高新區 (Xi'an Hi-tech Zone) for a production plant which can increase the production capacity for electric control system.

Expendable Parts and Accessories

During the Year, the Group's business of expendable parts achieves a remarkable progress. In August 2005, the Group's production lines were moved into the self-owned new plant with a total gross floor area of approximately 8,628 square meters. Additional machinery was added such that the production capacity for expendables such as liner, piston, module was increased. Nevertheless, facing a strong demand from China and international markets for fluid-end modules, the Group's capacity for producing modules was restricted by lack of CNC machines.

On product development side, the Group completed master design of 1220 horse power mud pump in the Year, and will complete detailed design, test production in the year to come. The Group also design a new valves and valve seat in 2005 which were proved to be of premium quality, and were highly accepted and demanded by users in USA and offshore drilling platforms in China. Valves and valve seat are the most consumed parts in mud pump in terms of unit. The Group will expand rapidly its production capacity of valves and valve seat in the year to come as well. The Group also completed the design of its own brand centrifuge pump in 2005 for solid control operations in oilfields. The Group also made improvement in assembling its own brand Urethane Piston which last longer than its peers in the USA market. The longevity of usage of such piston made the sales of piston in the USA increased rapidly.

C. BUSINESS REVIEW *(cont'd)*

Expendable Parts and Accessories *(cont'd)*

On the market side, convinced by factual top quality and good services that the Group provided, some offshore drilling platforms in China started to purchase expendables from the Group which was an encouraging start. The Group's USA sales arm successfully obtained two big customers. One is an international drilling company and another is a famous drilling equipment producer in USA who started to purchase expendable parts from the Group. The total number of customers for the Group's expendable business reached 97.

In addition, the Group added more sales and sales supporting staff in its subsidiary in the USA in order to strengthen the sales force. The Group also designed and printed a comprehensive expendable product catalog for distribution in trade shows which was greatly welcomed in the international markets, and helped to bring in more customers. The Group will regularly update and distribute such TSC part book in future.

Consultancy Services

In the Year, the Group focused its business of consultancy services on offshore drilling equipment. Thanks to the efforts of Directors, the Group entered into more than 16 consultancy and marketing agreements with over six clients in North America covering offshore drilling platform designs and rack choke system supply, special pumps used for offshore drilling platform, and air drilling equipment. However the realized sales from this business sector decreased. The drop was mainly attributable to the reason that the Group had to reduce service charge at the request of a valuable client. For the long-term interests of the Group, the Group made a concession to agree on fee reduction. In return, the Group secured a long-term cooperation agreement with this client who is a major international offshore drilling platform design house. Such a long-term cooperation agreement shall greatly facilitate the Group's efforts in penetrating further into the booming offshore equipment market in China in the future. Facing the changes in the drilling equipment market in China, the Group made attempts to start supplying equipment to customers in China directly which is expected to result in equipment trading business in the year to come.

D. FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND CAPITAL COMMITMENT

As mentioned above, HHCT had, earlier than planned, succeeded in acquiring a piece of land of about 11,174.8 square meters located in 西安高新區創業研發院一期A區 (District A, Phase 1, Industry Development and Research Institute, Xi'an Hi-tech Zone), for a consideration of RMB5,205,600. The land was planned for the construction of an industrial plant in order to increase the production capacity of HHCT. In accordance with the land purchase agreement, HHCT is required to complete industry plant construction by 16 December 2006. HHCT is allowed under the contract to delay the start of construction by one year conditional on HHCT's submission of application to transferor 西安市國土資源局高新技術產業開發區分局 (Hi-tech Industrial Development Zone Sub-bureau of Xi'an City State Land Resources Bureau) 30 days in advance which fall on 15 March 2006. HHCT has submitted the application to the transferor already before 15 March 2006. Nevertheless, HHCT may plan to start construction before 31 December 2006 once relevant plant planning and design is completed. Currently, the very preliminary estimation of total construction costs including equipment made by HHCT is around RMB12,000,000. Should the Group decide to start construction before 31 December 2006, the Group would need to invest up to RMB12,000,000 over the construction period. The Group would plan to finance this possible capital assets investment through internal resources and debt financing.

As at 31 December 2005, the Group had a capital commitment contracted for investment in HHCT for the amount of approximately RMB34,991,000. Based on the approval obtained on 20 March 2006 from 西安高新技術產業開發區管理委員會 (Administrative Committee of the Xi'an Hi-tech Industrial Development Zone), such commitment was reduced to approximately RMB1,991,000.

As at 31 December 2005, the Group has a capital commitment contracted for investment in TSC(QD) for the amount of US$500,000, equivalent to approximately RMB4,010,000.

Save as disclosed above, the Group has no significant commitment at the balance sheet date.

E. PROSPECT AND STRATEGY

The management of the Group expects that the demand for drilling equipment and expendables shall continue to be strong in the years to come. The Group's production base in China and international sales and distributors network make the Group in a very competitive position for future growth.

The Group will continue to focus on its core business of serving oil and gas drilling industry worldwide, and develop in accordance with the business plans as stated in the Prospectus dated 21 November 2005.

The Group expects to launch its own brand-named mud pump "with 1220 horse power" made by the Group's Qingdao factory in North America. In addition, the Group will launch in a large scale of new valves and valve seats as well as modules in North America and China.

E. PROSPECT AND STRATEGY *(cont'd)*

The Group will look forward to potential investment opportunities that provide synergy in order to expand the Group's product lines quickly and penetrate into booming offshore drilling equipment sector.

The year 2005 was a milestone of the Group as it was its first time to accesse the equity capital market in Hong Kong, which provides opportunity for the Group to raise funds for future developments. Nevertheless, the meaning of becoming a public listed company is more than easy access to raise funds. The Directors consider that going public means higher standard of management, both internally and externally. In order to develop the Group to a more solid, integrated and well-managed enterprise group, more efforts will be made to improve the management efficiency and execution capacity.

Looking ahead, we will continue to attach great importance to our customers by providing top quality products and services. Based on the foundation the Group has laid down in so far, the Group shall persistently pursue its goal of becoming a global leader in providing products and services to worldwide oil and gas drilling industry. We will endeavor to scale new development level in the year 2006.

F. SUBSEQUENT EVENTS

HHCT, the Company's indirectly wholly owned subsidiary incorporated as a foreign invested company in China, applied to the relevant government authorities on 5 March 2006 to reduce its registered capital from RMB50,000,000 to RMB17,000,000, and to reduce its total investment from RMB50,000,000 to RMB29,800,000. Such application was approved by 西安高新技術產業開發區管理委員會 (Administrative Committee of the Xi'an Hi-tech Industrial Development Zone) on 20 March 2006.

Based on the capital vertification report dated 10 January 2006 issued by Shaanxi HaiHua Certified Public Accountants (Ltd.), as of 28 December 2005, the issued and fully paid registered capital of 海爾海斯 has increased by RMB4,773,652 to RMB15,008,652.

Review of Business Objectives

The following is a comparison between the actual business progress for the period from the date of the Prospectus up to 31 December 2005 and the business objectives as set out in the prospectus of the Company dated 21 November 2005 (the "Prospectus") for the same period.

Business objectives as stated in the Prospectus	Actual business progress
Development and introduction of new products:	
– seek co-operation partners for the development of advanced drilling instrumentations and offshore rig control panels	– a potential partner was identified and negotiation is undergoing
	– 2 engineers were recruited for mud pump design (Note 1)
	– Commenced manufacturing of new valves and valve seats (Note 1)
Expansion of production facility	
– acquire additional machinery for the production plant in Qingdao	– some machinery for expendable products was added to the Qingdao's plant
– identify suitable site as the new production plant of HHCT	– a piece of land with an area of 11,174.8 square meters was purchased and relevant land use right certificate was obtained by HHCT (Note 2)
Expansion of sales and marketing network	
– establish the central marketing department to co-ordinate the Group's sales efforts	– central marketing department was set up and headed by the Group's CEO
– re-design Group's websites and brochures	– completed product brochure for expendables
	– a website of a subsidiary was redesigned
	– corporate brochure is under preparing
	– 7 additional sales persons were recruited for the Group's Houston sales office (Note 3)

Notes:

1. These plans were originally scheduled to be carried out in the first half of 2006. Given that the Group would like to speed up the progress in order to meet the market demand, these plans were completed earlier.

2. Given the tight land supply in premium locations in Xi'an, HHCT had been seeking for a suitable industrial land for sometimes. The Group originally expected that such attempt would only be succeeded in 2006 but in November 2005, HHCT was unexpectedly succeeded, earlier than planned, to obtain the land use right certificate for a land located in New High Technology Economic Zone in Xi'an.

3. Given the growing demand in the American markets, the Group had to recruit sales staff for Houston office earlier and more than originally planned.

Use of Proceeds

During the period from the date of the Prospectus to 31 December 2005, a total of approximately RMB15.95 million was used, and the balance of the proceeds was placed as short-term deposit with licensed banks in Hong Kong and China.

The proceeds from the listing of the Company of approximately RMB 33.47 million (after deducing relevant listing expenses) were used as follows:

		Amount of net proceeds to be used up to 31 December 2005 as set out the Prospectus	**Actual amount of net proceeds used up to 31 December 2005**
		RMB million	RMB million
1.	Development and introduction of new products (Note 1)	–	2.62
2.	Expansion of production capacities (Note 2)	1.15	5.72
3.	Investments in related companies	–	–
4.	Expansion of sales and marketing network (Note 3)	–	0.24
5.	Repayment of amounts due to a director	4.37	4.37
6.	General working capital	3.17	3.00
		8.69	15.95

Notes:

1. Approximately RMB2.62 million was utilied for plans which were originally scheduled to be carried out in the first half of 2006. Given that the Group would like to speed up the progress in order to meet the market demand, these plans were completed earlier.

2. Approximately RMB4.57 million was utilised from internal resources for acquisition of land in Xi'an. This plan was originally expected to be carried out in 2006. But in November 2005, HHCT was succeeded, unexpectedly earlier than planned, to obtain the land use right certificate for a land located in 西安高新區 New High Technology Economic Zone in Xi'an which would speed up the completion of capacity expansion of HHCT. Hence, the original RMB4.57 million earn marked for land purchase was used as working capital of HHCT.

3. Additional approximately RMB0.24 million was utilised given that the Group had to recruit sales staff for Houston office earlier and more than originally planned due to the growing demand in American markets.

EXECUTIVE DIRECTORS

Mr. Zhang Menggui, aged 47, is one of the two founders of the Group. He is an executive Director, the Chairman of the Board and the Chief Executive Officer of the Group. He is responsible for the Group's overall performance, strategic planning and business development. Mr. Zhang obtained his bachelor degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master degree in petroleum engineering from the University of Alaska-Fairbanks in the USA in 1989. Mr. Zhang has 23 years of experience in the oil and gas industry. Prior to founding the Group, he had worked for a subsidiary of the CNPC group and currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers.

Mr. Jiang Bing Hua, aged 55, is another founder of the Group. He is an executive Director, the Co-chairman of the Board and the Chief Operating Officer and President of the Group. He is responsible for the overall general administration and sales and marketing of the Group. Mr. Jiang obtained his bachelor degree in offshore structure engineering from the Tianjin University (天津大學) in the PRC in 1980 and acquired his master degree in business of administration from the University of Dallas in the USA in 1993. Mr. Jiang has 32 years of experience in the oil and gas industry. Prior to founding the Group's business, he worked for the Sinopec group, the CNPC group and China National Offshore Oil Corporation (CNOOC) for various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

Mr. Chen Yunqiang, aged 40, is an executive Director and a Vice President of the Group. He is responsible for the operations of HHCT. Mr. Chen studied industrial enterprise management in Hangzhou University of Electronic Science and Technology (杭州電子科技大學). Mr. Chen joined HHCT in August 2001 and held the position of general manager since then. Prior to joining the Group, Mr. Chen worked in Xi'an Petroleum Exploration Instrument Complex (西安石油勘探儀器總廠) for 14 years with various positions including assistant factory head, supervisor of electric driven production line and manager of its sales branch in drilling rigs.

Mr. Zhang Hongru, aged 42, is an executive Director, the Chief Financial Officer and Vice President of the Group. He also serve as Compliance Officer of the Company. Mr. Zhang holds a master degree in geography obtained from the Chinese Academy of Science in 1986 and a master degree in economics of natural resources obtained from University of Alaska-Fairbanks, USA in 1989. Mr. Zhang has 16 years of experience in the field of banking, finance and corporate management. Prior to joining the Group in October 2004, Mr. Zhang held various positions in DBS Asia Capital Limited, Grand Generale Asia Limited, Crosby Securities Limited and The Hongkong and Shanghai Banking Corporation Limited. Mr. Zhang once was the chief financial officer and an executive director of SYSCAN Technology Holdings Limited, a GEM listed company, for the period from February 2001 to April 2003.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Bian Junjiang, aged 63, was appointed an independent non-executive Director October 2005. Mr. Bian presently serves as the chairman of CGC Overseas Construction Company Limited (中地海外建設有限責任公司) and an independent director of CITIC Securities Co., Ltd. (中信證券股份有限公司). He has many years of working experience in accounting and economic analysis in petroleum organisations.

Mr. Chan Ngai Sang, Kenny, aged 41, was appointed an independent non-executive Director October 2005. Mr. Chan holds a bachelor degree in commerce obtained from the University of New South Wales in 1988 and is a member of the Institute of Chartered Accountants of New Zealand, the Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan currently also serves as the Honorary Treasurer and the Chairman of the Accounting and Taxation Committee of the Association of International Accountants Hong Kong Branch. He is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants and holds position as an independent non-executive director of Golding Soft Limited and SMI Publishing Group Limited, both are companies listed on GEM.

Mr. Guan Zhichuan, aged 47, was appointed an independent non-executive Director October 2005. Mr. Guan obtained a doctorate in engineering from the University of Petroleum (Beijing) (石油大學) in 1995 and pursued his research in the field of oil and gas drilling engineering and fluid mechanic. He presently serves as the vice president of the College of Petroleum Engineering of the China University of Petroleum (中國石油大學石油工程學院).

SENIOR MANAGEMENT

Mr. Zhang Chunhai, aged 45, is a Vice President of the Group and the General Manager of Emer (Beijing), who is responsible for overall operations of Emer (Beijing) and the Group's product development planning. Mr. Zhang obtained his bachelor degree majoring in oilwell drilling (鑽井專業) from the China University of Petroleum (中國石油大學) in 1982. Prior to joining the Group, Mr. Zhang had approximately 20 years working experience in the petroleum industry. Mr. Zhang joined the Group in February 2005.

Mr. Zhang Jinyao, aged 55, is appointed as Vice President of the Group in December 2005. He is charged with the responsibility of managing corporate planning, human resources, and internal audit in China. Before joining the Group, Mr. Zhang serve as Vice Chairman of 晉西車軸股份有限公司 (Jinxi Axle Company Limited), a company listed in China and has many years of corporate management experience in a listed company environment.

Mr. Ba Pingji, aged 40, is the deputy general manager and chief technology officer of HHCT, who is responsible for the development and design of electric control system for oilwell drilling rigs (鑽機傳動系統). Mr. Ba graduated from Hunan University (湖南大學) in the PRC with a bachelor degree in electric engineering (電氣工程) in 1988. Mr. Ba joined the Group in February 2002 and before that he had been working in the 11th Research Institute of Aerospace Industry Department (航天工業部第十一研究所) for approximately 12 years, responsible for the design, research, development and installation of transmission control system and factory-use transformer.

SENIOR MANAGEMENT *(cont'd)*

Mr. Jiang Bingyang, aged 59, is the deputy general manager of TSC (Qingdao), who is responsible for the overall management of TSC (Qingdao). Mr. Jiang obtained his bachelor degree in petroleum engineering majoring in oil field mechanics (石油機械) from Xi'an Petroleum Institute (西安石油學院) in 1970. Prior to joining the Group, Mr. Jiang had over 30 years working experience in the petroleum industry, among which he spent approximately 7 years working as a deputy general manager of a petroleum export-import company. Mr. Jiang had over 17 years working experience in a petroleum company working as engineer and oil field mechanic department head. Mr. Jiang joined the Group in June 2002. He is the elder brother of Mr. Jiang Bing Hua, an executive Director.

Mr. Zhang Mengzhen, aged 39, is the Vice President of TSC (USA). Mr. Zhang is responsible for sales and marketing management for the international market and overall management of TSC (USA). Mr. Zhang graduated from Xi'an Institute of Metallurgy & Construction Engineering (西安冶金建築學院) in 1989. Previously, Mr. Zhang worked as the engineer for Emer International for three years and then joined TSC (USA) as vice president on 20 August 2002. He is the younger brother of Mr. Zhang Menggui, an executive Director.

Mr. Leroy Marrel Rambin Jr., aged 70, is the senior sales manager of TSC (USA). Mr. Rambin graduated from Northwestern University of Louisiana in 1962 with a bachelor degree in Arts. Prior to becoming the senior sales manager of the Group, he was running his own business in the field of drilling rig equipment. Mr. Rambin has extensive experience in drilling rig equipment industry in the USA.

Mr. Wong Kin Ming, Terry, aged 38, is the qualified accountant of the Company. Mr. Wong graduated from the University of Windsor, Canada with a bachelor degree in commerce and obtained his master degree in business (accounting) from Monash University, Australia. He became an associate member of CPA Australia in 1996 and advanced to Certified Practising Accountant in 2003. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in March 2005, Mr. Wong held several positions in the areas of finance, accounting, taxation and audit for different private companies. He has over 14 years of financial and accounting experience.

Ms. Kong Oi Man, aged 36, was appointed as the company secretary of the Company in March 2006. Ms. Kong obtained her bachelor degree in accountancy from the City University of Hong Kong. Ms. Kong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. She has more than 13 years of accounting experiences. Before she joined the Company, Ms. Kong served as Accountant for a GEM listed company Syscan Technology Holdings Limited over 4 years.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 39 to 89.

The Directors do not recommend the payment of any dividends in respect of the Year.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past three financial years, as extracted from the audited financial statements, is set out on page 90. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The movements in the Company's authorised and issued share capital during the Year are set out in note 33 to the financial statements. Details of the Company's share option schemes are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity on page 43, respectively.

DISTRIBUTABLE RESERVES

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2005, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium account, with a balance of approximately RMB8,678,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 52.8% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 28.9% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 42.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 11.6% of the Group's total purchases.

None of the Directors, or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

RECEIVABLES

As at 31 December 2005, out of total receivables, the Group had a normal trade receivable of approximately RMB13,766,000 which was the biggest trade receivable that the Group carried as at 31 December 2005 from one single customer.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:
Zhang Menggui
Jiang Bing Hua
Chen Yunqiang
Zhang Hongru

Independent non-executive Directors:
Chan Ngai Sang, Kenny
Bian Junjiang
Guan Zhichuan

In accordance with Article 87 of the Company's articles of association, Mr. Zhang Menggui, Mr. Jiang Bing Hua and Mr. Zhang Hongru will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 28 November 2005 and expiring on 27 November 2008 unless terminated by giving either party to the other not less than three month's prior written notice.

Each of the independent non-executive Director has entered into a service contract with the Company for a term of three years commencing from 20 October 2005 and expiring on 19 October 2008 unless terminated by either party giving to the other not less than three months' prior written notice.

Save as disclosed in note 11 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified on Sections 161 and 161A of the Companies Ordinance.

The Company confirms that it has received from each of its independent non-executive Directors a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year under review.

SHARE OPTION SCHEMES

Pursuant to written resolutions of all shareholders of the Company on 19 and 20 October 2005, the Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and another share option scheme (the "Share Option Scheme") respectively. Particulars of the Pre-IPO Scheme and the Share Option Scheme are set out in note 35 to the financial statements.

The Pre-IPO Scheme ceased to be effective on 21 November 2005 save for the unexercised portion of the options granted and accepted during its life time, of which a total of 15,210,000 share options remain valid and outstanding.

For the year ended 31 December 2005, no options were granted under the Share Option Scheme since its adoption.

SHARE OPTION SCHEMES *(cont'd)*

Details of the movements in options during the Year which have been granted under the Pre-IPO Scheme are as follows:

				Number of share options			
Name or category of participant	**Date of grant** *(Notes 1 & 2)*	**Exercisable period** *(Notes 1, 2 & 3)*	**Exercise price per share** HK$	**Outstanding at 28.11.2005**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31.12.2005**
Directors							
Mr. Zhang Menggui	19.10.2005	29.11.2005 to 28.11.2015	0.286	3,600,000	–	–	3,600,000
Mr. Jiang Bing Hua	19.10.2005	29.11.2005 to 28.11.2015	0.286	3,600,000	–	–	3,600,000
Mr. Chen Yunqing	19.10.2005	29.11.2005 to 28.11.2015	0.286	2,340,000	–	–	2,340,000
Ms. Zhang Hongru	19.10.2005	29.11.2005 to 28.11.2015	0.286	2,160,000	–	–	2,160,000
				11,700,000	–	–	11,700,000
Employees	19.10.2005	29.11.2005 to 28.11.2015	0.286	3,510,000	–	–	3,510,000
Total				15,210,000	–	–	15,210,000

Notes:

1. All dates are shown day, month, year.

2. The vesting period of the options is 5 years and starts from the date of grant and become rested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.

3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the Year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Number of issued ordinary shares of HK$0.10 each in the Company					Approximate percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Total	
Zhang Menggui	74,143,000	–	–	–	74,143,000	30.89%
Jiang Bing Hua	74,143,000	–	–	–	74,143,000	30.89%
Zhang Hongru (Note)	4,900,000	–	13,524,000	–	18,424,000	7.68%

Note: Mr. Zhang Hongru personally holds 4,900,000 shares and indirectly holds 13,524,000 shares through Osbeck Investments Limited which is an investment holding company wholly owned by him. He is deemed to be interested in the shares held by Osbeck Investments Limited under Part XV of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(cont'd)*

Interest in underlying shares of the Company:

Share options granted under the Pre-IPO Share Option Scheme:

Name of Director	Number of share options beneficially and directly held by the Directors and outstanding as at 31 December 2005
Zhang Menggui	**3,600,000**
Jiang Bing Hua	**3,600,000**
Chen Yunqiang	**2,340,000**
Zhang Hongru	**2,160,000**

Note: *Please refer to note 35 to the financial statements for details of the Pre-IPO Scheme (as defined in note 35 to the financial statements) and share options granted thereunder, including the above share options granted to the above Directors.*

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and in the share option scheme disclosures in note 35 to the financial statements, at no time during the year under review, on rights to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the following persons had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares and underlying shares of the Company:

Name	Capacity and Nature of interest	Number of shares/ underlying shares held	Approximate percentage of the Company's issued share capital
Chen Fengying *(Note 1)*	Interest of spouse	74,143,000 shares and 3,600,000 share options	32.39%
Zhang Jiuli *(Note 2)*	Interest of spouse	74,143,000 shares and 3,600,000 share options	32.39%
Gao Haiping *(Note 3)*	Interest of spouse	18,424,000 shares and 2,160,000 share options	8.58%
Osbeck Investments Limited *(Note 4)*	Beneficially owned	13,524,000 shares	5.64%
Asian Infrastructure Limited *(Note 5)*	Beneficially owned	12,000,000 shares	5.00%

Notes:

1. These interests represent the same block of shares and share options shown against the name of Mr. Zhang Menggui in the previous section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.

2. These interests represent the same block of shares and share options shown against the name of Mr. Jiang Bing Hua in the previous section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Zhang Jiuli is the spouse of Mr. Jiang Bing Hua, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.

3. These interests represent the same block of shares and share options shown against the name of Mr. Zhang Hongru in the previous section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Gao Haiping is the spouse of Mr. Zhang Hongru, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.

4. These shares represent the same block of shares shown against the name of Mr. Zhang Hongru in the previous section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Osbeck Investments Limited is wholly owned by Mr. Zhang Hongru, he is deemed to be interested in the shares held by Osbeck Investments Limited under Part XV of the SFO.

5. Asian Infrastructure Limited is a professional investor who became interested in these shares upon the listing of the Company on GEM in November 2005.

Save as disclosed above, as at 31 December 2005, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "Directors' and chief executives' interests and short position in shares, underlying shares and debentures" above), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 38 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

INTERESTS OF COMPLIANCE ADVISOR

Pursuant to a compliance advisor agreement dated 21 November 2005 made between the Company and MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink"), MasterLink has been appointed as the compliance advisor to the Company as required under the GEM Listing Rules at a fee for the period from 28 November 2005 to the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing 28 November 2005 or until the agreement is terminated pursuant to its terms and conditions.

None of MasterLink, its Directors, employees nor their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other member of the Group (including options or rights to subscribe for such securities) as at 31 December 2005.

AUDITORS

CCIF CPA Limited retire and a resolution for their re-appointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 34 to 37 of this report.

ON BEHALF OF THE BOARD
EMER International Group Limited

Zhang Menggui
Chairman

Jiang Bing Hua
Co-chairman

Hong Kong
27 March 2006

Corporate Governance Report

INTRODUCTION

Subject to the deviations as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Code") regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors (the "Board") is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. An executive Director, Mr. Zhang Menggui, is appointed as the chairman and chief executive officer of the Group whereas Mr. Jiang Bing Hua, another executive Director, is acting as co-chairman, president and chief operating officer of the Group.

Mr. Zhang Menggui concurrently takes up the posts of chairman and chief executive officer of the Company. This departure can be explained by the fact that Mr. Zhang Menggui is the one of the founders of the Group and has high standing within the Group together with his extensive experience in the gas and oil industry. Mr. Zhang Menggui is well versed with the business models and development of the Group and the development of the gas and oil industry. In view of the above, the Board, after due and careful consideration, is of the view that Mr. Zhang Menggui is to date the single most suitable person to be the chairman and chief executive officer of the Group. Therefore, the roles of the chairman and chief executive officer of the Group are exercised by the same individual.

The Board comprises 7 Directors, including 4 executive Directors, namely Mr. Zhang Menggui, Mr. Jiang Bing Hua, Mr. Chen Yunqiang, Mr. Zhang Hongru; and 3 independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan.

The articles of association of the Company (the "Articles") have stated clearly the procedures for the appointment of new directors, re-election and removal of directors. The service contracts with the executive and independent non-executive Directors commenced on 18 March and 20 October 2005 respectively, with a specific term of 3 years provided that the appointments may be terminated by the Company or respective Director with a written notice of not less than 3 months. Pursuant to Article 87, Mr. Zhang Menggui, Mr. Jiang Bing Hua and Mr. Zhang Hongru will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 27 April 2006.

BOARD MEETINGS

Members of the Board held a total of 10 meetings during the year 2005. The Directors are given sufficient time and information relating to the matters to be discussed in the Board meetings in advance, or except in special circumstances, consent to short notice is sought at times of urgency.

Matters considered and approved by the Board during 2005 mainly related to (i) the preparation of the Company and its subsidiaries for the listing on GEM in compliance with the GEM Listing Rules, including but not limited to the appointment of executive and independent non-executive Directors, authorized representatives, other requisite officers and professionals; considering and approving various agreements and contracts; allotments of shares, making listing application with the Stock Exchange, etc.; and (ii) opening of bank accounts.

Details of Directors' attendance at Board meetings held in 2005 were as follows:

Name of Director	No. of meeting attended/Total
Zhang Menggui	10/10
Jiang Bing Hua	10/10
Chen Yuqiang	8/10
Zhang Hongru	10/10
Chan Ngai Sang, Kenny	3/10
Bian Junjiang	1/10
Guan Zhichuan	1/10

Pursuant to the Code, full Board will meet at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolutions of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person.

REMUNERATION OF DIRECTORS

The remuneration committee was established on 20 October 2005 comprising 3 independent non-executive Directors, namely Mr. Bian Junjiang (being the Chairman), Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan; and 2 executive Directors, namely, Mr. Zhang Menggui and Mr. Jiang Bing Hua.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of Directors. The remuneration committee will consider and give due regard to both the performance levels of, and a fair reward for, the chairman, executive Directors and the senior management and to the interest of all the shareholders of the Company in light of the financial and commercial circumstances of the Company from time to time. No director shall be involved in deciding his own remuneration.

REMUNERATION OF DIRECTORS

During the period under review, as the remuneration packages of each Director have been considered and approved by full Board in preparation for listing and an extraordinary general meeting of the then shareholders on 20 October 2005, no meeting of the remuneration committee has been held since its establishment. Yet, the remuneration committee of the Company considers that the existing terms of the employment contracts of the executive Directors and of the senior management, and the appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the period under review, the Company has not complied the requirement to establish a nomination committee with specific written terms of reference which deal clearly with its authority and duties as set out in the code provision of Appendix 15 of the GEM Listing Rules.

Currently, the Chairman and Co-Chairman are mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman or Co-Chairman will propose the appointment of such candidates to the Board for consideration and the members of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision to appoint a director must be approved by majority of the members of the Board.

Additionally, the Chairman together with members of the Board will consider the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review. In accordance with Article 87, Mr. Zhang Menggui, Mr. Jiang Bing Hua and Mr. Zhang Hongru will retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 27 April 2006.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing non-audit functions (if any) performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Company has paid an aggregate of RMB600,000 to the external auditor for its audit services.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the Chairman), Mr. Bian Junjiang and Mr. Guan Zhichuan. All of them are independent non-executive Directors.

Since its establishment, the audit committee held a meeting in considering and reviewing the results of the Group for the year ended 31 December 2005 and are of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

INTERNAL CONTROL

The Company has conducted review of its system of internal control periodically to ensure the effectiveness and adequacy of the internal control system.

During the course of audit of the annual results for the year ended 31 December 2005, the Board discovered non-disclosure in the Prospectus issued by the Company dated 21 November 2005 of certain information relating to the inadvertent changes in the registered capital in and the acquisition of a land in Xi'an, PRC by a wholly-owned subsidiary established in PRC. Such information is disclosed through a separate announcement that have been made on 27 March 2006. Such non-disclosure is an indication of a weak implementation of the internal control policy and reporting procedures of the Group. In order to strengthen the internal control policy and reporting system, various steps have already been taken, which included the appointment of Mr. Zhang Jinyao 張晉堯 in December 2005 for the position of vice president who has been placed , in addition to other duties, with the responsibility for reviewing the current internal control system and implementing measures to strengthen the implementation of the system. Since his appointment, the Company has implemented a series of internal control measures and reporting procedure guidelines. The Company will do its best endeavors to improve its internal control system.

INVESTORS RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with the GEM Listing Rules. Meeting with media and investors were conducted periodically. The Company also replied the enquiries from shareholders timely. The Directors will host the annual general meeting each year to meet the shareholders and answer to their enquiries.

Report of the Auditors

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
EMER INTERNATIONAL GROUP LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 39 to 89 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and 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 statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2005 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 27 March 2006

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
TURNOVER	6	**110,916**	105,782
COST OF SALES		**(64,095)**	(66,537)
GROSS PROFIT		**46,821**	39,245
OTHER REVENUE	6	**3,405**	2,085
SELLING AND DISTRIBUTION EXPENSES		**(4,434)**	(1,416)
GENERAL AND ADMINISTRATIVE EXPENSES		**(22,196)**	(8,988)
OTHER OPERATING EXPENSES	7	**(2,349)**	(2,392)
PROFIT FROM OPERATIONS	8	**21,247**	28,534
FINANCE COSTS	9	**(877)**	(126)
PROFIT BEFORE TAX		**20,370**	28,408
TAXATION	13	**(1,013)**	657
PROFIT FOR THE YEAR		**19,357**	29,065
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	14	**19,357**	29,065
DIVIDENDS	15	**–**	–
EARNINGS PER SHARE			
– basic	16(a)	**RMB0.105**	RMB0.161
– diluted	16(b)	**RMB0.100**	N/A

The notes on pages 46 to 89 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**13,367**	6,392
Intangible assets	18	**558**	658
Interests in leasehold land held for own use under operating leases	20	**9,080**	3,461
Deferred tax assets	32	**2,789**	1,653
		25,794	12,164
CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases	20	**198**	81
Inventories	21	**23,760**	11,545
Due from a director	22	**102**	–
Due from an officer	23	**1,333**	132
Due from related companies	24	**514**	686
Prepayments, deposits and other receivables		**4,463**	2,910
Trade receivables	25	**45,477**	38,327
Advance to suppliers		**3,495**	1,828
Bills receivable		**2,300**	2,000
Value added tax recoverable		**1,564**	114
Cash and bank balances			
– Restricted		**–**	550
– Unrestricted		**31,254**	4,936
		114,460	63,109
CURRENT LIABILITIES			
Bank overdrafts		**60**	–
Trade payables	26	**14,627**	9,758
Other payables and accruals		**6,595**	1,170
Deposits received		**1,536**	–
Due to directors	27	**538**	4,473
Due to a related company	28	**–**	4,170
Bills payable, secured		**2,300**	1,000
Tax payables	29	**4,354**	1,636
Short-term borrowings	30	**7,779**	4,552
Obligations under finance leases	31	**42**	50
		37,831	26,809
NET CURRENT ASSETS		**76,629**	36,300
TOTAL ASSETS LESS CURRENT LIABILITIES		**102,423**	48,464

The notes on pages 46 to 89 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	31	**113**	12
Deferred tax liabilities	32	**25**	10
		138	22
NET ASSETS		**102,285**	48,442
CAPITAL AND RESERVES			
Share capital	33	**24,960**	166
Reserves	34	**77,325**	48,276
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**102,285**	48,442

Approved and authorised for issue by the board of directors on 27 March 2006

On behalf of the board

Zhang Menggui
Director

Jiang Bing Hua
Director

The notes on pages 46 to 89 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2005

	Notes	2005 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	19	**166**
Deferred tax assets	32	**79**
		245
CURRENT ASSETS		
Prepayment, deposits and other receivables		**104**
Due from subsidiaries		**16,744**
Cash and bank balances		**20,758**
		37,606
CURRENT LIABILITIES		
Other payables and accruals		**2,461**
Due to directors	27	**399**
Due to subsidiaries		**224**
		3,084
NET CURRENT ASSETS		**34,522**
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,767**
CAPITAL AND RESERVES		
Share capital	33	**24,960**
Reserves	34	**9,807**
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**34,767**

Approved and authorised for issue by the board of directors on 27 March 2006

On behalf of the board

Zhang Menggui
Director

Jiang Bing Hua
Director

The notes on pages 46 to 89 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Reserves									
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note (34a))	Exchange fluctuation reserve RMB'000 (Note (34b))	Employee share-based payment reserve RMB'000	Capital reserve RMB'000 (Note (34c))	Statutory surplus reserve RMB'000 (Note (34d))	Statutory public welfare fund RMB'000 (Note (34e))	Retained profits RMB'000	Subtotal RMB'000	Total RMB'000
At 1 January 2004	10,350	–	–	–	–	–	352	176	959	1,487	11,837
Issue of share capital	7,606	–	–	–	–	99	–	–	–	99	7,705
Group reorganization	(17,790)	–	17,724	–	–	(99)	–	–	–	17,625	(165)
Profit for the year	–	–	–	–	–	–	–	–	29,065	29,065	29,065
Transfer from retained profits	–	–	–	–	–	–	1,601	800	(2,401)	–	–
At 31 December 2004	166	–	17,724	–	–	–	1,953	976	27,623	48,276	48,442
At 1 January 2005	166	–	17,724	–	–	–	1,953	976	27,623	48,276	48,442
Issue of share capital	2	(2)	–	–	–	–	–	–	–	(2)	–
Employee share-based payment expenses	–	–	–	–	1,502	–	–	–	–	1,502	1,502
Share exchange	(166)	166	–	–	–	–	–	–	–	166	–
Issue of shares on listing	6,240	39,312	–	–	–	–	–	–	–	39,312	45,552
Capitalisation of share premium	18,718	(18,718)	–	–	–	–	–	–	–	(18,718)	–
Share issue expenses	–	(12,080)	–	–	–	–	–	–	–	(12,080)	(12,080)
Movement in exchange fluctuation reserve	–	–	–	(158)	–	–	–	–	–	(158)	(158)
Staff welfare expenses	–	–	–	–	–	–	–	(330)	–	(330)	(330)
Profit for the year	–	–	–	–	–	–	–	–	19,357	19,357	19,357
Transfer from retained profits	–	–	–	–	–	4,138	2,065	1,032	(7,235)	–	–
At 31 December 2005	**24,960**	**8,678**	**17,724**	**(158)**	**1,502**	**4,138**	**4,018**	**1,678**	**39,745**	**77,325**	**102,285**

The notes on pages 46 to 89 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**20,370**	28,408
Adjustments for:		
Loss on disposal of property, plant and equipment	**–**	11
Net impairment losses on bad and doubtful debts	**556**	2,296
Interest income	**(107)**	(23)
Finance costs	**877**	126
Depreciation	**1,086**	683
Amortisation of intangible assets	**100**	100
Amortisation of leasehold land held for own use	**37**	–
Employee share-based payment expenses	**1,502**	–
Operating profit before working capital changes	**24,421**	31,601
Increase in inventories	**(12,215)**	(3,521)
(Increase)/decrease in due from a director	**(102)**	585
(Increase)/decrease in due from an officer	**(1,201)**	304
Decrease/(increase) in due from related companies	**172**	(686)
Increase in prepayments, deposits and other receivables	**(1,553)**	(2,303)
Increase in trade receivables	**(7,706)**	(22,818)
Increase in advance to suppliers	**(1,667)**	(398)
Increase in bills receivable	**(300)**	(2,000)
(Increase)/decrease in value added tax recoverable	**(1,450)**	337
Increase in trade payables	**4,869**	2,428
Increase/(decrease) in other payables and accruals	**5,425**	(83)
Increase/(decrease) in deposits received	**1,536**	(1,821)
(Decrease)/increase in due to directors	**(3,935)**	2,033
Decrease in due to a related company	**(4,170)**	(6,471)
Increase in bills payable, secured	**1,300**	1,000
Increase/(decrease) in value added tax payable	**1,329**	(184)
CASH GENERATED FROM/ (USED IN) OPERATIONS	**4,753**	(1,997)
Mainland China enterprise income tax paid	**(745)**	–
NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	**4,008**	(1,997)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(8,061)**	(3,688)
Purchase of leasehold land held for own use	**(5,773)**	(3,542)
Interest income	**107**	23
Proceeds from sale of property, plant and equipment	**–**	23
Decrease/(increase) in restricted bank balances	**550**	(550)
NET CASH USED IN INVESTING ACTIVITIES	**(13,177)**	(7,734)

The notes on pages 46 to 89 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of share capital	**45,552**	7,540
Share issue expenses	**(12,080)**	–
Utilization of public welfare fund	**(330)**	–
Interest paid	**(866)**	(122)
Proceeds from new short-term bank loans	**4,553**	3,226
(Payment of)/loan from a related party	**(1,326)**	1,326
Inception of finance leases	**165**	–
Capital elements of finance lease rentals paid	**(72)**	(50)
Interest elements of finance lease rentals paid	**(11)**	(4)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**35,585**	11,916
INCREASE IN CASH AND CASH EQUIVALENTS	**26,416**	2,185
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,936**	2,751
Change in foreign exchange fluctuation reserve	**(158)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	**31,194**	4,936
ANALYSIS OF THE BALANCES CASH AND CASH EQUIVALENTS		
Unrestricted cash and bank balances	**31,254**	4,936
Bank overdrafts	**(60)**	–
	31,194	4,936

The notes on pages 46 to 89 form an integral part of these financial statements.

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 February 2005 under the Companies Law, Cap 22 (Revised) of the Cayman Islands and was listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 November 2005.

Under a group reorganization scheme (the "Reorganization") to rationalize the structure of the Company and its subsidiaries (the "Group") in the preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 19 October 2005. It was accomplished by acquiring the entire issued share capital of Oxford Asia Investments Limited ("Oxford Asia"), the previous holding company of the Group, in consideration of and in exchange for the allotment and issue of a total of 180,000,000 shares of HK$0.1 each of the share capital of the Company to the shareholders of Oxford Asia. Details of the Reorganization were set out in the Prospectus issued by the Company dated 21 November 2005.

The Group resulting from the Reorganization is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared on the basis that the Company had been the holding company of the Group for the year ended 31 December 2004 and 2005 included the results of the Company and its subsidiaries since 1 January 2004 or since their respective dates of incorporation whichever was a shorter period as if the current Group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 December 2004 had been prepared on the basis that the current Group structure had been in place with effective from 1 January 2004.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 19 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

The HKICPA has issued a number of new and revised HKFRSs that are effective for adoption for accounting periods beginning on or after 1 January 2005. 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. A summary of the significant accounting policies adopted by the Group is set out below.

a) Adoption of HKFRSs

The following new and revised HKFRSs are relevant to the Group's financial statements and are adopted for the first time for the preparation of the current year's financial statements

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 Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
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HKAS 21	The Effects 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
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

a) Adoption of HKFRSs *(cont'd)*

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

– HKAS 1 has affected the presentation and disclosure of the financial statements;

– HKASs 8, 27 and 33 have affected the disclosure of the financial statements;

– HKASs 2, 7, 10, 12, 14, 16, 17, 18, 19, 21, 23, 32, 36, 37, 38, 39, HKFRS 2, HKAS-Int 12, HKAS-Int 15 and HKAS-Int 21 have no material effect on the Group's accounting policies; and

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

The results of the subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated on consolidation.

c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)). The results of the subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

d) Intangible Assets

Intangible assets represent purchase cost for the technical knowledge in development and manufacturing of electrical equipment is stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 2(i)).

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

d) Intangible Assets *(cont'd)*

Amortisation of intangible assets is charged to profit or loss on straight-line basis over the assets' estimated useful lives up to ten years.

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

e) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following basis:

(i) sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;

(ii) service fee income is recognised when services are rendered;

(iii) rental income is recognised on a straight-line basis over the periods of the respective leases; and

(iv) interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

f) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(i)).

g) Property, Plant and Equipment

The property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)).

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

– other items of plant and equipment.

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 2(s)).

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

g) Property, Plant and Equipment *(cont'd)*

Gains or losses arising 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.

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 situated on leasehold land are depreciated over the unexpired term of lease

– Office equipment	20%
– Plant and machinery	10% – 20%
– Furniture and fixtures	20%
– Leasehold improvements	20% – 55%
– Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

h) Interests in Leasehold Land held for own use under Operating Leases

Interests in leasehold land held for own use under operating leases are stated at cost less amortisation and any identified impairment loss. The leasehold land held for own use is amortised over the period of the right using the straight line method.

i) Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(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).

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

i) Impairment of Assets *(cont'd)*

(ii) *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 and then, to reduce the carrying amount of the other assets in the unit 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.

(iii) *Reversal of impairment losses*

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

A reversal of impairment losses 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 the income statement in the year in which the reversals are recognised.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the weighted average method of costing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

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.

k) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

l) Income Tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with interests in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, and the carryforward of unused tax assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary difference associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

m) Related Parties

For the purposes of these financial statements, 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 (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

n) Foreign Currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statements. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are not RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e. RMB) at the exchange rates ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries that arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

o) Employee Benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Pension obligations

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of assets and inventories not yet recognised as an expense.

Certain employees of the Group are members of a compulsory retirement benefits scheme operated by the government of Mainland China the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully once made.

Social security contributions for a subsidiary incorporated in the United Stated of America (the "USA") are required under the relevant federal laws of the USA and they are recognised as an expense in the income statement as incurred. Contributions made are based on a percentage of the eligible employees' salaries.

(iii) Share-based compensation

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

p) Leased Assets

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g).

Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

q) Provisions and Contingent Liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

r) 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, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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's 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 year 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 and corporate and financing expenses.

s) Borrowing Costs

Borrowing costs are expensed in income statement in the year 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.

t) 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 cost and redemption value being recognised in income statement over the period of the borrowings using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

u) Trade and Other Payables

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

3. FINANCIAL RISK MANAGEMENT

a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

(i) Foreign exchange risk

The Group mainly operates in Mainland China, the USA and Hong Kong. Most of the Group's transactions, assets and liabilities are dominated in RMB, United States Dollars and Hong Kong Dollars. RMB is not freely convertible into other foreign currencies.

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group manages its foreign risks by performing regular review and monitoring its foreign exchange exposures.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's bank borrowings have been disclosed in note 30 to the financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. Management has a credit policy in place and the exposures to these credit risks are monitored on an going basis.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

3. FINANCIAL RISK MANAGEMENT *(cont'd)*

b) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Useful lives of fixed assets

The Group management determines the estimated useful lives and related depreciation charges for its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) Estimated provision for impairment of trade and other receivables

The Group makes impairment losses on bad and doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Impairments are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and bad and doubtful debts expenses in the period in which such estimate has been charged.

c) Estimated net realisable value of inventories

The Group makes impairment losses on inventories based on an assessment of the net realizable value of the inventories. Impairments are applied to the inventories where events or changes in circumstances indicates that the net realizable value is less than cost. The determination of net realizable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and impairments for inventory expenses in the period in which such estimate has been charged.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and management separately, according to the nature of their operations and the products and services provided. Each of the Group's business segment represents a strategic business unit that offers:

a) manufacturing and trading of electrical equipment;

b) manufacturing and trading of expendable parts and accessories; and

c) consultancy services business.

5. SEGMENT INFORMATION *(cont'd)*

a) Business segments

	Electrical equipment		Expendable parts and accessories		Consultancy services		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**43,464**	59,249	**63,207**	37,393	**4,245**	9,140	**110,916**	105,782
Other revenue	**3,205**	1,788	**93**	274	**–**	–	**3,298**	2,062
	46,669	61,037	**63,300**	37,667	**4,245**	9,140	**114,214**	107,844
Segment results	**9,839**	14,773	**8,998**	6,552	**4,398**	7,304	**23,235**	28,629
Unallocated costs							**(2,095)**	(118)
Interest income							**107**	23
Interest expenses							**(877)**	(126)
Profit before tax							**20,370**	28,408
Taxation							**(1,013)**	657
Profit for the year							**19,357**	29,065
Segment assets	**51,114**	36,218	**56,244**	30,185	**7,134**	8,257	**114,492**	74,660
Unallocated assets							**25,762**	613
Total assets							**140,254**	75,273
Segment liabilities	**10,821**	9,714	**23,645**	15,433	**161**	1,327	**34,627**	26,474
Unallocated liabilities							**3,342**	357
Total liabilities							**37,969**	26,831
Capital expenditure	**5,734**	394	**7,830**	6,836	**270**	–	**13,834**	7,230
Depreciation	**437**	390	**571**	293	**78**	–	**1,086**	683
Amortisation	**100**	100	**37**	–	**–**	–	**137**	100

5. SEGMENT INFORMATION *(cont'd)*

b) Geographical segments

	Turnover		Segment results		Total assets		Capital expenditure	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Hong Kong	**–**	–	**–**	–	**33,057**	431	**228**	–
Mainland China	**46,618**	36,964	**15,025**	10,808	**77,476**	47,934	**13,099**	7,103
USA	**50,162**	39,186	**6,047**	9,297	**29,721**	26,685	**507**	127
Russia	**615**	22,832	**25**	5,693	**–**	–	**–**	–
Others (Asia, Europe, etc.)	**13,521**	6,800	**2,138**	2,831	**–**	–	**–**	–
	110,916	105,782	**23,235**	28,629	**140,254**	75,050	**13,834**	7,230
Interest income			**107**	23				
Unallocated costs			**(2,095)**	(118)				
Profit from operations			**21,247**	28,534				
Unallocated assets					**–**	223	**–**	–
Total					**140,254**	75,273	**13,834**	7,230

Notes to the Financial Statements

31 December 2005

6. TURNOVER AND OTHER REVENUE

The analysis of the Group's turnover and other revenue are as follows:

	2005 RMB'000	2004 RMB'000
Turnover		
Sales of electrical equipment	**43,464**	59,249
Sales of expendable parts and accessories	**63,207**	37,393
Consultancy service fee income	**4,245**	9,140
	110,916	105,782
Other revenue		
Interest income	**107**	23
Rental income	**94**	171
Gain on sales of accessories	**2,061**	699
Net service fee income	**–**	1,192
Reversal of impairment losses of bad and doubtful debts	**1,143**	–
	3,405	2,085
Total revenue	**114,321**	107,867

The turnover was net of return, discount and sales tax.

7. OTHER OPERATING EXPENSES

	2005 RMB'000	2004 RMB'000
Exchange loss	**650**	85
Loss on disposals of property, plant and machinery	**–**	11
Impairment losses of bad and doubtful debts	**1,699**	2,296
	2,349	2,392

8. PROFIT FROM OPERATIONS

Profit from operations was arrived at after charging:

	2005 RMB'000	2004 RMB'000
Auditors' remuneration		
– audit services	**600**	10
– other services	**–**	–
	600	10
Amortisation of intangible assets	**100**	100
Amortisation of leasehold land held for own use	**37**	–
Depreciation		
– Owned assets	**972**	646
– Assets held under finance leases	**114**	37
	1,086	683
Minimum lease payments under operating leases in respect of land and buildings	**1,302**	534
Impairment losses on bad and doubtful debts	**1,699**	2,296
Cost of inventories	**64,095**	66,537

9. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within five years	**812**	115
Finance charges on obligations under finance leases	**11**	4
Interest on loan from a related party wholly repayable within five years	**54**	7
	877	126

10. STAFF COSTS – EXCLUDING DIRECTORS' REMUNERATION

	2005 RMB'000	2004 RMB'000
Wages, salaries and other benefits	**10,226**	4,175
Employee share-based payment expenses	**347**	–
Contributions to retirement benefit schemes	**472**	119
	11,045	4,294

As stipulated by the labour regulations of Mainland China, the Group participates in various defined contribution retirement plans organised by municipal and provincial government for its employees employed in the Mainland China. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 25% of the eligible employees' salaries. The Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than the contributions described above.

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 scheme administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The Group also required to make 6.2% of salaries as social security contributions for a subsidiary under the relevant federal laws of the USA.

11. DIRECTORS' REMUNERATION

a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2005				
	Directors' fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Retirement benefits scheme contribution RMB'000	Employees share-based payment expenses RMB'000	Total RMB'000
Executive Directors:					
Mr. Zhang Menggui	–	711	44	356	1,111
Mr. Jiang Bing Hua	–	685	42	356	1,083
Mr. Chen Yunqiang	–	61	5	231	297
Mr. Zhang Hongru	–	847	13	213	1,073
Independent Non-executive Directors:					
Mr. Bian Junjiang	11	–	–	–	11
Mr. Chan Ngai Sang Kenny	14	–	–	–	14
Mr. Guan Zhichuan	11	–	–	–	11
Total	36	2,304	104	1,156	3,600

11. DIRECTORS' REMUNERATION *(cont'd)*

	Year ended 31 December 2004				
	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Retirement benefits scheme contribution RMB'000	Employees share-based payment expenses RMB'000	Total RMB'000
Executive Directors:					
Mr. Zhang Menggui	–	–	–	–	–
Mr. Jiang Bing Hua	–	180	–	–	180
Mr. Chen Yunqiang	–	25	–	–	25
Mr. Zhang Hongru	–	–	–	–	–
Independent Non-executive Directors:					
Mr. Bian Junjiang	–	–	–	–	–
Mr. Chan Ngai Sang Kenny	–	–	–	–	–
Mr. Guan Zhichuan	–	–	–	–	–
Total	–	205	–	–	205

12. INDIVIDUALS WITH HIGHEST PAID

Of the five highest paid individuals of the Group three (2004: one) are directors whose remuneration are disclosed in note 11. Details of remuneration paid to the other two (2004: four) highest paid individuals are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries, allowances and other benefits	**3,998**	1,277
Retirement benefit scheme benefits	**167**	29
Employee share-based payment expenses	**960**	–
	5,125	1,306

The remunerations of the two (2004: four) individuals with the highest paid are within the following bands:

	Number of individuals 2005	2004
HK$Nil (equivalent to RMBNil) – HK$1,000,000 (equivalent to RMB1,040,000)	**1**	4
HK$1,000,001 (equivalent to RMB1,040,000) – HK$1,500,000 (equivalent to RMB1,560,000)	**1**	–

13. TAXATION

Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current tax		
USA income tax	**779**	675
Mainland China enterprise income tax	**1,355**	–
	2,134	675
Deferred tax		
Origination and reversal of temporary differences *(note 32)*	**(1,121)**	(1,332)
Tax expenses/(credit)	**1,013**	(657)

13. TAXATION *(cont'd)*

青島天時石油機械有限公司("青島天時") and 海爾海斯 (西安) 控制技術有限公司 ("海爾海斯") are wholly foreign owned enterprises located in Industrial Development Zone and High Tech Industrial Development Zone respectively. In accordance with the applicable enterprise income tax law of Mainland China, they are subject to Mainland China enterprise income tax ("EIT") at a rate of 24% and a local tax of 3%. Both Companies were exempted from EIT and the local tax for the first two profitable years (i.e. for the years ended 31 December 2003 and 2004) of operations after offsetting prior year losses and is entitled to a 50% reduction on the EIT for the following three years (i.e. started from 1 January 2005) in accordance with Article 8 of Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

In addition, 海爾海斯 was awarded the New and High Technology Enterprise (高新技術企業) certificate on 15 November 2002. Pursuant to the Notice regarding how to apply preferential policy for New and High Technology Enterprise《關於高新技術企業如何適用稅收優惠政策問題的通知》, the basic EIT rate for 海爾海斯 as a New and High Technology Enterprise can be reduced to 15%. Accordingly, as long as 海爾海斯 remains as a New and High Technology Enterprise with production facilities located at a recognized high-tech industrial zone, 海爾海斯 is entitled to an EIT rate of 7.5% for the next three year started from 1 January 2005.

埃謨(北京)油氣裝備技術有限公司 ("埃謨(北京)") is a wholly foreign owned enterprise established in Mainland China and is subject to EIT at a tax rate of 30% and a local tax rate of 3%. 埃謨(北京) was operating at a loss since its establishment on 2 February 2005.

Taxation for other overseas subsidiaries and charged at the appropriate current rates of taxation ruling in the relevant countries.

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates is as follows:

	2005 **RMB'000**	2004 RMB'000
Profit before tax	**20,370**	28,408
Tax at domestic income tax rate applicable of profits in the respective countries	**3,653**	8,096
Tax effect of non-deductible expenses	**3,325**	104
Utilised previously un-recognised tax loss	**(1)**	–
Tax effect of tax exemptions	**(1,522)**	(6,468)
Tax effect of loss not recognized	**584**	21
Tax effect of non-taxable income	**(5,026)**	(2,410)
Tax expenses/(credit)	**1,013**	(657)

14. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately RMB373,000 (2004: Nil) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

No dividends have been paid or declared by the Group during the year (2004: Nil).

16. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB19,357,000 (2004: RMB29,065,000) and the weighted average number of 185,000,000 (2004: 180,000,000) ordinary shares in issue during the year. The weighted average number of shares used to calculate the last year's earning per share included the pro-forma ordinary shares issued calculated based on the assumption that the Reorganisation, as set out in note 1 to the financial statements, had been completed on 1 January 2004.

b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to equity shareholders of the Company of approximately RMB19,357,000 and the weighted average number of 193,465,029 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2004 and therefore, diluted earnings per share is not presented for last year.

	2005 **Number of shares**
Weighted average number of ordinary shares used in calculating basic earnings per share	**185,000,000**
Effect of dilutive potential shares from the share options scheme	**8,465,029**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**193,465,029**

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings held for own use carried at cost RMB'000	Office equipment RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Leasehold improve- ments RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost							
At 1 January 2004	–	535	2,473	42	474	545	4,069
Additions	2,720	154	280	76	25	433	3,688
Disposals	–	–	–	–	–	(72)	(72)
At 31 December 2004	**2,720**	**689**	**2,753**	**118**	**499**	**906**	**7,685**
At 1 January 2005	2,720	689	2,753	118	499	906	7,685
Exchange adjustments	–	(1)	–	(2)	–	–	(3)
Additions	1,895	812	3,169	59	226	1,903	8,064
At 31 December 2005	**4,615**	**1,500**	**5,922**	**175**	**725**	**2,809**	**15,746**
Accumulated depreciation							
At 1 January 2004	–	120	264	14	97	153	648
Charge for the year	–	119	310	11	97	146	683
Eliminated on disposals	–	–	–	–	–	(38)	(38)
At 31 December 2004	–	239	574	25	194	261	1,293
At 1 January 2005	–	239	574	25	194	261	1,293
Charge for the year	44	195	351	32	155	309	1,086
At 31 December 2005	**44**	**434**	**925**	**57**	**349**	**570**	**2,379**
Net book value							
At 31 December 2005	**4,571**	**1,066**	**4,997**	**118**	**376**	**2,239**	**13,367**
At 31 December 2004	2,720	450	2,179	93	305	645	6,392

(i) The Group's buildings are situated on medium-term leasehold land held for own use under operating leases in Mainland China.

(ii) The motor vehicles of the Group with net book value of approximately RMB282,000 (2004: RMB136,000) were held under finance leases.

18. INTANGIBLE ASSETS

The Group

	Technical knowledge RMB'000
Cost	
At 1 January 2005 and 31 December 2005	1,000
Accumulated amortisation	
At 1 January 2005	342
Charge for the year	100
At 31 December 2005	**442**
Net book value	
At 31 December 2005	**558**

	Technical knowledge RMB'000
Cost	
At 1 January 2004 and 31 December 2004	1,000
Accumulated amortisation	
At 1 January 2004	242
Charge for the year	100
At 31 December 2004	342
Net book value	
At 31 December 2004	658

Intangible assets are stated at cost less impairment losses (if any) are amortised on a straight-line basis upto 10 years.

19. INVESTMENTS IN SUBSIDIARIES

The Company

	2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	**166**	–

19. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

Particulars of the subsidiaries as at 31 December 2005 are as follows:

Name	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group Directly	Indirectly	Principal activities
Oxford Asia Investments Limited	British Virgin Islands	Shares of US$20,000	100%	–	Investment holding
Richie Tunnel Corp.	British Virgin Islands	Shares of US$4	–	100%	Investment holding
Classic Price Inc.	British Virgin Islands	Shares of US$4	–	100%	Investment holding
Thousand Code Limited	British Virgin Islands	Shares of US$4	–	100%	Investment holding
Emer International Limited	Hong Kong	Ordinary shares of HK$2,000,000	–	100%	Investment holding and provision of consultancy services
青島天時石油機械有限公司 (formerly known as "青島天時石油機械配件有限公司") (Note a)	Mainland China	Registered capital of US$800,000	–	100%	Manufacturing of expendable parts and accessories
海爾海斯(西安)控制技術有限公司(Note a)	Mainland China	Registered capital of RMB10,235,000 (Note b)	–	100%	Manufacturing and trading of electrical equipment
TSC Manufacturing and Supply, LLC ("TSC (USA)")	United States of America	Shares of US$612,000	–	100%	Trading of expendable parts and accessories
Positive Reflect Consultants Limited	British Virgin Islands	Shares of US$2	–	100%	Provision of consultancy services
埃謨(北京)油氣裝備技術有限公司(Note a)	Mainland China	Registered capital of US$150,000	–	100%	Research and development

Note:

(a) These companies are wholly foreign owned enterprises established in Mainland China.

(b) Subsequent to the balance sheet date, based on the capital verification report dated 10 January 2006 issued by Shaanxi HaiHua Certified Public Accountants (Ltd.), as of 28 December 2005, the issued and fully paid registered capital of 海爾海斯 has increased by RMB4,773,652 to RMB15,008,652.

20. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group

	RMB'000
Cost	
At 1 January 2005	3,542
Additions	5,773
At 31 December 2005	**9,315**
Accumulated amortisation	
At 1 January 2005	–
Charge for the year	37
At 31 December 2005	**37**
Net book value	
At 31 December 2005	**9,278**

	RMB'000
Cost	
At 1 January 2004	–
Additions	3,542
At 31 December 2004	3,542
Accumulated amortisation	
At 1 January 2004 and 31 December 2004	–
Net book value	
At 31 December 2004	3,542

	2005 RMB'000	2004 RMB'000
Represented by:		
Current portion	**198**	81
Long-term portion	**9,080**	3,461
	9,278	3,542

The cost of interests in leasehold land held for own use under operating leases in Mainland China is amortised over the lease term period of 50 years on a straight-line basis.

21. INVENTORIES

The Group

	2005 RMB'000	2004 RMB'000
Raw materials	**4,458**	2,993
Work-in-progress	**9,138**	1,318
Finished goods	**10,164**	7,234
	23,760	11,545

22. DUE FROM A DIRECTOR

The Group

Mr. Zhang Menggui

	2005 RMB'000	2004 RMB'000
Balance at beginning of the year	**–**	–
Balance at end of the year	**102**	–
Maximum debit balance during the year	**102**	–

The amount represents fund advance to the director and was unsecured, non-interest bearing and without pre-determined repayment terms.

23. DUE FROM AN OFFICER

The Group

Mr. Jiang Bingyang

	2005 RMB'000	2004 RMB'000
Balance at beginning of the year	**132**	436
Balance at end of the year	**1,333**	132
Maximum debit balance during the year	**1,333**	436

Mr. Jiang Bingyang, the deputy general manager of 青島天時, is a brother of a director Mr. Jiang Bing Hua.

The amount represents fund advance to Mr. Jiang Bingyang and was unsecured, non-interest bearing and without pre-determined repayment terms. The fund was fully paid back in January 2006.

24. DUE FROM RELATED COMPANIES

The Group

	2005 RMB'000	2004 RMB'000
Balance at beginning of the year		
– Katy Industries Inc.	**686**	–
– Katy International Inc.	**–**	–
	686	–
Balance at end of the year		
– Katy Industries Inc.	**–**	686
– Katy International Inc.	**514**	–
	514	686
Maximum debit balance during the year		
– Katy Industries Inc.	**686**	686
– Katy International Inc.	**514**	–

24. DUE FROM RELATED COMPANIES *(cont'd)*

(a) The amounts represent fund advance and expenses paid on behalf of Katy Industries Inc. (formerly known as EMER Industries Inc.) and Katy International Inc. (formerly known as EMER International Inc.) and were unsecured, non-interest bearing and without pre-determined repayment terms.

(b) Mr. Zhang Menggui and Mr. Jiang Bing Hua are directors of and each have 50% beneficial interest in the above companies.

25. TRADE RECEIVABLES

The Group

The credit terms offered by the Group to its customers differ with each business segment. The credit terms offered to customers of expendable parts and other accessories and consultancy services are normally 30 to 90 days. The credit terms offered to customers of electrical equipment are negotiated on a case-by-case basis. For smaller contracts, the whole contract sum would be due for payment on delivery. For larger contracts, deposits ranging from 10% to 30% of the contract sum were required, the balances of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of electrical systems. The remaining 5% to 10% of the contract sum were the retention money and payable within up to 18 months after delivery of the electrical system or 1 year after the payment of onsite testing, whichever is earlier. The aging analysis of the Group's trade receivables (net of impairment losses for bad and doubtful debts), based on invoice date, is as follows:

	2005 **RMB'000**	2004 RMB'000
0 to 30 days	**17,249**	11,443
31 to 60 days	**19,967**	9,537
61 to 90 days	**1,226**	4,698
91 to 120 days	**72**	4,746
121 to 365 days	**6,057**	5,454
1 to 2 years	**906**	2,170
Over 2 years	**–**	279
	45,477	38,327
Represented by:		
Gross amount	**48,654**	40,948
Less: impairment losses on bad and doubtful debts	**(3,177)**	(2,621)
	45,477	38,327

26. TRADE PAYABLES

The Group

The aging analysis of the trade payables is as follows:

	2005 RMB'000	2004 RMB'000
0 to 30 days	**7,441**	2,393
31 to 60 days	**3,678**	2,184
61 to 90 days	**1,752**	1,331
91 to 120 days	**534**	835
121 to 365 days	**1,142**	1,711
1 to 2 years	**18**	1,294
Over 2 years	**62**	10
	14,627	9,758

27. DUE TO DIRECTORS

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Mr. Jiang Bing Hua	**325**	4,297	**186**	–
Mr. Zhang Menggui	**186**	176	**186**	–
Mr. Zhang Hongru	**27**	–	**27**	–
	538	4,473	**399**	–

The amounts represent the expenses paid on behalf of the Group and the Company and are unsecured, non-interest bearing and without pre-determined repayment terms.

28. DUE TO A RELATED COMPANY

	2005 RMB'000	2004 RMB'000
Katy International Inc.	**–**	4,170

(a) The amount is unsecured, non-interest bearing and without pre-determined repayment terms.

(b) Mr. Zhang Menggui and Mr. Jiang Bing Hua are directors of and each have 50% beneficial interest in the company.

29. TAX PAYABLES

The Group

	2005 RMB'000	2004 RMB'000
Business tax	**481**	481
Value added tax	**1,809**	480
Income tax	**2,064**	675
	4,354	1,636

30. SHORT-TERM BORROWINGS

The Group

	Note	2005 RMB'000	2004 RMB'000
Short-term bank loans, secured	(a)	**7,779**	3,226
Loan from a related party	(b)	**–**	1,326
		7,779	4,552

(a) The short-term bank loans carry interests at rates ranging from 6.25% to 8.75% (2004: 6.25% to 8.75%) and were secured by:

(i) All assets of a subsidiary namely TSC (USA) to the extent of banking facilities of approximately RMB4,382,000 granted to TSC (USA).

(ii) Personal guarantees given by Mr. Zhang Menggui and Mr. Jiang Bing Hua.

(iii) Life insurance policy of Mr. Zhang Menggui and Mr. Jiang Bing Hua.

(iv) Leasehold land held for own use and buildings of a subsidiary namely 青島天時 of approximately RMB3,805,000 and RMB4,571,000 respectively.

(b) The loan from a related party was granted by Mr. Wang Huang Lung, son-in-law of Mr. Jiang Bing Hua. The loan was unsecured, bearing interest at 10% per annum (interest paid for the year ended 31 December 2005 of approximately RMB53,000 (2004: RMB7,000)) and fully settled by the end of April 2005.

31. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2005, the Group has obligations under finance leases repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts repayable:				
Within one year	**53**	54	**42**	50
In the second year	**39**	13	**31**	12
In the third to fifth years, inclusive	**90**	–	**82**	–
Total minimum finance lease payments	**182**	67	**155**	62
Less: Future finance charges	**(27)**	(5)		
Total net finance lease payable	**155**	62		
Less: Portion classified as current liabilities	**(42)**	(50)		
Long-term portion	**113**	12		

32. DEFERRED TAX (ASSETS) AND LIABILITIES

The Group

The components of deferred tax (assets)/liabilities recognized in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Accelerated tax depreciation	Impairment losses on bad and doubtful debts	Impairment losses on inventories	Tax losses	Unrealised profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	–	(88)	(76)	–	(390)	243	(311)
(Credited)/charged to the income statement	(34)	(352)	(138)	–	(911)	103	(1,332)
At 31 December 2004	(34)	(440)	(214)	–	(1,301)	346	(1,643)
At 1 January 2005	(34)	(440)	(214)	–	(1,301)	346	(1,643)
(Credited)/charged to the income statement	(41)	167	138	(1,144)	(119)	(122)	(1,121)
At 31 December 2005	**(75)**	**(273)**	**(76)**	**(1,144)**	**(1,420)**	**224**	**(2,764)**

Represented by:	**2005**	2004
	RMB'000	RMB'000
Net deferred tax assets recognised on the balance sheet	**(2,789)**	(1,653)
Net deferred tax liabilities recognised on the balance sheet	**25**	10
	(2,764)	(1,643)

The Company

At 31 December 2005, the deferred tax assets recognized in the balance sheet represents tax losses which can be utilized against future taxable profits.

33. SHARE CAPITAL

The Group and the Company

	Note	2005 No. of shares '000	2005 RMB'000
Authorised:			
Ordinary share of HK$0.1 each	(b)	**1,000,000**	**104,000**
Ordinary shares, issued and fully paid:			
At 1 January		**–**	**–**
Allotment of share	(c)	**20**	**2**
Placing	(d)	**60,000**	**6,240**
Capitalisation issue	(e)	**179,980**	**18,718**
At 31 December		**240,000**	**24,960**

(a) On 22 February 2005, the Company was incorporated with an authorized share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each. On 18 March 2005, one share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited. On the same date, Codan Trust Company (Cayman) Limited transferred the one share to Mr. Zhang Hongru.

(b) Pursuant to the written resolutions of the sole shareholder dated 19 October 2005, the authorized share capital of the Company was increased from HK$380,000 to HK$100,000,000 by creation of an additional 996,200,000 shares to rank pari passu with the existing shares in all respects.

(c) On 19 October 2005, pursuant to the Reorganisation described in note 1 to the financial statements, Mr. Zhang Menggui, Mr. Jiang Bing Hua, Mr. Zhang Hongru, Osbeck Investments Limited and Acoustic Finance Limited transferred their respective shares (the entire share capital) in Oxford Asia to the Company in consideration for which the Company allotted and issued, credited as fully paid 19,999 new shares and credited the nil paid share held by Mr. Zhang Hongru as fully paid.

(d) On 28 November 2005, 60,000,000 ordinary shares of HK$0.1 each were issued through a placing (the "New Issue") of the Company's shares at HK$0.73 each for a total cash consideration of HK$43,800,000 before the related issue expenses.

(e) Immediately after the New Issue, share premium of HK$17,998,000 was capitalized for the issuance of 179,980,000 shares of HK$0.1 each on pro-rata basis to the Company's shareholders before the New Issue. The Company underwent a capitalization issue pursuant to which the credit standing of the share premium account was applied to pay up 179,980,000 ordinary shares of HK$0.1 each.

The share capital in the consolidated balance sheet as at 31 December 2004 represented the issued share capital of Oxford Asia prior to the Reorganization.

34. RESERVES

	The Group								
	Share premium RMB'000	Merger reserve RMB'000 (Note (a))	Exchange fluctuation reserve RMB'000 (Note (b))	Employee share-based payment reserve RMB'000	Capital reserve RMB'000 (Note (c))	Statutory surplus reserve RMB'000 (Note (d))	Statutory public welfare fund RMB'000 (Note (e))	Retained profits RMB'000	Total RMB'000
At 1 January 2004	–	–	–	–	–	352	176	959	1,487
Issue of share capital	–	–	–	–	99	–	–	–	99
Group reorganization	–	17,724	–	–	(99)	–	–	–	17,625
Profit for the year	–	–	–	–	–	–	–	29,065	29,065
Transfer from retained profits	–	–	–	–	–	1,601	800	(2,401)	–
At 31 December 2004	–	17,724	–	–	–	1,953	976	27,623	48,276
At 1 January 2005	–	17,724	–	–	–	1,953	976	27,623	48,276
Issue of share capital	(2)	–	–	–	–	–	–	–	(2)
Employee share-based payment expenses	–	–	–	1,502	–	–	–	–	1,502
Share exchange	166	–	–	–	–	–	–	–	166
Issue of shares on listing	39,312	–	–	–	–	–	–	–	39,312
Capitalization of share premium	(18,718)	–	–	–	–	–	–	–	(18,718)
Share issue expenses	(12,080)	–	–	–	–	–	–	–	(12,080)
Movement in exchange fluctuation reserve	–	–	(158)	–	–	–	–	–	(158)
Staff welfare expenses	–	–	–	–	–	–	(330)	–	(330)
Profit for the year	–	–	–	–	–	–	–	19,357	19,357
Transfer from retained profits	–	–	–	–	4,138	2,065	1,032	(7,235)	–
At 31 December 2005	**8,678**	**17,724**	**(158)**	**1,502**	**4,138**	**4,018**	**1,678**	**39,745**	**77,325**

34. RESERVES *(cont'd)*

	The Company			
	Share premium	**Employee share-based payment reserve**	**Accumulated losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	–	–	–	–
Issue of share capital	(2)	–	–	(2)
Share exchange	166	–	–	166
Issue of shares on listing	39,312	–	–	39,312
Capitalization of share premium	(18,718)	–	–	(18,718)
Share issue expenses	(12,080)	–	–	(12,080)
Employee share-based payment expenses	–	1,502	–	1,502
Loss for the year	–	–	(373)	(373)
At 31 December 2005	8,678	1,502	(373)	9,807

(a) Merger reserve

During the year ended 31 December 2004, Mr. Zhang Menggui and Mr. Jiang Bing Hua entered into three share exchange agreements and plan of reorganizations with Thousand Code Limited ("Thousand Code"), Classic Price Inc. ("Classic Price") and Richie Tunnel Corp. ("Richie Tunnel") pursuant to which the equity interest in 青島天時, TSC (USA) and 海爾海斯 held by Mr. Zhang Menggui and Mr. Jiang Bing Hua were transferred to Thousand Code, Classic Price and Richie Tunnel respectively. The differences between the share capital of 青島天時, TSC (USA) and 海爾海斯 and capital reserve of 青島天時 and 海爾海斯 and the share capital of Thousand Code, Classic Price and Richie Tunnel have been credited to the merger reserve.

(b) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the overseas subsidiaries. The reserve is dealt with in accordance with the accounting policies set out in Note 2(n).

(c) Capital reserve

The capital reserve represents the excess of capital contribution over the nominal value of the registered capital of 青島天時 and 海爾海斯.

34. RESERVES *(cont'd)*

(d) Statutory surplus reserve

The Articles of Association of 青島天時 and 海爾海斯 requires the appropriation of 10% of its profit after tax each year, based on its statutory audited accounts, to the statutory surplus reserve until the balance reaches 50% of the registered capital. The statutory surplus reserve may be capitalized as the paid-in capital of 青島天時 and 海爾海斯.

(e) Statutory public welfare fund

The Articles of Association of 青島天時 and 海爾海斯 requires the allocation from its profit after tax at the rate of 5% and 10% to the statutory public welfare fund, based on its statutory audited accounts. The statutory public welfare fund can only be utilized on capital items for employees' collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation.

(f) Distributability of reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2005, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium account, with a balance of approximately RMB8,678,000, may be distributed in the form of fully paid bonus shares.

35. SHARE OPTIONS

Pre-IPO Scheme

Pursuant to written resolutions of all shareholders of the Company on 19 October 2005, the Company adopted a Pre-IPO share option scheme ("Pre-IPO Scheme"). This Pre-IPO Scheme replaced the share option scheme adopted by Oxford Asia on 1 February 2005 ("Oxford Option Scheme")

The purpose of the Pre-IPO Scheme is to recognize the contribution of certain Directors and employees of the Group to the growth of the Group and / or to the listing of shares on the GEM.

The subscription price for each share is HK$0.286 which was determined after taking into account the grantees' substantial contributions to the growth and development of the Group.

The total number of shares subject to the Pre-IPO Scheme is 15,210,000 representing approximately 6.34% of the total issued share capital of the Company. No share options under the Pre-IPO Scheme were neither exercised nor lapsed since the date of grant and up to 31 December 2005.

No further share options will be offered or granted under the Pre-IPO Scheme after the termination date (i.e. the day immediately preceding the date (21 November 2005) of the prospectus.)

The options granted under the Pre-IPO Scheme can only be exercised by the grantees after the later of twelve months following the listing date (i.e. 28 November 2005) or such period as may be required by the Stock Exchange for the options granted under the Pre-IPO Scheme to be subject to lock-up restrictions.

If the grantee maintains continuous status of an employee for every 6 months, an additional 10% of the option granted is vested and exercisable. The accumulated vested portion of this option may not be exercised later than 10 years from the date on which the grantee accepts the options.

35. SHARE OPTIONS *(cont'd)*

Share Option Scheme

In addition, pursuant to the resolutions passed by all the shareholders on 20 October 2005, the Company has conditionally adopted a share option scheme ("Share Option Scheme").

The purpose of the Share Option Scheme is to provide incentives or rewards to the participants (as defined below) there under for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and to improve the loyalty of the employees.

The directors may, at their discretion, invite any participant (the "Participants") being any employee, executive directors, non-executive directors, certain consultants, suppliers and customers of the Group who, in the sole discretion of the Board, have contributed to the Group. Upon acceptance of the option, the grantee shall pay RMB 1.04 (equivalent to HK$1) to the Company as consideration for the grant.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes in force from time to time must not in aggregate exceed 30% of the Share in issue from time to time (the "Scheme Limit").

Subject to the Scheme Limit, the Company may grant options of up to 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme ("Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the 10% limit.

The Company may renew the Scheme Mandate Limit at any time subject to the approval of the Shareholders. However, the Scheme Mandate Limit as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the renewed limit. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Unless approved by the shareholders, the total number of Shares issued and to be issued upon exercise of the options granted to each Participants (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company from time to time. Any further grant of options in excess of the limit must be subject to the shareholders' approval with such Participants and his associates abstaining from voting.

The exercise price must be at least the highest of: (a) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

A nominal consideration of RMB1.04 (equivalent to HK$1) is payable by the grantee upon acceptance of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors of the Company to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the directors of the Company at their sole discretion, there is no requirement of a minimum period for which a share option must be held.

Since the adoption of the Share Option Scheme on 20 October 2005, no options have been granted.

35. SHARE OPTIONS *(cont'd)*

(a) Details of the movements in the number of share options during the year under the Pre-IPO Scheme are as follows:

	2005	
	Exercise price	**Number of options '000**
Options granted to directors:		
Outstanding at the beginning of the year	–	–
Granted during the year	**HK$0.286**	**11,700**
Exercised during the year	–	–
Lapsed during the year	–	–
Outstanding at the end of the year	**HK$0.286**	**11,700**
Options granted to employees:		
Outstanding at the beginning of the year	–	–
Granted during the year	**HK$0.286**	**3,510**
Exercised during the year	–	–
Lapsed during the year	–	–
Outstanding at the end of the year	**HK$0.286**	**3,510**

35. SHARE OPTIONS *(cont'd)*

(b) Fair value of share options and assumptions

The estimated fair value of the options granted on 1 February 2005 (Oxford Share Option) is HK$2,814.20 per share. The fair value was calculated using the Binomial Model on 1 February 2005. The inputs into the model were as follows:

	2005
Share price	**HK$4,878**
Exercise price	**HK$2,574**
Expected volatility	**51%**
Expected life	**10 years**
Risk-free rate	**3.647%**
Expected dividends	**nil**

Subsequent to the replacement of the Oxford Option Scheme by the Pre-IPO Scheme, an indicative valuation on the Oxford Option Scheme was carried out on 15 November 2005.

The revised estimated fair value of the Oxford Option Scheme replaced by the Pre-IPO Scheme is HK$5 cents per share. The inputs into the calculation were as follows:

	2005
Share price	**HK$0.73**
Exercise price	**HK$0.286**
Expected volatility	**51%**
Expected life	**10 years**
Risk-free rate	**4.58%**
Expected dividends	**nil**

The expected volatility of the above calculations are based on the historical volatility of the stock returns the ordinary shares of comparative publicly listed company in the oil and gas equipment industry in Hong Kong. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

36. COMMITMENTS

(a) Capital commitments

The capital commitments outstanding at the balance sheet date of the Group not provided for in the financial statements were as follows:

	2005	2004
	RMB'000	RMB'000
Authorised but not contracted for	**–**	3,000
Contracted for	**7,174**	–
	7,174	3,000

(b) Operating lease commitments

At the balance sheet date, the Group's total minimum lease payments under non-cancellable operating lease are payable as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**2,237**	1,266
Between one year and five years	**2,395**	3,863
After five years	**465**	582
	5,097	5,711

37. CONTINGENT LIABILITIES

The Group

	2005	2004
	RMB'000	RMB'000
Discounted bills	**2,500**	1,500

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions:

	2005	2004
	RMB'000	RMB'000
Key management personnel remuneration	**2,650**	1,024
Purchase of parts for electrical equipment (Note a)	**160**	11,525
Rental income (Note b)	**95**	137

Note:

(a) 海爾海斯 purchased parts for electrical equipment from Katy International Inc. which charged 海爾海斯 at an average make-up of approximately 49% and 30% for the years ended 31 December 2004 and 31 December 2005 respectively.

(b) TSC (USA) leased its warehouse to Katy International Inc. at a rental charge of US$1,500 per month.

39. POST BALANCE SHEET EVENTS

海爾海斯, the Company's indirectly wholly owned subsidiary incorporated as a foreign invested company in China, applied to the relevant government authorities on 5 March 2006 to reduce its registered capital from RMB50,000,000 to RMB17,000,000, and to reduce its total investment from RMB50,000,000 to RMB29,800,000. Such application was approved by 西安高新技術產業開發區管理委員會 (Administrative Committee of the Xi'an Hi-tech Industrial Development Zone) on 20 March 2006.

Based on the capital vertification report dated 10 January 2006 issued by Shaanxi HaiHua Certified Public Accountants (Ltd.), as of 28 December 2005, the issued and fully paid registered capital of 海爾海斯 has increased by RMB4,773,652 to RMB15,008,652.

Three Years Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 to 2 below:

RESULTS

	Year ended 31 December		
	2005	2004	2003
	RMB'000	RMB'000	RMB'000
Turnover	**110,916**	105,782	43,182
Cost of sales	**(64,095)**	(66,537)	(32,182)
Gross profit	**46,821**	39,245	11,000
Other revenue	**3,405**	2,085	811
Selling and distribution expenses	**(4,434)**	(1,416)	(1,007)
General and administrative expenses	**(22,196)**	(8,988)	(5,233)
Other operating expenses	**(2,349)**	(2,392)	(1,813)
Profit from operations	**21,247**	28,534	3,758
Finance costs	**(877)**	(126)	(64)
Profit before tax	**20,370**	28,408	3,694
Taxation	**(1,013)**	657	311
PROFIT FOR THE YEAR	**19,357**	29,065	4,005

ASSETS AND LIABILITIES

	As at 31 December		
	2005	2004	2003
	RMB'000	RMB'000	RMB'000
Non-current assets	**25,794**	12,164	4,572
Current assets	**114,460**	63,109	32,089
Current liabilities	**37,831**	26,809	24,680
Net current assets	**76,629**	36,300	7,409
Non-current liabilities	**138**	22	144
Net assets	**102,285**	48,442	11,837

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2005 and 2004 are as set out on page 39 of the audited financial statements.

2. The consolidated balance sheets of the Group as at 31 December 2005 and 2004 are as set out on pages 40 to 41 of the audited financial statements.